

ENGELHARD CORP
Form PRE 14A
April 26, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

ENGELHARD CORPORATION
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

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4) Date filed:

101 WOOD AVENUE, ISELIN, NEW JERSEY 08830

BARRY W. PERRY
Chairman and
Chief Executive Officer

[], 2006

Dear Shareholder:

You are cordially invited to attend the 2006 Annual Meeting of Shareholders of Engelhard Corporation (the "Company"), which will be held at 10:00 a.m., Eastern Daylight Savings Time, on June 2, 2006 at the North Maple Inn at Basking Ridge, 300 North Maple Avenue, Basking Ridge, NJ 07920. The enclosed Notice and Proxy Statement contain information about matters to be considered at the Annual Meeting.

This Annual Meeting is of particular importance. As you know, BASF, through a wholly owned subsidiary, made an unsolicited tender offer to acquire all of the outstanding shares of Engelhard common stock for \$37 per share in cash and subsequently made a proposal of \$38 per share in cash in response to the Company's request for BASF's firm offer following BASF's access to non-public information. Your Board's unanimous view has been and continues to be that the BASF \$37 offer and \$38 proposal are inadequate and not in the best interests of Engelhard shareholders in that they do not adequately recognize the Company's current performance or future prospects.

The Recapitalization Plan

Following BASF's unsolicited offer, the Board, with the assistance of its independent advisors, reviewed a broad range of strategic alternatives to maximize shareholder value. As a result of this review, the Board has unanimously approved a recapitalization plan comprised of a \$45 per share cash self-tender offer for up to 26 million shares (approximately 20% of the Company's outstanding shares including shares underlying exercisable options), continued execution of the Company's business strategy and incremental cost savings the Company expects will deliver \$15 million annually beginning in 2007 (collectively, the "Recapitalization Plan"). [The Company commenced the \$45 per share self-tender offer on _____, 2006. The Offer will expire on _____, 2006 unless earlier terminated or extended pursuant to its terms.]

The Board strongly believes that the Recapitalization Plan represents the best value-creation alternative and is in the best interests of Engelhard shareholders for a number of reasons, including:

- *Superior Value Versus BASF's \$38 Per Share Proposal* - Our Board believes that its \$45 per share self-tender offer; the \$15 million in incremental annual cost savings; and the Company's continued ability to capitalize on its attractive growth opportunities and business strategy will deliver greater value to its shareholders than BASF's \$38 per share proposal.
- *Accretion to Earnings and Earnings Growth* - The purchase of shares pursuant to the Recapitalization Plan represents an attractive investment for the Company, and the Recapitalization Plan is expected to be accretive to earnings per share (EPS) by approximately six cents in 2007 and accretive to EPS growth.

- *Expected Strong Price-to-Earnings Multiple* - BASF launched its hostile offer when Engelhard's stock was trading at a forward price-to-earnings (P/E) multiple that was meaningfully lower than the historical relationship that prevailed for several years to the forward P/E multiples of key industry peers (Johnson Matthey and Umicore). In addition, since the time of BASF's hostile offer, forward P/E multiples for Engelhard's industry peers overall have generally increased. We believe that our forward P/E multiple should reflect a relationship to key industry peers more in line with historical levels, and should benefit from (a) the strength of Engelhard's earnings performance in recent quarters, (b) the expected robust and sustained earnings growth for the years ahead, and (c) the general rise in industry multiples since BASF commenced its hostile offer.
- *Meaningful Liquidity at an Attractive Price of \$45 Per Share* - The Recapitalization Plan provides shareholders with a substantial liquidity opportunity for some of their shares at the attractive price of \$45 per share, while preserving shareholders' ability to realize the Company's outstanding future growth potential through appreciation of the market price of the stock or a future sale of the Company.
- *Continuing Investment-Grade Credit Profile*- The Company's financing of the \$45 per share self-tender offer should not interfere with our ability to maintain the financial capability needed to execute our strategic business plan and realize our growth opportunities. Implementation of the Recapitalization Plan is expected to result in continuance of investment-grade credit ratings for the Company.

The terms of the Recapitalization Plan are described in the enclosed Proxy Statement under the caption "Summary of the Recapitalization Plan," and a description of the reasons for the Recapitalization Plan is contained under the caption "Reasons for the Recapitalization Plan."

Expansion of Engelhard's Board

BASF—the very same party which has made the \$38 per share proposal which your Board has determined is inadequate—has previously stated that if we do not decide to sell the Company "expeditiously" or if BASF on its own "concludes that [our] exploration of strategic alternatives is not being conducted in the best interests of the Company's shareholders," then BASF intends to solicit written consents from our shareholders to amend our bylaws to increase the size of the Board and fill the newly-created vacancies with hand-picked, BASF nominees. BASF has the ability to continue threatening, and to make, such a consent solicitation regardless of whether their director nominees lose the vote at the Annual Meeting. Furthermore, BASF can continue its consent solicitation for as long as it chooses—there is no date by which the solicitation must end.

In order to be able to successfully execute on our strategic business plan, which we expect to deliver significant growth and value to you, our shareholders, we cannot afford the distraction resulting from either a lengthy consent solicitation for majority control of the Board or the threat that one could occur at any time. Our Board and management, as well as other important resources of the Company, would be diverted to focusing on a consent solicitation battle of potentially indefinite duration throughout a critical period for the execution of our strategic business plan. To avoid this potential obstacle to realizing the anticipated benefits of this part of the Recapitalization Plan, the Board will increase the number of Board members at the Annual Meeting from six to nine members and ask you vote to fill these additional director seats.

Accordingly, the Board recommends that at the Annual Meeting you elect the five Board nominees described in the enclosed Proxy Statement, namely the three directors nominated to fill the newly-created vacancies (who will be spread among our three Classes of directors) and the two incumbent Class I Directors whose terms expire at the Annual Meeting. As a result, the Board will be giving you, our shareholders, the ability to elect a majority of the newly-enlarged Board (five directors out of nine) at the Annual Meeting without the need for, and distraction resulting from, the threatened BASF consent solicitation.

Shareholders, including BASF, have until the close of business on May 8, 2006 to nominate individuals for those newly-created Board seats. The Company would consider a reasonable extension period if BASF determines it needs a longer period of time to nominate three individuals for those vacancies in addition to the two it already has nominated. We expect that BASF will seek to elect five nominees to the Board at the Annual Meeting, namely the two individuals BASF has already nominated and three additional individuals whom BASF would be expected to nominate to fill these newly-created Board seats. If BASF is successful, its nominees will control the Engelhard Board, and we would expect them to enable BASF's inadequate \$38 per share proposal.

If Engelhard's five director nominees are elected, the effect will be, among other things, to enable the Company to pursue our strategic business plan for two years without the distraction of having to defend against a consent solicitation by BASF that seeks or threatens to change a majority of the board to support its inadequate hostile tender offer. We strongly believe this outcome is important for successful implementation of the Recapitalization Plan, including its strategic business plan, and, consequently, the Company's ability to create value for shareholders.

The increase in the size of the Board affords both the Company and BASF a fair opportunity to present their cases to you and for you to ultimately decide which path will serve your best interests. If you believe, as we do, that the Recapitalization Plan will provide a greater value-creation opportunity than BASF's offer, you should support all five of the Board nominees. We believe that the choice is easy and that the path forward to greater value is clear.

The Board also notes that, as it has previously said, it is and has been committed to maximizing the value of Engelhard for the benefit of our shareholders. This is not a fight for independence. It is a fight for our shareholders to get fair value for their shares. The Board urges you to send BASF a message by voting for Engelhard's Board nominees: "BASF, we will not sell to you at an inadequate price."

Recommendation to Shareholders

Accordingly, the Board unanimously recommends that you vote "FOR" the five Engelhard director nominees. We also strongly advise you not to split your votes between the Board's nominees and BASF's nominees. The attendant distraction and leadership uncertainty that would naturally result from having a minority of BASF nominees elected would, in the Board's view, gravely undermine the execution of our strategic business plan and the expected values to be derived therefrom. Therefore, we urge you NOT to vote for any nominees of BASF.

How to Vote

Whether or not you plan to attend, we urge you to complete, sign and return the enclosed BLUE proxy card or to vote over the Internet or by telephone so that your shares will be represented and voted at the Annual Meeting. If a brokerage firm, bank or other institution holds your shares of common stock for you, only they can vote your shares and then only upon receipt of your instructions on how they should vote your shares. It is important that you contact the person responsible for your account promptly and give them your instructions on how to vote your shares. If you plan to attend the Annual Meeting, please check the box provided on the BLUE proxy card and an admission ticket will be sent to you. Only shareholders and their proxies will be permitted to attend the Annual Meeting.

The Board urges you NOT to sign or return any proxy card sent to you by BASF. Only your latest dated, signed proxy card will be counted, and any BASF proxy card you sign for any reason could invalidate previous proxy cards sent by you to support the Engelhard Board. You are legally entitled to change your vote. If you have previously signed a BASF proxy card, the Board urges you to sign, date and promptly mail the enclosed proxy card, which will revoke any earlier dated proxy card that you signed. The best way for you to support the Board is to vote "FOR" all five of the Engelhard director nominees.

On behalf of everyone at Engelhard, we thank you for your continued support. We remain committed to acting in your best interests. If you have any questions with respect to voting, please call our proxy solicitor, MacKenzie Partners, Inc. ("MacKenzie") at 105 Madison Avenue, New York, NY 10016, (800) 322-2885 (Toll-Free) or at (212) 929-5500 (Collect).

Sincerely yours,

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ENGELHARD CORPORATION
101 WOOD AVENUE
ISELIN, NEW JERSEY 08830

PROXY STATEMENT FOR THE 2006
ANNUAL MEETING OF SHAREHOLDERS

ABOUT THE MEETING

Why am I receiving these materials?

The Board of Directors of Engelhard Corporation (sometimes referred to as “Engelhard” or “we” or “our”) is providing these proxy materials for you in connection with our Annual Meeting of Shareholders (the “Meeting”), which will take place on June 2, 2006. You are invited to attend the Annual Meeting and are requested to vote on the proposals described in this proxy statement.

What items of business will be voted on at the meeting?

1. The election of five directors, including the two incumbent Class I Directors whose terms expire at the Annual Meeting and the three nominees to fill three vacancies which the Board will create at the Annual Meeting by increasing its size from six to nine members; and
2. The ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm.

We will also consider any other business that is properly brought before the Meeting.

Why will the Board expand the size of the Board at the Meeting?

BASF—the very same party which has made the \$38 per share proposal which your Board has determined is inadequate—has previously stated that if we do not decide to sell the Company “expeditiously” or if BASF on its own “concludes that [our] exploration of strategic alternatives is not being conducted in the best interests of the Company’s shareholders,” then BASF intends to solicit written consents from our shareholders to amend our bylaws to increase the size of the Board and fill the newly-created vacancies with hand-picked, BASF nominees. BASF has the ability to continue threatening, and to make, such a consent solicitation regardless of whether their director nominees lose the vote at the Annual Meeting. Furthermore, BASF can continue its consent solicitation for as long as it chooses—there is no date by which the solicitation must end.

In order to be able to successfully execute on our strategic business plan, which we expect to deliver significant growth and value to you, our shareholders, we cannot afford the distraction resulting from either a lengthy consent solicitation for majority control of the Board or the threat that one could occur at any time. Our Board and management, as well as other important resources of the Company, would be diverted to focusing on a consent solicitation battle of potentially indefinite duration throughout a critical period for the execution of our strategic business plan. To avoid this potential obstacle to realizing the anticipated benefits of this part of the Recapitalization Plan, the Board will increase the number of Board members at the Annual Meeting from six to nine members and ask you vote to fill these additional director seats with the Board’s nominees.

What are the Board's recommendations?

Unless you give other instructions on your proxy card, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board of Directors. The Board's recommendation is set forth below together with the description of each item in this proxy statement. In summary, the Board recommends a vote:

- FOR the election of the nominated slate of directors, including the two incumbent Class I Directors whose terms expire at the Annual Meeting and the three nominees to fill three vacancies which the Board will create at the Annual Meeting by increasing its size from six to nine members (see page 9); and
- FOR ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm (see page 34).

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board or, if no recommendation is given, in their own discretion.

Who is entitled to vote?

Holders of Common Stock as of the close of business on May 5, 2006 will be entitled to vote. On such date there were outstanding and entitled to vote _____ shares of Common Stock of Engelhard, each of which is entitled to one vote with respect to each matter to be voted on at the Meeting.

What constitutes a quorum?

The presence at the Annual Meeting in person or by proxy of the holders of a majority of the outstanding shares of Common Stock entitled to vote shall constitute a quorum for the transaction of business. Proxies marked as abstaining on any matter to be acted upon by shareholders will be treated as present at the meeting for purposes of determining a quorum. If you hold your shares in "street name" through a broker or other nominee, shares represented by "broker non-votes" will be counted in determining whether there is a quorum.

How do I vote?

If you complete and properly sign the accompanying BLUE proxy card and return it to Engelhard, it will be voted as you direct. If you return the proxy card but make no specifications, your shares will be voted in accordance with the recommendations of the Board, as set forth below. If you are a registered shareholder and attend the meeting, you may deliver your completed BLUE proxy card in person. "Street name" shareholders who wish to vote at the meeting will need to obtain a proxy form from the institution that holds their shares.

If you are a record holder of Common Stock (that is, if you hold Common Stock in your own name in Engelhard's stock records maintained by our transfer agent, Mellon Investor Services LLC), you may vote through the Internet or by using a toll-free telephone number by following the instructions included with your proxy card. If you are not a record holder of Common Stock (that is, if you hold Common Stock in "street name" through a broker or other nominee), you may vote your shares by following the instructions included with your proxy card, which you need to obtain from the financial institution that holds your shares. Please be aware that if you vote over the Internet, you may incur costs such as telephone and Internet access charges for which you will be responsible. The Internet and telephone voting facilities for shareholders of record will close at 11:59 p.m. Eastern Daylight Savings Time on June 1, 2006.

Can I change my vote after I return my proxy card or after I vote electronically or by telephone?

Yes. After you have submitted a traditional proxy card, you may change your vote at any time before the proxy is exercised by submitting either a notice of revocation or a duly executed proxy bearing a later date. If you previously submitted your proxy through the Internet or by telephone, you may revoke that proxy simply by voting again prior to the time at which such facilities close, by following the same procedures used in casting your prior vote; in that event, the later submitted vote will be recorded and the earlier vote revoked.

What vote is required to approve each item?

Each item to be voted on at the Annual Meeting requires the affirmative vote of the holders of a majority of the votes cast with respect to such item. A properly executed proxy marked “ABSTAIN” and a broker non-vote with respect to any such matter will not be treated as a vote cast, although it will be counted for purposes of determining whether there is a quorum.

Who will bear the expense of soliciting proxies?

The cost of soliciting proxies in the form enclosed will be borne by Engelhard. In addition to the solicitation by mail, proxies may be solicited personally or by telephone by our employees. We have also engaged MacKenzie to assist in such solicitation. Engelhard may reimburse brokers holding Common Stock in their names or in the names of their nominees for their expenses in sending proxy material to the beneficial owners of such Common Stock. For additional information regarding the solicitation of proxies, please see Appendix B to this Proxy Statement.

ENGELHARD'S POSITION REGARDING BASF'S OFFER

On January 9, 2006, BASF, through its wholly-owned subsidiary, Iron Acquisition Corporation, made an unsolicited tender offer to acquire all of the outstanding shares of Engelhard common stock for \$37 per share in cash. The purpose of the BASF offer is for BASF to acquire control of, and the entire equity interest in, the Company. BASF intends to have the Company consummate a merger or other similar business combination with Iron Acquisition Corporation or another direct or indirect subsidiary of BASF in connection with its offer. On January 20, 2006, the Board unanimously determined that BASF's \$37 per share offer was inadequate and not in the best interests of the Company's shareholders.

Following the Board's determination as to the inadequacy of BASF's \$37 per share offer, the Board, with the assistance of its independent advisors, explored a wide range of strategic alternatives to maximize shareholder value. As part of this process, the recapitalization plan was developed. Also, in connection with this exploration of alternatives, the Company entered into confidentiality agreements and held meetings with a number of potential bidders who were interested in all or parts of the Company. As a result of this process, no competitive, third-party transaction materialized.

In response to the Company's request for BASF to increase its offer following BASF's access to non-public information, BASF, on April 19, 2006, made a proposal of \$38 per share in cash. Following receipt of this \$38 per share proposal, the Board held a number of meetings to review BASF's \$38 proposal and review the results of its exploration of strategic alternatives, including the Recapitalization Plan that was developed. Following this review, at its meeting on April 25, 2006, the Board unanimously determined that BASF's \$38 per share proposal was inadequate and not in the best interests of the Company's shareholders. Also at that meeting, the Board also unanimously determined, based on its review of its strategic alternatives, that the Recapitalization Plan represents the best value-creation alternative and is in the best interests of the Company's shareholders. Accordingly, the Board unanimously approved the Recapitalization Plan.

SUMMARY OF THE RECAPITALIZATION PLAN

As a result of the review of strategic alternatives to maximize shareholder value described above, the Board has unanimously approved the Recapitalization Plan comprised of:

- A \$45 per share cash self-tender offer for up to 26 million shares (approximately 20% of the Company's outstanding shares including shares underlying exercisable options); and
- Continued execution of the Company's business strategy and incremental cost savings the Company expects will deliver \$15 million annually beginning in 2007.

The Tender Offer. The maximum number of shares eligible to be repurchased in the self-tender offer is 26 million shares (approximately 20% of the Company's outstanding shares including exercisable options). The self-tender offer will be financed by third party borrowings. The Company has a commitment, subject to customary conditions, for a bridge credit facility from JPMorgan and Merrill Lynch to initially fund the self-tender offer. Permanent financing is expected to comprise a mix of hybrid securities and floating- and fixed-rate debt. The self-tender offer was commenced on _____, 2006 and will expire on _____, 2006 unless earlier terminated or extended.

Continued Execution of Business Plan. The Recapitalization Plan will allow the Company to continue to execute its strategic business plan. We believe that our recent strong results, including the earnings momentum inherent in our results for the fourth quarter of 2005 and the extremely strong results for the first quarter of 2006, are only the beginning of the fruits which this strategic business plan will bear. The Recapitalization Plan will afford shareholders the opportunity to continue to reap the benefits of our strategic plan.

Cost Savings. The incremental cost savings to be undertaken as part of the Recapitalization Plan is expected to deliver \$15 million in annual cost savings beginning in 2007. The Company expects to incur a charge or charges of approximately \$20 million in the second half of 2006 in connection with the incremental cost savings.

[Additional information on our \$45 self-tender offer can be found in the Company's "Schedule TO" filed with the Securities and Exchange Commission (the "SEC"), which includes the Offer to Purchase, and a presentation made to investors regarding the Recapitalization Plan, which is available on our website at www.engelhard.com. These documents can be obtained without charge in print to any shareholder who requests them from our Corporate Secretary.]

REASONS FOR THE RECAPITALIZATION PLAN

Our Board, with the help of our financial advisor, Merrill Lynch & Co., has reviewed the opportunities and challenges ahead. On the basis of this analysis and the outcome of our strategic evaluation process, our Board has determined that the Recapitalization Plan is the best alternative for delivering value to our shareholders for a number of reasons, including the following:

- *Superior Value Versus BASF's \$38 Per Share Proposal* - Our board believes that its \$45 per share self-tender offer; the \$15 million in incremental annual cost savings; and the Company's continued ability to capitalize on its attractive growth opportunities and business strategy will deliver greater value to its shareholders than BASF's \$38 per share proposal.
- *Accretion to Earnings and Earnings Growth* - The purchase of shares pursuant to the Recapitalization Plan represents an attractive investment for the Company, and the Recapitalization Plan is expected to be accretive to EPS by approximately six cents in 2007 and accretive to EPS growth.
- *Expected Strong Price-to-Earnings Multiple* - BASF launched its hostile offer when Engelhard's stock was trading at a forward price to earnings ("P/E") multiple that was meaningfully lower than the historical relationship that prevailed for several years to the forward P/E multiples of key industry peers (Johnson Matthey and Umicore). In addition, since the time of BASF's hostile offer, forward P/E multiples for Engelhard's industry peers overall have generally increased. We believe that our forward P/E multiple should reflect a relationship to key industry peers more in line with historical levels, and should benefit from (a) the strength of Engelhard's earnings performance in recent quarters, (b) the expected robust and sustained earnings growth for the years ahead, and (c) the general rise in industry multiples since BASF commenced its hostile offer.
- *Meaningful Liquidity at an Attractive Price of \$45 Per Share* - The Recapitalization Plan provides shareholders with a substantial liquidity opportunity for some of their shares at the attractive price of \$45 per share, while preserving shareholders' ability to realize the Company's outstanding future growth potential through appreciation of the market price of the stock or a future sale of the Company.

- *Continuing Investment-Grade Credit Profile* - The Company's financing of the \$45 per share self-tender offer should not interfere with our ability to maintain the financial capability needed to execute our strategic business plan and realize our growth opportunities. Implementation of the Recapitalization Plan is expected to result in continuance of investment-grade credit ratings for the Company.
- **Forward-Looking Statements.** This document contains forward-looking statements. These statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to future prospects, developments and business strategies. These forward-looking statements are identified by their use of terms and phrases such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will" and similar terms and phrases, including reference to assumptions. These forward-looking statements involve risks and uncertainties, internal and external, that may cause Engelhard's actual future activities and results of operations to be materially different from those suggested or described in this document. For a more thorough discussion of these factors, please refer to "Forward-Looking Statements" (excluding the first sentence thereof), "Risk Factors" and "Key Assumptions" on pages 34, 35 and 38, respectively, of Engelhard's 2005 Annual Report on Form 10-K, dated March 3, 2006. Please also refer to "Forward-Looking Statements" and "Key Assumptions" contained in the investor presentation captioned "Recapitalization Plan" filed as an exhibit on Form 8-K, dated April 26, 2006, and "Forward Looking Statements" in the Offer to Purchase by Engelhard in connection with its proposed self-tender offer for additional information regarding such risks, uncertainties and contingencies.

Investors are cautioned not to place undue reliance on any forward-looking statement, which speaks only as of the date made, and to recognize that forward-looking statements are predictions of future results, which may not occur as anticipated. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results due to the risks and uncertainties described above, as well as others that Engelhard may consider immaterial or do not anticipate at this time. The foregoing risks and uncertainties are not exclusive and further information concerning Engelhard and its businesses, including factors that potentially could materially affect its financial results or condition, may emerge from time to time. Engelhard assumes no obligation to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements. Investors are advised, however, to consult any further disclosures Engelhard makes on related subjects in Engelhard's future periodic and current reports and other documents that Engelhard files with or furnishes to the SEC.

- **No Offer or Solicitation.** This document does not constitute an offer or invitation to purchase nor a solicitation of an offer to sell any securities of Engelhard. The proposed self-tender offer by Engelhard described in this document has not commenced. Any offers to purchase or solicitation of offers to sell will be made only pursuant to a tender offer statement (including an offer to purchase, a letter of transmittal and other offer documents) filed by Engelhard ("Engelhard's Tender Offer Statement") with the SEC. **ENGELHARD'S STOCKHOLDERS ARE ADVISED TO READ ENGELHARD'S TENDER OFFER STATEMENT AND ANY OTHER DOCUMENTS RELATING TO THE TENDER OFFER THAT ARE FILED WITH THE SEC CAREFULLY AND IN THEIR ENTIRETY WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION.**

INFORMATION AS TO CERTAIN SHAREHOLDERS***Who are the largest owners of Engelhard's Common Stock?***

Set forth below is certain information with respect to the only shareholders known to us who owned beneficially more than five percent (5%) of our voting securities as of March 15, 2006.

	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Dodge & Cox (1) 555 California Street 40th Floor San Francisco, California 94104	15,838,050	13.2%
CAM North America, LLC (2) Salomon Brothers Asset Management Inc. Smith Barney Fund Management LLC TIMCO Asset Management Inc. 399 Park Avenue New York, New York 10022	7,715,311	6.43%
FMR Corp. (3) 82 Devonshire Street Boston, Massachusetts 02109	7,459,021	6.22%
Wellington Management Company, LLP (4) 75 State Street Boston, Massachusetts 02109	6,307,993	5.26%

(1) As reported by Dodge & Cox on an amendment to its Schedule 13G filed with the SEC on February 6, 2006. The Schedule 13G reports that Dodge & Cox has sole dispositive power with respect to all of the reported shares, has sole voting power with respect to 14,838,950 of such shares and shares voting power with respect to 159,900 of such shares.

(2) As reported by on a Schedule 13G filed with the SEC on February 14, 2006. The Schedule 13G reports that CAM North America, LLC, Salomon Brothers Assets Management Inc., Smith Barney Fund Management LLC and TIMCO Asset Management Inc. hold the reported shares as follows: CAM North America, LLC, 5,362,427 (shares dispositive power with respect to all of the reported shares; shares voting power with respect to 1,266,732 shares), Salomon Brothers Asset Management Inc., 124,084 (shares dispositive power and voting power with respect to all of the reported shares), Smith Barney Fund Management LLC, 2,205,341 (shares dispositive power and voting power with respect to all of the reported shares), TIMCO Asset Management Inc., 23,459 (shares dispositive power and voting power with respect to all of the reported shares).

(3) As reported by FMR Corp. on its Schedule 13G filed with the SEC on February 14, 2006. The Schedule 13G reports that FMR Corp. has sole dispositive power with respect to all of the reported shares and has sole voting power with respect to 108,321 of such shares.

(4) As reported by Wellington Management Company, LLP on an amendment to its Schedule 13G filed with the SEC on January 10, 2006. The Schedule 13G reports that Wellington Management Company, LLP shares dispositive

power with respect to all of the reported shares, and shares voting power with respect to 1,102,169 of such shares.

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1. ELECTION OF DIRECTORS

Our Board of Directors consists of three classes, Class I, Class II and Class III. Each class currently consists of two members who serve for full three-year terms. The Class I Directors are scheduled to stand for reelection at the Annual Meeting. In addition, the Board will increase its size from six to nine members at the Annual Meeting, and shareholders will be asked to elect nominees for the three newly-created vacancies. These three nominees will be spread across our three Classes of directors as set forth below. As a result, shareholders will be asked to elect a total of five directors at the Annual Meeting. All of the Company's nominees have consented to their inclusion in this proxy statement and their nomination for election to the Board.

Mr. Marion H. Antonini and Mr. Henry R. Slack are nominees for reelection as Class I Directors. If elected, they will serve until 2009. To fill the three vacancies created by the expansion of the Board at the Annual Meeting from six to nine seats, the Board has nominated Mr. Alain Lebec, Mr. Howard L. Minigh and Mr. Michael A. Sperduto. If elected, Mr. Sperduto will serve as a Class I Director with a term expiring in 2009, Mr. Minigh will serve as a Class II Director with a term expiring in 2008, and Mr. Lebec will serve as a Class III Director, with a term expiring in 2007. Each of Messrs. Minigh and Mr. Lebec will receive either (i) the standard director compensation, as described on page 15 of this Proxy Statement, in the event they are elected as directors, or (ii) \$40,000 for agreeing to serve as nominees, in the event they are not elected as directors. Mr. Sperduto will not receive any compensation for agreeing to serve as a nominee or as a director as Mr. Sperduto is currently our Vice President and Chief Financial Officer.

The Board has determined that Mr. Minigh and Mr. Lebec are "independent" as defined by New York Stock Exchange ("NYSE") Listing Standards and our Director Independent Standards. Mr. Sperduto, the Company's Vice President and Chief Financial Officer, is not "independent" as defined by New York Stock Exchange ("NYSE") Listing Standards and our Director Independent Standards.

Directors will be elected by the affirmative vote of a majority of the votes cast at the Meeting.

The persons named as proxies in the accompanying proxy intend to vote, unless you instruct otherwise in your proxy, "FOR" the election of Mr. Marion H. Antonini, Mr. Henry R. Slack and Mr. Sperduto as Class I Directors, Mr. Minigh as a Class II Director and Mr. Lebec as a Class III Director.

INFORMATION WITH RESPECT TO NOMINEES AND DIRECTORS WHOSE TERMS CONTINUE

The following table sets forth the name and age of each nominee and each Director whose term continues, all other positions and offices, if any, now held with Engelhard and principal occupation during the last five years.

**Nominees for Reelection at this Meeting,
Ages, Principal Business Experience During the
Past Five Years, Board Memberships (Class I)**

MARION H. ANTONINI

Age 75. Mr. Antonini has been a director of Engelhard since 1985. He has been a Principal of Kohlberg & Co., a private merchant banking firm, since March 1998 and has served as a director and an executive for many companies in which Kohlberg & Co. held an interest. One of these, Printing Arts America, a private commercial printing company, filed a Chapter 11 bankruptcy petition in October 2001, within two years of Mr. Antonini's resignation as its President. From 1989 to 1998, he was Chairman and Chief Executive Officer of Welbilt Corporation. He is also a director of Orion Food Systems.

HENRY R. SLACK

Age 56. Mr. Slack has been a director of Engelhard since 1981, resigned May 21, 1999, and was re-elected to the Board of Directors as a Class I director on June 3, 1999. He has been a director and the Chairman of Terra Industries Inc., a global nitrogen-based fertilizer company, since April 2001. From June 1999 to August 2002, he was Chairman of Task (USA) Inc., a private investment company. From 1991 to June 1999 he was the Chief Executive Officer of Minorco SA, an international natural resources company. From 1998 to 2002 he was a director of SABMiller plc. He is also a director of E. Oppenheimer & Son International.

**Nominee for Election at this Meeting,
Upon the Board's Increasing its Size at the Meeting to Nine Directors,
Age, Principal Business Experience During the
Past Five Years, Board Memberships (Class I)**

MICHAEL A. SPERDUTO

Age 48. Mr. Spurduto has served as Engelhard's Vice President and Chief Financial Officer since January 1, 2003. From August 2001 to December 2002, in addition to serving as Engelhard's Vice President and Chief Financial Officer, Mr. Spurduto was also Engelhard's Controller. From August 1998 to July 2001, Mr. Spurduto served as Engelhard's Controller. From July 1998 to July 1999, Mr. Spurduto was Engelhard's Vice President of Finance. Since 2003, Mr. Spurduto has served on the Advisory Board and as a Trustee for Rutgers University Business School.

**Nominee for Election at this Meeting,
Upon the Board's Increasing its Size at the Meeting to Nine Directors,
Age, Principal Business Experience During the
Past Five Years, Board Memberships (Class II)**

HOWARD L. MINIGH

Age 57. Mr. Minigh has been the owner of HM Advisors, LLC, a management consulting firm, since July 2005, and a Partner in Trishul Capital Partners, a private equity firm, since July 2003. From September 2000 to June 2003, Mr. Minigh was Group Vice President, Agriculture & Nutrition Business Group of DuPont. From 1994 to June 2000, Mr. Minigh was President of the Cyanamid Global Agricultural Products division of American Home Products Corporation. Mr. Minigh is a director of MetaMorphix, Inc., an animal genomics and biotechnology company, and Saffron Rouge, an e-commerce retailer of cosmetics company.

**Nominee for Election at this Meeting,
Upon the Board's Increasing its Size at the Meeting to Nine Directors,
Age, Principal Business Experience During the
Past Five Years, Board Memberships (Class III)**

ALAIN LEBEC

Age 56. Mr. Lebec has been a Member and Senior Managing Director of Brock Capital Group LLC, a private advisory and investment firm, since April 2003. From 1996 until February 2003, Mr. Lebec was Vice Chairman of Investment Banking for Merrill Lynch & Co., Inc. Mr. Lebec is a director of United Way of Greenwich, Inc., co-founder and director of Reading Excellence and Discovery Foundation and Trustee of Brunswick School, Inc.

**Current Directors with Terms Expiring May 2007,
Ages, Principal Business Experience During the
Past Five Years, Board Memberships (Class II)**

DAVID L. BURNER

Age 66. Mr. Burner has been a director of Engelhard since October 2003. He was the Chairman and Chief Executive Officer of Goodrich Corporation, an aerospace systems and services company, from prior to 2001 until his retirement in October 2003. He is also a director of Progress Energy, Inc., Milacron, Inc., Lance, Inc. and Briggs & Stratton Corporation.

JAMES V. NAPIER

Age 69. Mr. Napier has been a director of Engelhard since 1986. Currently retired, he was the Chairman of Scientific-Atlanta, Inc., a communications manufacturing company, from 1993 until his retirement in November 2000. He is also a director of Intelligent Systems Corporation, Vulcan Materials Company, McKesson Corporation and Wabtec Corporation.

**Current Directors with Terms Expiring May 2008,
Ages, Principal Business Experience During the
Past Five Years, Board Memberships (Class III)**

BARRY W. PERRY

Age 59. Mr. Perry has been a director of Engelhard since 1997. He has been the Chairman and Chief Executive Officer of Engelhard since January 2001. Prior to 2001, he was the President and Chief Operating Officer of Engelhard. Mr. Perry is also a director of Arrow Electronics, Inc. and Cookson Group plc.

DOUGLAS G. WATSON

Age 61. Mr. Watson has been a director of Engelhard since 1991. He has been the Chief Executive Officer of Pittencrieff Glen Associates, a leadership and management-consulting firm, since July 1999. From July 2000 to September 2001, he was the President and Chief Executive Officer of ValiGen N.V., a biotechnology company. He is also a director of Dendreon Corporation, InforMedix, Inc., Genta Inc. and BioElectronics Inc., and director and Chairman of Javelin Pharmaceuticals Inc. and OraSure Technologies, Inc.

SHARE OWNERSHIP OF DIRECTORS, NOMINEES AND OFFICERS*How much Common Stock do Engelhard's Directors, Nominees and Executive Officers own?*

Set forth in the following table is the beneficial ownership of Common Stock as of March 1, 2006 for all nominees, Directors, each of the Executive Officers listed on the Summary Compensation Table and all Directors and Executive Officers as a group.

<u>Name</u>	<u>Shares</u>	<u>Percent</u>
Marion H. Antonini	107,394(1)(2)(3)(4)(5)	*
David L. Burner	11,081(1)(2)(5)	*
Arthur A. Dornbusch, II	754,787(6)(7)	*
John C. Hess	300,731(6)(7)	*
Alain Lebec	0	*
Howard L. Minigh	0	*
James V. Napier	69,755(1)(2)(3)(5)	*
Barry W. Perry	1,955,071(2)(6)(7)	1.54
Henry R. Slack	30,880(1)(2)(4)(5)	*
Michael A. Sperduto	328,856(6)(7)	*
Douglas G. Watson	85,520(1)(2)(3)(5)	*
Edward T. Wolynic	242,030(6)(7)	*
All Directors, Nominees and Executive Officers as a group	4,139,088(1)(2)(3)(4)(5)(6)(7)	3.26

* Represents beneficial ownership of less than 1%.

- (1) Includes 22,500 shares of Common Stock subject to options granted to each of Messrs. Napier and Watson, 13,500 shares of Common Stock subject to options granted to Mr. Slack and 10,500 shares of Common Stock subject to options granted to Mr. Antonini and 2,250 shares of Common Stock subject to options granted to Mr. Burner under our Directors Stock Option Plan, all of which options may be exercised within 60 days from March 1, 2006.
- (2) Includes 23,456, 1,238, 18,549, 4,032 and 10,670 non-voting deferred stock units earned by Messrs. Antonini, Burner, Napier, Slack and Watson, respectively, under the Deferred Stock Plan for Non-employee Directors. Each deferred stock unit will be converted into a share of Common Stock upon termination of service. Also includes 21,470 non-voting restricted stock units for Mr. Perry.
- (3) Includes 59,843, 18,183 and 14,564 non-voting deferred stock units held by Messrs. Antonini, Napier and Watson, respectively, under the Deferred Compensation Plan for Directors of Engelhard. Each deferred stock unit will be converted into a share of Common Stock at a future date based on the prior written request of each respective Director as prescribed by the Plan.
- (4) Includes 1,000 and 3,225 shares as to which Messrs. Antonini and Slack, respectively, disclaim beneficial ownership.
- (5) Includes 7,593 shares of voting, but unvested, Common Stock for each of Messrs. Antonini, Burner, Napier, Slack and Watson granted under the Stock Bonus Plan for Non-employee Directors.

- (6) Includes 576,171, 259,815, 1,734,591, 274,701, 207,889 and 3,316,613 shares of Common Stock subject to options granted to Messrs. Dornbusch, Hess, Perry, Sperduto, Wolynic and all Directors and Executive Officers as a group, respectively, under our Stock Option Plan of 1991, the Stock Option Plan of 1999 for Certain Key Employees, the Directors Stock Option Plan and the 2002 Long Term Incentive Plan, all of which options may be exercised within 60 days from March 1, 2006.
- (7) Includes 15,606, 11,246, 85,581, 18,053, 13,448 and 160,875 shares of voting, but unvested, restricted Common Stock held by Messrs. Dornbusch, Hess, Perry, Sperduto, Wolynic and all Directors and Executive Officers as a group, respectively.

CORPORATE GOVERNANCE

How often did the Board of Directors meet during 2005?

Our Board of Directors held a total of 8 meetings during 2005. During 2005, all of our Directors attended more than 75% of the meetings of the Board and meetings of committees of the Board on which they served.

Engelhard's Corporate Governance Guidelines provide that directors are expected to attend the annual meeting of shareholders. All then members of Engelhard's Board of Directors, except Mr. Slack, attended the Annual Meeting of Shareholders in 2005.

What committees does the Board of Directors have?

Among the standing committees of the Board of Directors are the Audit Committee, the Compensation Committee and the Nominating and Governance Committee. Copies of the charters for these committees, as well as Engelhard's Corporate Governance Guidelines, Engelhard's Policies of Business Conduct and Senior Financial Officer Ethics Code, are available under the Corporate Governance portion of the Investor Relations section of our website at www.engelhard.com and without charge in print to any shareholder who requests them from our Corporate Secretary. The Board of Directors also has a Pension and Employee Benefit Committee and an Executive Committee.

Audit Committee

The members of the Audit Committee are Mr. Watson (Chairman), Mr. Burner and Mr. Napier. The Audit Committee assists the Board of Directors' oversight of (a) the integrity of Engelhard's financial statements, (b) the independent auditor's qualifications and independence, (c) the performance of Engelhard's internal audit function and independent auditors and (d) Engelhard's compliance with legal and regulatory requirements. The Audit Committee has the sole authority to appoint and terminate Engelhard's independent auditors. The Board of Directors has determined that all three members of the Audit Committee are audit committee financial experts as described in Item 401(h) of Regulation S-K. In addition, the Board of Directors has determined that each of the members of the Audit Committee is "independent" as defined by the New York Stock Exchange ("NYSE") Listing Standards and the rules of the SEC applicable to audit committee members and our Director Independence Standards, a copy of which is attached as Appendix A to this Proxy statement (the "Director Independence Standards"). The Audit Committee meets the definition of an audit committee as set forth in Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended ("Exchange Act"). See "Report of Audit Committee" on page 33 for more information. The Audit Committee held 10 meetings during 2005 and conducted a review and self-assessment in 2005. Mr. Burner currently serves on three other audit committees, in addition to Engelhard's. The Board of Directors has determined that such service would not impair Mr. Burner's ability to effectively serve on Engelhard's Audit Committee, and has approved such service pursuant to our Corporate Governance Guidelines.

Compensation Committee

The members of the Compensation Committee are Messrs. Antonini (Chairman) Napier and Slack. The Compensation Committee assists the Board of Directors by taking direct responsibility for (a) reviewing and approving corporate goals and objectives relevant to the Chief Executive Officer's compensation, evaluating the Chief Executive Officer's compensation in light of these goals and objectives and, either as a committee or together with the other independent directors (as directed by the Board), determining and approving the Chief Executive Officer's compensation level based on this evaluation, (b) reviewing and approving compensation for executives (other than the Chief Executive Officer) and reviewing and making recommendations to the Board with respect to incentive compensation and equity-based plans, and (c) producing an annual report on executive compensation for inclusion in the Company's proxy statement in accordance with applicable laws, rules and regulations. The Board of Directors has determined that each member of the Compensation Committee is "independent" as defined by the NYSE Listing Standards and our Director Independence Standards. The Compensation Committee (and its predecessor) held six meetings during 2005 and conducted a review and self-assessment in 2005. See "Compensation Committee Report on Executive Compensation" on page 28 for more information.

Nominating and Governance Committee

The members of the Nominating and Governance Committee are Messrs. Watson (Chairman) and Antonini. The Nominating and Governance Committee is primarily responsible for (a) identifying individuals qualified to become Board members and recommending to the Board the director nominees for the next annual meeting of shareholders or to be appointed by the Board to fill an existing or newly created vacancy on the Board, (b) overseeing the evaluation of the Board and management and (c) developing and recommending to the Board the Corporate Governance Guidelines applicable to the Company. The Board of Directors has determined that each member of the Nominating and Governance Committee is "independent" as defined by the NYSE Listing Standards and our Director Independence Standards. The Nominating and Governance Committee held three meetings in 2005 and conducted a review and self-assessment in 2005.

The Nominating and Governance Committee selects each nominee based on the nominee's skills, achievements and experience. As set forth in Engelhard's Corporate Governance Guidelines, the following criteria will be considered in selecting candidates for the Board: independence, wisdom, integrity, an understanding and general acceptance of Engelhard's corporate policy, valid business or professional knowledge and experience that can bear on Engelhard's and the Board of Directors' challenges and deliberations, a proven record of accomplishment with excellent organizations, an inquiring mind, a willingness to speak one's mind, an ability to challenge and stimulate management, future orientation, a willingness to commit time and energy, diversity, and international/global experience. The Nominating and Governance Committee considered suggested nominees from a variety of sources, including directors, management and the Company's independent financial advisor, Merrill Lynch & Co. Each of Mr. Minigh and Mr. Lebec were among candidates recommended for nomination by Merrill Lynch & Co.

When seeking candidates for the Board, the Nominating and Governance Committee may solicit suggestions from incumbent Directors, management, shareholders or others. After conducting an initial evaluation of a candidate, the Nominating and Governance Committee may also ask the candidate to meet with management. If the Committee believes a candidate would be a valuable addition to the Board, it will recommend to the full Board that candidate's election. The Nominating and Governance Committee has the authority under its charter to retain a search firm. The Company has engaged an executive recruitment firm, reporting to the Nominating and Governance Committee, to identify and conduct preliminary evaluations of potential nominees.

Engelhard's Corporate Governance Guidelines provide that the Governance and Nominating Committee will consider proposals for nominees for Director by shareholders, which are made in writing to Corporate Secretary, Engelhard Corporation, 101 Wood Avenue, Iselin, New Jersey 08830. In order to nominate a director at the Annual Meeting, Engelhard's By-Laws require that a shareholder follow the procedures set forth in Article II, Section 7 of Engelhard's By-Laws. In order to recommend a nominee for a director position, a shareholder must be a shareholder of record at the time it gives notice of recommendation and must be entitled to vote for the election of directors at the meeting at which such nominee will be considered. Shareholder recommendations must be made pursuant to written notice delivered to the Secretary at the principal executive offices of Engelhard (i) in the case of a nomination for election at an annual meeting, not less than 60 days prior to the first anniversary of the date of Engelhard's notice of annual meeting for the preceding year's annual meeting; and (ii) in the case of a special meeting at which directors are to be elected, not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the meeting and of the nominees proposed by the Board to be elected at the special meeting. In the event that the date of the annual meeting is changed by more than 30 days from the anniversary date of the preceding year's annual meeting, the shareholder notice described above will be deemed timely if it is received not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made.

The shareholder notice must set forth the following:

- As to each person the shareholder proposes to nominate for election as a director, all information relating to such person that would be required to be disclosed in solicitation of proxies for the election of such nominees as Directors pursuant to Regulation 14A under the Exchange Act, and such person's written consent of the nominee to serve as a director if elected; and
- As to the nominating shareholder and the beneficial owner, if any, on whose behalf the nomination is made, such shareholder's and beneficial owner's, name and address as they appear on Engelhard's books, the class and number of shares of Engelhard's common stock which are owned of record and beneficially by such shareholder and such beneficial owner, and whether either such shareholder or such beneficial owner intends to deliver a proxy statement and form of proxy to shareholders.

In addition to complying with the foregoing procedures, any shareholder nominating a director must also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder.

How does the Company make independence determinations for Directors?

Under the Company's Corporate Governance Guidelines, a majority of the Board must be comprised of directors who are independent under the Corporate Governance Standards of the New York Stock Exchange. To be deemed "independent," the Board must determine, after due deliberation, that the director has no material relationship with the Company other than as a director. In making such determination, the Board adheres to all of the specific tests for independence included in the New York Stock Exchange listing standards and considers all other facts and circumstances it deems necessary or advisable and the standards of director independence established by the Board. During the course of a year, directors are expected to inform the Board of any material changes in their circumstances or relationships that may impact their designation by the Board as independent.

The basis for a Board's determination that a relationship is not material must be disclosed in the Company's annual proxy statement. In this regard, pursuant to the Corporate Governance Standards of the New York Stock Exchange, the Board has adopted the Director Independence Standards to assist it in making determinations of independence. A copy of the Director Independence Standards used to determine is attached as Appendix A to this Proxy Statement. Any determination of independence for a director who does not meet these standards must be specifically explained.

Each member of our Board of Directors and our Board nominees for seats to be created by the expansion of the Board at the Annual Meeting, other than Mr. Perry, our CEO and Chairman, and Mr. Sperduto, our Vice President and Chief Financial Officer (one of our Board nominees for a seat to be created by the expansion of the Board at the Annual Meeting), are “independent” as defined by the NYSE Listing Standards and our Director Independence Standards.

How can I communicate with Board members?

Except as otherwise designated, the Chairman of the Nominating and Governance Committee will serve as the presiding Director of regularly scheduled meetings of the Non-Management Directors. Engelhard’s Corporate Governance Guidelines provide that shareholders of Engelhard and other interested parties may communicate with one or more of the Non-Management Directors by mail in care of General Counsel, 101 Wood Avenue, Iselin, New Jersey 08830. Such communications should specify the intended recipient or recipients. All such communications, other than unsolicited commercial solicitations or communications, will be forwarded to any specific addressee and any other appropriate Director or Directors for review. Unsolicited commercial materials will be available to any Non-Management Director who wishes to review it.

How are Directors compensated?

Directors who are not our employees each receive a retainer at the annual rate of \$50,000. In addition, Non-employee Directors receive a \$1,500 fee for each Board meeting attended. Non-employee Directors also receive a \$1,500 fee for each committee meeting attended; a \$5,000 annual retainer for each committee on which they serve; and the chairman of the audit and compensation committee receives an additional \$10,000 annual retainer, whereas the chairman of each other committee receives an additional \$7,500 annual retainer. Directors who are employed by us do not receive any Directors’ fees or retainers.

Pursuant to our Deferred Stock Plan for Non-Employee Directors (the “Deferred Stock Plan”), each Non-employee Director is credited with deferred stock units, each of which evidences the right to receive a share of Common Stock of Engelhard upon the Director’s termination of service. Deferred stock units had been credited to the accounts of the Non-employee Directors annually on each May 31 with an amount of deferred stock units calculated by dividing an amount equal to 40% of the annual retainer payable to such Non-employee Director then in effect by the average daily closing price per share of Common Stock of Engelhard for the 20 trading days ending two days prior to such date. For years beginning with 2003, the date deferred stock units are credited to accounts of Non-employee Directors has been changed to the record date for payment of dividends on shares of Common Stock of Engelhard occurring in the last month of the second calendar quarter of each year, and deferred stock units will be credited only to Non-employee Directors serving on the May 31 immediately preceding the crediting date. When a regular cash dividend is paid on the Common Stock, the dividend equivalent on deferred stock units is reinvested in additional deferred stock units. The entire balance of a Non-employee Director’s account under the Deferred Stock Plan will be paid to the Non-employee Director, in either a lump sum or installments at the election of such Non-employee Director, in shares of our Common Stock upon the Non-employee Director’s termination of service. If a “change in control” occurs and the Non-employee Director ceases to be a Director or the Deferred Stock Plan is terminated, shares equal to the entire balance of the account will be distributed within 30 days.

Pursuant to our Stock Bonus Plan for Non-Employee Directors (the "Directors Stock Bonus Plan"), each person who becomes a Non-employee Director prior to June 30, 2006 shall be awarded 7,593 shares of our Common Stock effective as of such person's election to our Board of Directors. Such shares will tentatively vest in equal increments over a ten-year period. Directors are entitled to receive cash dividends on and to vote shares which are the subject of an award prior to their distribution or forfeiture. Upon termination of the Director's service as a Non-employee Director, the Director (or, in the event of his or her death, his or her beneficiary) shall be entitled, in the discretion of the committee formed to administer the Directors Stock Bonus Plan, to receive the shares awarded to such Director which have tentatively vested up to the date of such termination of service. Shares may be received prior to such date if there has been a "change in control" (as defined in the Directors Stock Bonus Plan). If receipt of shares is accelerated due to a change in control, an additional payment will be made to compensate for the loss of the tax deferral.

Pursuant to our 2002 Long Term Incentive Plan, each Non-employee Director in office on the date of the regular meeting of the Board in December of 2005 was granted an option to purchase 3,000 shares of Common Stock with an exercise price equal to the fair market value of such shares at the date of grant. Each option becomes exercisable in four equal installments, commencing on the first anniversary of the date of grant and annually thereafter. Each option terminates on the tenth anniversary of the date of grant. Each option held by a director will become fully exercisable upon termination if such termination is a result of disability, death or retirement after attaining age 65; options may become exercisable prior to such date if there has been a "change of control" (as defined in the 2002 Long Term Incentive Plan).

Pursuant to our Deferred Compensation Plan for Directors, Non-employee Directors may elect to defer payment of all or a designated portion of their compensation for services as a Director into a cash or stock account. Under our Deferred Compensation Plan for Directors, deferred amounts will be paid at time of a "change in control" (as defined in the Deferred Compensation Plan) if the participant has made an advance election to that effect. In the event distribution of deferred amounts is so accelerated, an additional payment will be made in order to compensate for the loss of tax deferral resulting from the accelerated payment.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our Executive Officers and Directors and persons who own more than 10% of a registered class of Engelhard's equity securities to file initial reports of ownership and changes in ownership with the SEC and the NYSE. Such Executive Officers, Directors and shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely on a review of the copies of such forms furnished to us and written representations from our Executive Officers and Directors, all persons subject to the reporting requirements of Section 16(a) filed the required reports on a timely basis for 2005, except that each of Messrs. Dornbusch and Napier inadvertently filed a Form 4 late.

CERTAIN TRANSACTIONS

Citibank, N.A., a subsidiary of Citigroup Inc., which reported beneficial ownership of more than 5% of our Common Stock for part of 2005, participated with other lenders in lines of credit available to Engelhard under revolving credit facilities. Citibank's total commitment was \$39,000,000 through March 2005, none of which was drawn in 2005. In 2005, Citibank received an annual facility fees of approximately \$6,400 for these facilities. The Company uses subsidiaries of Citigroup, as well as other firms, to provide cash management services to Engelhard. Fees to subsidiaries of Citigroup for these services aggregated less than \$15,000 in 2005.

Subsidiaries of Citigroup and other firms, engage in foreign exchange and commodities transactions with Engelhard in the ordinary course of business. All of these transactions are negotiated at arm's length as principals in competitive markets. During 2005, foreign exchange transactions with subsidiaries of Citigroup aggregated approximately \$17,000,000 and metals transactions with subsidiaries of Citigroup aggregated approximately \$537,000,000.

Included in the assets held by the Company's pension trusts are approximately 65,000 shares of Citigroup Inc. common stock having a market value of \$3.2 million at December 31, 2005. Citigroup paid an annualized dividend of \$1.76 per share during 2005. Purchases and sales of Citigroup shares were made by independent investment managers and were not material to the Company.

Vanguard Group, an affiliate of Vanguard Windsor Funds, which reported beneficial ownership of more than 5% of our Common Stock for part of 2005, received \$97,353 for administering 401(k) plans for our employees during 2005.

State Street Bank and Trust Company, which reported beneficial ownership of more than 5% of our Common Stock for part of 2005, provides asset management services for our domestic pension plans. Plan assets under State Street's management were \$52,857,328 at December 31, 2005. Fees paid by the Company's pension plan trust totaled \$26,918 for the year ended December 31, 2005.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

The following table sets forth the compensation paid by us for services rendered in all capacities during each of the last three fiscal years to our Chief Executive Officer and our other four most highly compensated Executive Officers.

SUMMARY COMPENSATION TABLE

	<u>Year</u>	<u>Annual Compensation</u>		<u>Long-Term Compensation Awards (1)</u>		
		<u>Salary (\$)</u>	<u>Bonus (\$)</u>	<u>Other Annual Compensation (\$)</u>	<u>Restricted Stock Award (#)</u>	<u>All Other Compensation (\$)</u>
Barry W. Perry	2005	1,130,000	1,300,000			
Director, Chairman	2004	1,100,000	1,760,000			
and Chief Executive Officer	2003	1,000,000	2,014,900(4)	279,874(5)		