OM GROUP INC
Form 10-K
February 26, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008 Commission file number 001-12515

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OM GROUP, INC.
(Exact name of Registrant as specified in its charter)

Delaware	**52-1736882**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
127 Public Square, 1500 Key Tower, Cleveland, Ohio	**44114-1221**
(Address of principal executive offices)	(Zip Code)

216-781-0083
Registrant s telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of Act). Yes o No x

The aggregate market value of Common Stock, par value $.01 per share, held by nonaffiliates (based upon the closing sale price on the NYSE) on June 30, 2008 was approximately $989.4 million.

As of January 31, 2009 there were 30,473,914 shares of Common Stock, par value $.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s Proxy Statement for the 2009 Annual Meeting of Stockholders are incorporated by reference in Part III.

OM Group, Inc.

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PART I

Item 1. Business

General

OM Group, Inc. (the Company) is a diversified global developer, producer and marketer of value-added specialty chemicals and advanced materials that are essential to complex chemical and industrial processes. The Company believes it is the world s largest refiner of cobalt and producer of cobalt-based specialty products.

The Company is executing a deliberate strategy to grow through continued product innovation, as well as tactical and strategic acquisitions. The strategy is part of a transformational process to leverage the Company s core strengths in developing and producing value-added specialty products for dynamic markets while reducing the impact of metal price volatility on financial results. The strategy is designed to allow the Company to deliver sustainable and profitable volume growth in order to drive consistent financial performance and enhance the Company s ability to continue to build long-term shareholder value. The Company has completed three important transactions in connection with this long-term strategy:

On March 1, 2007, the Company completed the sale of its Nickel business to Norilsk Nickel (Norilsk) for cash proceeds of $490.0 million, net of transaction costs. The Nickel business consisted of the Harjavalta, Finland nickel refinery; the Cawse, Australia nickel mine and intermediate refining facility; a 20% equity interest in MPI Nickel Pty. Ltd.; and an 11% ownership interest in Talvivaara Mining Company, Ltd. In connection with the sale of the Nickel business, the Company entered into five-year supply agreements with Norilsk for cobalt and nickel raw materials, as described under Raw Materials below.

On October 1, 2007, the Company completed the acquisition of Borchers GmbH (Borchers), a European-based specialty coatings additive supplier with locations in France and Germany, for $20.7 million, net of cash acquired.

On December 31, 2007, the Company completed the acquisition of the Electronics businesses (REM) of Rockwood Specialties Group, Inc., which consisted of its Printed Circuit Board (PCB) business, its Ultra-Pure Chemicals (UPC) business, and its Compugraphics (Photomasks) business, for $321.5 million, net of cash acquired.

The REM and Borchers acquisitions (the 2007 Acquisitions) represent an important step in the Company s effort to transform itself into a diversified, market-facing global provider of specialty chemicals and advanced materials. To better align its transformation and growth strategy, the Company, effective January 1, 2008, reorganized its management structure and external reporting around two segments: Advanced Materials and Specialty Chemicals. The Advanced Materials segment consists of Inorganics, a smelter joint venture (GTL) in the Democratic Republic of Congo (the DRC) and metal resale. The Specialty Chemicals segment is comprised of Electronic Chemicals (which includes the acquired PCB business), Advanced Organics (which includes the acquired coatings business), UPC and Photomasks.

The Advanced Materials segment manufactures inorganics products using unrefined cobalt and other metals and serves the battery, powder metallurgy, ceramic and chemical end markets by providing functional characteristics critical to the success of our customers products. These products improve the electrical conduction of rechargeable batteries used in cellular phones, video cameras, portable computers, power tools and hybrid electrical vehicles, and also strengthen and add durability to diamond and machine cutting tools and drilling equipment used in construction, oil and gas drilling, and quarrying. The GTL smelter is the primary source for cobalt raw material feed. GTL is consolidated in the Company s financial statements because the Company has a 55% controlling interest in the joint venture.

The Specialty Chemicals segment consists of the following:

Electronic Chemicals: Electronic Chemicals develops and manufactures products for the electronic packaging, memory disk, general metal finishing and printed circuit board finishing markets and includes the PCB business. The PCB business develops and manufactures chemicals for the printed circuit board

industry, such as oxide treatments, electroplating additives, etching technology and electroless copper processes used in the manufacturing of printed circuit boards widely used in computers, communications, military/aerospace, automotive, industrial and consumer electronics applications. Memory disk products include electroless nickel solutions and preplate chemistries for the computer and consumer electronics industries and for the manufacture of hard drive memory disks used for memory and data storage applications. Memory disk applications include computer hard drives, digital video recorders, MP3 players, digital cameras and business and enterprise servers.

Advanced Organics: Advanced Organics develops and manufactures products for the tire, coating and inks, additives and chemical markets. These products promote adhesion of metal to rubber in tires and faster drying of paints, coatings, and inks. Within the additives and chemical markets, these products catalyze the reduction of sulfur dioxide and other emissions and also accelerate the curing of polyester resins found in reinforced fiberglass. The Borchers acquisition, which has been integrated into Advanced Organics, offers products to enhance the performance of coatings and ink systems from the production stage through customer end use.

Ultra Pure Chemicals: UPC develops, manufactures and distributes a wide range of ultra-pure chemicals used in the manufacture of electronic and computer components such as semiconductors, silicon chips, wafers and liquid crystal displays. These products include chemicals used to remove controlled portions of silicon and metal, cleaning solutions, photoresist strippers, which control the application of certain light-sensitive chemicals, edge bead removers, which aid in the uniform application of other chemicals, and solvents. UPC also develops and manufactures a broad range of chemicals used in the manufacturing of photomasks and provides a range of analytical, logistical and development support services to the semiconductor industry. These include Total Chemicals Management, under which the Company manages the clients entire electronic process chemicals operations, including coordination of logistics services, development of application-specific chemicals, analysis and control of customers chemical distribution systems and quality audit and control of all inbound chemicals.

Photomasks: Photomasks manufactures photo-imaging masks (high-purity quartz or glass plates containing precision, microscopic images of integrated circuits) and reticles for the semiconductor, thin film head (hard disk drive), optoelectronics and microelectronics industries under the Compugraphics brand name. Photomasks are a key component of the semiconductor and integrated circuit industries and perform a function similar to that of a negative in conventional photography.

The Company s business is critically connected to both the price and availability of raw materials. The primary raw material used by the Advanced Materials segment is unrefined cobalt. Cobalt raw materials include ore, concentrate, slag and scrap. The Company attempts to mitigate changes in availability of raw materials by maintaining adequate inventory levels and long-term supply relationships with a variety of suppliers. The cost of the Company s raw materials fluctuates due to changes in the cobalt reference price, actual or perceived changes in supply and demand of raw materials and changes in availability from suppliers. The Company attempts to pass through to its customers increases in raw material prices, and certain sales contracts and raw material purchase contracts contain variable pricing that adjusts based on changes in the price of cobalt. During periods of rapidly changing metal prices, however, there may be price lags that can impact the short-term profitability and cash flow from operations of the Company both positively and negatively. Fluctuations in the price of cobalt have been significant, historically and in 2008, and the Company believes that cobalt price fluctuations are likely to continue in the future. Reductions in the price of raw materials or declines in the selling prices of the Company s finished goods can result in the Company s inventory carrying value being written down to a lower market value, as occurred at the end of 2008.

The Company has manufacturing and other facilities in North America, Europe, Africa and Asia-Pacific, and markets its products worldwide. Although a significant portion of the Company s raw material purchases and product sales are based on the U.S. dollar, prices of certain raw materials, non-U.S. operating expenses and income taxes are denominated in local currencies. As such, the Company s results of operations are subject to the variability that arises

from exchange rate movements (particularly the Euro). In addition, fluctuations in exchange rates may affect product demand and profitability in U.S. dollars of products provided by the Company in foreign markets in

cases where payments for its products are made in local currency. Accordingly, fluctuations in currency prices affect the Company s operating results.

Products

The Company is a diversified global developer, producer and marketer of value-added specialty chemicals and advanced materials, and believes it is the world s leading producer of cobalt-based specialty chemicals. The Company s businesses also produce specialty chemicals and advanced materials from barium, calcium, iron, manganese, potassium, rare earths, zinc, zirconium, germanium and copper. The Company s businesses serve more than 50 industries worldwide, producing a variety of value-added specialty chemicals and advanced materials. Key technology-based end-use applications include affordable energy, portable power, clean air, clean water and proprietary products and services for the microelectronics industry. The Company s products leverage the Company s production capabilities and bring value to its customers through superior product performance. Typically, these products represent a small portion of the customer s total cost of manufacturing or processing, but are critical to the customer s product performance. The products frequently are essential components in chemical and industrial processes where they facilitate a chemical or physical reaction and/or enhance the physical properties of end-products. The Company s products are sold in various forms such as solutions, crystals, cathodes, powders and quartz or glass plates.

The Advanced Materials segment consists of Inorganics, the DRC smelter joint venture and metal resale. The powders and specialty chemicals that this business produces are used in a variety of industries, including rechargeable battery, construction equipment and cutting tools, catalyst, and ceramics and pigments. Products in this segment, grouped by application, are:

Chemical Cobalt Acetate, Cobalt Carbonate, Cobalt Hydroxide, Cobalt Nitrate, Cobalt Oxide, Cobalt Sulfate, Coarse Grade Powders, Germanium Dioxide, Nickel Carbonate, Nickel Sulfate, Recycling

Pigments and Ceramics:

Ceramic Pigments Cobalt Carbonate, Cobalt Oxides, Cobalt Sulfate, Nickel Carbonate,

Plastic Pigments Cobalt Oxides, Cobalt Hydroxide, Nickel Hydroxide

Glass Pigments Cobalt Oxides

Powder Metallurgy S-Series Cobalt Powders, T-Series Cobalt Powders, R-Series Cobalt Powders, Granulated Cobalt Powders, Recycling, Coarse Grade Powders

Battery:

Precursors Battery Grade Cobalt Oxides, Standard Grade Nickel Hydroxide, Mixed Metal Hydroxides

Battery Materials Fine Cobalt Powder, Cobalt Hydroxide, Recycling

Raw Materials Battery Grade Cobalt Powders, Cobalt Sulfate, Nickel Sulfate

The Specialty Chemicals segment is comprised of Electronic Chemicals, Advanced Organics, UPC and Photomasks.

Electronic Chemicals: This unit works with electroless nickel, precious metals and related products used in the production of printed circuit board assemblies, memory disks, general metal finishing and electronic packaging.

Products/processes in Electronic Chemicals, grouped by application, are:

Printed Circuit Board Chemistry Final Finishes, Inner Layer Processes, Making Holes Conductive, Outer Layer Processes, Photovoltaic Industry, Specialty Processes

Memory Disk Electroless Nickel Products, Pre-treatment Products

General Metal Finishing Auxiliary Chemicals, Electroless Nickel Processes, Nickel/Gold Strippers and Other Products, Polishing Chemicals, Zincate and Post Treatment Chemistries

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Electronic Packaging and Finishing Technologies Base Metal Processes, Electronic Grade Base Metal Concentrates, Electronic Grade Methane Sulfonate Concentrates, Lead Free Plating Processes, Pre-Plate and Post-Plate Processes, Tin-Lead Alloy Plating Processes

Advanced Organics: Metal-based specialty chemicals from this business are used to meet the critical needs of a range of industries, including coatings and inks, tire, catalyst, and lubricant and fuel additives. Advanced Organics products, grouped by application, include:

Coatings & Inks Additives for Paints, Driers for Paints and Printing Inks

Tire Rubber Adhesion Promoters

Chemicals Composite and other Catalysts

Additives Fuel Oil Additives, Lubricant & Grease Additives

Ultra Pure Chemicals: The UPC business develops, manufactures and distributes a wide range of ultra-pure chemicals used in the manufacture of electronic and computer components such as semiconductors, silicon chips, wafers, and liquid crystal displays. UPC products and services, grouped by application, include:

Cleaner Acetone, Ammonia Solution, Hydrochloric Acid, Hydrogen Peroxide

Etchant Chrome Etchant, Hydrofluoric Acid, Mixed Acid, Nitric Acid, Phosphoric Acid

Photolithography Isopropyl Alcohol, Butyl Acetate, Nanostrip, Nitric Fuming, Photoresist Stripper

Services Analytical Services, Chemicals Management, Logistics Services, Total Chemical Management.

Photomasks: The Photomasks business manufactures photo-imaging masks (high-purity quartz or glass plates containing precision, microscopic images of integrated circuits) and reticles for the semiconductor, optoelectronics and microelectronics industries under the Compugraphics brand name. Photomasks are a key component of the semiconductor and integrated circuit value chains and perform a function similar to that of a negative in conventional photography.

Competition

The Company encounters a variety of competitors in each of its product lines, but no single company competes with the Company across all of its existing product lines. The Company believes that it is the largest refiner of cobalt and producer of cobalt-based specialty products in the world. Competition in these markets is based primarily on product quality, supply reliability, price, service and technical support capabilities. The markets in which the Company participates have historically been competitive and this environment is expected to continue.

Our principal competitors by business are as follows:

Advanced Materials: Sherritt International Corporation, Umicore S.A., Eurotungstene Poudres S.A.S., The Shepherd Chemical Company

Advanced Organics: Dura Chemicals Inc., Elementis plc, Troy Corporation, Byk-Chemie, Ciba Inc., Shepherd Chemical Company, Dainippon Ink and Chemicals, Incorporated, Taekwang Industrial Co., Ltd

Electronic Chemicals: Atotech (a subsidiary of Total S.A.), Cookson Group plc, MacDermid Incorporated, Rohm & Haas Company, Uyemura International, Inc.

UPC: Kanto Chemical Co., Inc.; Mitsubishi Chemical Corporation; KMG Chemicals, Inc.; Honeywell International Inc.; BASF Group

Photomasks: Photronics, Inc.; Toppan Photomasks, Inc. (a wholly-owned subsidiary of Toppan Printing Co., Ltd.)

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Customers

The Company s business serves approximately 4,000 customers. During 2008, approximately 46% of the Company s net sales were to customers in Asia, 39% in Europe and 15% in the Americas. Sales to Nichia Chemical Corporation represented approximately 22%, 23% and 19% of net sales in 2008, 2007 and 2006, respectively. Sales to Luvata Pori Oy were approximately 11% of net sales in 2006. Sales to the Company s top five customers represented approximately 41% of net sales in 2008. The loss of one or more of these customers could have a material adverse effect on the Company s business, results of operations or financial position.

While customer demand for the Company s products is generally non-seasonal, supply/demand and price perception dynamics of key raw materials do periodically cause customers to either accelerate or delay purchases of the Company s products, generating short-term results that may not be indicative of longer-term trends. Historically, Advanced Materials revenues during July and August have been lower than other months due to the summer holiday season in Europe. Furthermore, the Company uses the summer season to perform its annual maintenance shut-down at its refinery in Finland.

Raw Materials

The primary raw material used by the Advanced Materials business in manufacturing its products is unrefined cobalt. Cobalt raw materials include ore, concentrates, slag and scrap. The cost of the Company s raw materials fluctuates due to changes in the cobalt reference price, actual or perceived changes in supply and demand of raw materials and changes in availability from suppliers. The Company attempts to mitigate increases in raw material prices by passing through such increases to its customers in the prices of its products and by entering into sales contracts that contain variable pricing that adjusts based on changes in the price of cobalt.

The Company s supply of cobalt is principally sourced from the DRC, Russia and Finland. Upon closing the transaction to sell the Company s Nickel business to Norilsk Nickel in the first quarter of 2007, the Company entered into five-year supply agreements with Norilsk for up to 2,500 metric tons per year of cobalt metal, up to 2,500 metric tons per year of crude in the form of cobalt hydroxide concentrate, up to 1,500 metric tons per year of cobalt in the form of crude cobalt sulfate, up to 5,000 metric tons per year of copper in the form of copper cake and various other nickel-based raw materials used in the Company s Electronic Chemicals business. The Norilsk agreements strengthen the Company s supply chain and secure a consistent source of raw materials, providing the Company with a stable supply of cobalt metal through the long-term supply agreements. Complementary geography and operations shorten the supply chain and allow the Company to leverage its cobalt-based refining and chemicals expertise with Norilsk s cobalt mining and processing capabilities.

The GTL smelter is a primary source for cobalt raw material feed. GTL shut down its smelter during 2005 for maintenance and production improvements. The next planned maintenance shut-down is expected to occur in mid-2009.

During 2008, the reference price of low grade (formerly 99.3%) cobalt listed in the trade publication, Metal Bulletin, rose from $40.00 at the beginning of 2008 to near $50.00 by the end of the first quarter. During the second half of the year, the reference price decreased from an average of $32.54 per pound in the third quarter of 2008 to an average of $20.81 per pound in the fourth quarter of 2008 and ended the year at $10.50 per pound. Political and civil instability in supplier countries, variability in supply and worldwide demand, including demand in developing countries such as China, have affected and may continue to affect the supply and market price of raw materials.

A graph of the end of the month reference price of low grade cobalt (as published in Metal Bulletin magazine) per pound for 2003 through 2008 is as follows:

Research and Development

The Company s research and new product development program is an integral part of its business. Research and development focuses on adapting proprietary technologies to develop new products and working with customers to meet their specific requirements, including joint development arrangements with customers that involve innovative products. New products include new chemical formulations, metal-containing compounds, and concentrations of various components and product forms. Research and development expenses were approximately $10.8 million in 2008, $8.2 million for 2007 and $8.1 million for 2006.

The Company s research staff conducts research and development in laboratories located in Westlake, Ohio; South Plainfield, New Jersey; Kuching, Malaysia; Manchester, England; Singapore; Lagenfeld, Germany; Kokkola, Finland; Riddings, England; Chung Li, Taiwan; Maple Plain, Minnesota; and Saint Fromond, France.

During 2008, the Company invested $0.7 million in CrisolteQ Oy (CrisolteQ), a private Finnish company, through the purchase of common stock and a convertible loan. CrisolteQ is developing and commercializing new metal recycling technology for spent catalyst materials.

During 2007, the Company invested $2.0 million in Quantumsphere, Inc. (QSI) through the purchase of 615,385 shares of common stock and warrants to purchase an additional 307,692 shares of common stock. The Company and QSI have agreed to co-develop new, proprietary applications for the high-growth, high-margin clean-energy and portable power sectors. In addition, the Company has the right to market and distribute certain QSI products.

Patents and Trademarks

The Company holds patents registered in the United States and foreign countries relating to the manufacturing, processing and use of metal-organic and metal-based compounds. Specifically, the majority of these patents cover proprietary technology for base metal refining, metal and metal oxide powders, catalysts, metal-organic compounds and inorganic salts. Although the Company believes these patents are important to its specific businesses, it does not consider any single patent or group of patents to be material to its business as a whole.

Environmental Matters

The Company is subject to a wide variety of environmental laws and regulations in the United States and in foreign countries as a result of its operations and use of certain substances that are, or have been, used, produced or discharged by its plants. In addition, soil and/or groundwater contamination presently exists and may in the future be discovered at levels that require remediation under environmental laws at properties now or previously owned,

operated or used by the Company. At December 31, 2008 and 2007, the Company had environmental reserves of $3.4 million and $4.9 million, respectively. The Company continually evaluates the adequacy of its reserves and adjusts the reserves when determined to be appropriate.

Ongoing environmental compliance costs, which are expensed as incurred, were approximately $10.6 million in 2008 and $8.0 million in 2007 and included costs relating to product stewardship; waste water analysis, treatment, and disposal; hazardous and non-hazardous solid waste analysis and disposal; air emissions control; sustainability programs and related staff costs. The Company anticipates that it will continue to incur compliance costs at moderately increasing levels for the foreseeable future as environmental laws and regulations are becoming increasingly stringent. This includes the European Union s Registration, Evaluation and Authorization of Chemicals (REACH) legislation, which establishes a new system to register and evaluate chemicals manufactured in, or imported to, the European Union. REACH-related activities and studies will require additional testing, documentation and risk assessments for the chemical industry and will affect a broad range of substances manufactured and sold by the Company. The Company has created an internal team to manage REACH implementation and is working closely with its business partners to ensure that the requirements can be met in an effective and efficient manner. The Company anticipates spending approximately $2.7 million on REACH-related studies and activities in 2009.

The Company also incurred capital expenditures of approximately $3.3 million and $1.9 million in 2008 and 2007, respectively, in connection with ongoing environmental compliance. The Company anticipates that capital expenditure levels for these purposes will be approximately $4.9 million in 2009, as it continues to modify certain processes to ensure they continue to comply with environmental regulation and undertakes new pollution prevention and waste reduction projects.

Due to the ongoing development of facts and remedial options and due to the possibility of unanticipated regulatory developments, the amount and timing of future environmental expenditures could vary significantly. Although it is difficult to quantify the potential impact of compliance with or liability under environmental protection laws, based on presently available information, the Company believes that its ultimate aggregate cost of environmental remediation as well as liability under environmental protection laws will not materially adversely effect its financial condition or results of operations.

Employees

At December 31, 2008, the Company had 2,115 full-time employees, with 365 located in North America, 801 located in Europe, 397 located in Africa and 552 located in Asia-Pacific. The employees located in Africa are employed by GTL, the smelter joint venture. Employees at the Company s facility in Kokkola, Finland are members of several national workers unions under various union agreements. Generally, these union agreements have two-year terms. Employees at the Company s facility in Manchester, England are members of various trade unions under a recognition agreement. This recognition agreement has an indefinite term. Employees in the DRC are members of various trade unions. The union agreements have a term of three years expiring in May 2011. The Company expects to enter into new agreements covering those employees upon expiration of the current agreements. Other European employees are represented by either a labor union or a statutory work council arrangement. The Company believes that relations with its employees are good.

SEC Reports

The Company makes available free of charge through its website (www.omgi.com) its reports on Forms 10-K, 10-Q and 8-K as soon as reasonably practicable after the reports are electronically filed with the Securities and Exchange Commission. A copy of any of these documents is available in print free of charge to any stockholder who requests a copy, by writing to OM Group, Inc., 127 Public Square, 1500 Key Tower, Cleveland, Ohio 44114-1221 USA, Attention: Troy Dewar, Director of Investor Relations.

Item 1A. Risk Factors

Our business faces significant risks. These risks include those described below and may include additional risks and uncertainties not presently known to us or that we currently deem immaterial. Our business, financial condition and

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results of operations could be materially adversely affected by any of these risks. These risks should be read in conjunction with the other information in this report.

THE RECENT GLOBAL ECONOMIC AND FINANCIAL MARKET CRISIS HAS HAD AND MAY CONTINUE TO HAVE A NEGATIVE EFFECT ON OUR BUSINESS AND OPERATIONS.

The recent global economic and financial market crisis has caused, among other things, a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, and lower business spending, all of which has had and may continue to have a negative effect on our business, results of operations, financial condition and liquidity. Many of our customers, distributors and suppliers have been affected by the current economic conditions. Current or potential customers may be unable to fund purchases or may determine to reduce purchases or inventories or may cease to continue in business, which has led to and could continue to lead to reduced demand for our products, reduced gross margins, and increased customer payment delays or defaults. In addition, suppliers may not be able to supply us with needed raw materials on a timely basis, may increase prices or go out of business, which could result in our inability to meet customer demand or could affect our gross margins. We also are limited in our ability to reduce costs to offset the results of a prolonged or severe economic downturn in light of certain fixed costs associated with our operations.

The timing and nature of any recovery in the global economic and financial markets remains uncertain, and there can be no assurance that market conditions will improve in the near future or that our results will not continue to be materially and adversely affected. Such conditions make it very difficult to forecast operating results, make business decisions and identify and address material business risks.

CONTINUED OR FURTHER DETERIORATION OF THE ECONOMY COULD LEAD TO REDUCED EARNINGS AND COULD RESULT IN FUTURE GOODWILL IMPAIRMENTS.

The weakness in the global economy and financial markets may also impact the valuation of certain long-lived or intangible assets that are subject to impairment testing, potentially resulting in impairment charges that may be material to our financial condition or results of operations. As of December 31, 2008, we have $268.7 million of goodwill and $84.8 million of intangible assets recorded on our balance sheet. We perform annual impairment tests of our goodwill and indefinite-lived intangible assets and more often if indicators of impairment exist.

During 2008, we recorded a non-cash impairment charge of $8.8 million to reduce the carrying amount of our goodwill to its estimated fair value based upon the results of our impairment test as of December 31, 2008, which was conducted in connection with preparation of our annual financial statements for the year ended on that date. In addition, in performing our annual intangible asset impairment testing during the fourth quarter of 2008, we determined that certain indefinite-lived trade names were impaired due to downward revisions in estimates of future revenue. As a result, we recorded an impairment loss of $0.2 million in 2008 relating to intangible assets.

We use a number of estimates and assumptions in calculating the fair values of assets in our impairment testing, including future operating cash flow assumptions, future cobalt price assumptions and the weighted average cost of capital. Due to the recent general downturn in the economy and resulting increased uncertainty in forecasted future cash flows, we increased the company-specific risk factor component in our calculations of weighted average cost of capital.

Factors that could trigger an impairment review outside of the required annual review include the following:

- significant underperformance relative to projected operating results;
- significant changes in estimates of future cash flows from ongoing operations and/or from future opportunities related to current license agreements;

significant changes in discount rates used in our impairment testing;

further market capitalization deterioration;

significant negative industry or economic trends.

Changes in these assumptions and estimates, or continued weakness or further deterioration in the economy, could materially affect the goodwill and intangible asset impairment tests. If any of these factors worsen, we may be required to recognize an additional goodwill and/or intangible asset impairment charge which may be material to our financial condition or results of operations.

EXTENDED BUSINESS INTERRUPTION AT OUR FACILITIES COULD HAVE AN ADVERSE IMPACT ON OPERATING RESULTS.

Our results of operations are dependent in large part upon our ability to produce and deliver products promptly upon receipt of orders and to provide prompt and efficient service to our customers. Any disruption of our day-to-day operations could have a material adverse effect on our business, customer relations and profitability. Our Kokkola, Finland facility is the primary refining and production facility for our Advanced Materials products. The GTL smelter in the DRC is the primary source for our cobalt raw material feed. Our Cleveland, Ohio facility serves as our corporate headquarters. These facilities are critical to our business, and a fire, flood, earthquake or other disaster or condition that damaged or destroyed any of these facilities could disable them. Any such damage to, or other condition significantly interfering with the operation of these facilities, such as an interruption of our supply lines, would have a material adverse effect on our business, financial position and results of operations. Our insurance coverage may not be adequate to fully cover the potential risks described above. In addition, our insurance coverage may become more restrictive and/or increasingly costly, and there can be no assurance that we will be able to maintain insurance coverage in the future at an acceptable cost or at all.

WE ARE AT RISK FROM UNCERTAINTIES IN THE SUPPLY OF UNREFINED COBALT, WHICH IS OUR PRIMARY RAW MATERIAL.

There are a limited number of supply sources for unrefined cobalt. Production problems or political or civil instability in supplier countries, primarily the DRC, Finland and Russia, have from time to time affected and may in the future affect the market price and supply of unrefined cobalt.

In particular, political and civil instability and unexpected adverse changes in laws or regulatory requirements, including with respect to export duties and quotas, may affect the availability of raw materials from the DRC. If a substantial interruption should occur in the supply of unrefined cobalt from the DRC or elsewhere, we may not be able to obtain as much unrefined cobalt from other sources as would be necessary to satisfy our requirements at prices comparable to our current arrangements and our operating results could be adversely impacted.

WE ARE AT RISK FROM FLUCTUATIONS IN THE PRICE OF UNREFINED COBALT AND OTHER RAW MATERIALS.

Unrefined cobalt is the principal raw material we use in manufacturing Advanced Materials products, and the cost of cobalt fluctuates due to changes in the reference price caused by actual or perceived changes in supply and demand, and changes in availability from suppliers. Fluctuations in the price of cobalt have been significant in the past and we believe price fluctuations are likely to occur in the future. Our ability to pass increases in raw material costs through to our customers by increasing the selling prices of our products is an important factor in our business. We cannot guarantee that we will be able to maintain an appropriate differential at all times.

We may be required under U.S. GAAP accounting rules to write down the carrying value of our inventory when cobalt and other raw material prices decrease. In periods of raw material metal price declines or declines in the selling prices of our finished products, inventory carrying values could exceed the amount we could realize on sale, resulting in a charge against inventory that could adversely affect our operating results.

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THE MAJORITY OF OUR OPERATIONS ARE OUTSIDE THE UNITED STATES, WHICH SUBJECTS US TO RISKS THAT MAY ADVERSELY AFFECT OUR OPERATING RESULTS.

Our business is subject to risks related to the differing legal and regulatory requirements and the social, political and economic conditions of many jurisdictions. In addition to risks associated with fluctuations in foreign exchange rates, risks inherent in international operations include the following:

potential supply disruptions as a result of political instability, civil unrest or labor difficulties in countries in which we have operations, especially the DRC and surrounding countries;

agreements may be difficult to enforce, may be subject to government renegotiation, and receivables difficult to collect through a foreign country s legal system;

Customers in certain regions may have longer payment cycles;

foreign countries may impose additional withholding taxes or otherwise tax our foreign income, impose tariffs or adopt other restrictions on foreign trade or investment, including currency exchange controls;

general economic conditions in the countries in which we operate could have an adverse effect on our earnings from operations in those countries;

unexpected adverse changes in foreign laws or regulatory requirements may occur, including with respect to export duties and quotas; and

compliance with a variety of foreign laws and regulations may be difficult.

Our overall success as a global business depends, in part, upon our ability to succeed in differing legal, regulatory, economic, social and political conditions. We cannot assure you that we will implement policies and strategies that will be effective in each location where we do business. Furthermore, we cannot be sure that one or more of the foregoing factors will not have a material adverse effect on our business, financial condition or results of operations.

WE ARE UNDERGOING A STRATEGIC TRANSFORMATION, WHICH INTRODUCES UNCERTAINTIES REGARDING OUR RESULTS OF OPERATIONS.

As a result of changes to our strategic direction, we are currently in a transformational period in which we have made and may continue to make changes that could be material to our business, financial condition and results of operations. These changes have included the sale of our Nickel business and our 2007 Acquisitions, and our strategy includes growth through additional acquisitions. It is difficult to predict the impact of future changes on our business, financial condition or results of operations.

WE INTEND TO CONTINUE TO SEEK ADDITIONAL ACQUISITIONS, BUT WE MAY NOT BE ABLE TO IDENTIFY OR COMPLETE TRANSACTIONS, WHICH COULD ADVERSELY AFFECT OUR STRATEGY.

Our strategy anticipates growth through future acquisitions. However, our ability to identify and consummate any future acquisitions on terms that are favorable to us may be limited by the number of attractive acquisition targets, internal demands on our resources and our ability to obtain financing. Our success in integrating newly acquired businesses will depend upon our ability to retain key personnel, avoid diversion of management s attention from operational matters, and integrate general and administrative services and key information processing systems. In addition, future acquisitions could result in the incurrence of additional debt, costs and contingent liabilities. Integration of acquired operations may take longer, or be more costly or disruptive to our business, than originally anticipated, and it is also possible that expected synergies from future acquisitions may not materialize. We also may

incur costs and divert management attention with regard to potential acquisitions that are never consummated.

There may be liabilities of the acquired companies that we fail to or are unable to discover during the due diligence investigation and for which we, as a successor owner, may be responsible. Indemnities and warranties obtained from the seller may not fully cover the liabilities due to limitations in scope, amount or duration, financial limitations of the indemnitor or warrantor or other reasons.

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WE ARE EXPOSED TO FLUCTUATIONS IN FOREIGN EXCHANGE RATES, WHICH MAY ADVERSELY AFFECT OUR OPERATING RESULTS.

We have manufacturing and other facilities in North America, Europe, Asia-Pacific and Africa, and we market our products worldwide. Although a significant portion of our raw material purchases and product sales are transacted in U.S. dollars, liabilities for non-U.S. operating expenses and income taxes are denominated in local currencies. In addition, fluctuations in exchange rates may affect product demand and may adversely affect the profitability in U.S. dollars of products provided by us in foreign markets where payment for our products is made in the local currency. Accordingly, fluctuations in currency rates (particularly the Euro) may affect our operating results.

WE ARE SUBJECT TO STRINGENT ENVIRONMENTAL REGULATION AND MAY INCUR UNANTICIPATED COSTS OR LIABILITIES ARISING OUT OF ENVIRONMENTAL MATTERS.

We are subject to stringent laws and regulations relating to the storage, handling, disposal, emission and discharge of materials into the environment, and we have expended, and may be required to expend in the future, substantial funds for compliance with such laws and regulations. In addition, we may from time to time be subjected to claims for personal injury, property damages or natural resource damages made by third parties or regulators. Our annual environmental compliance costs were $10.6 million in 2008. In addition, we made capital expenditures of approximately $3.3 million in 2008 in connection with environmental compliance.

As of December 31, 2008, we had reserves of $3.4 million for environmental liabilities. However, given the many uncertainties involved in assessing liability for environmental claims, our current reserves may prove to be insufficient. In addition, our current reserves are based only on known sites and the known contamination on those sites. It is possible that additional remediation sites will be identified in the future or that unknown contamination at previously identified sites will be discovered. This could require us to make additional expenditures for environmental remediation or could result in exposure to claims in the future.

CHANGES IN ENVIRONMENTAL, HEALTH AND SAFETY REGULATORY REQUIREMENTS COULD AFFECT SALES OF THE COMPANY S PRODUCTS.

New or revised governmental regulations relating to health, safety and the environment may affect demand for our products. For example, the European Union s REACH legislation, which establishes a new system to register and evaluate chemicals manufactured in, or imported to, the European Union and requires additional testing, documentation and risk assessments for the chemical industry, could affect our ability to sell certain products. Such new or revised regulations may result in heightened concerns about the chemicals involved and in additional requirements being placed on the production, handling, or labeling of the chemicals and may increase the cost of producing them and/or limit the use of such chemicals or products containing such chemicals, which could lead to a decrease in demand. REACH likely will require us to incur significant additional compliance costs.

WE MAY NOT BE ABLE TO RESPOND EFFECTIVELY TO TECHNOLOGICAL CHANGES IN OUR INDUSTRY OR IN OUR CUSTOMERS PRODUCTS.

Our future business success will depend in part upon our ability to maintain and enhance our technological capabilities, develop and market products and applications that meet changing customer needs and successfully anticipate or respond to technological changes on a cost-effective and timely basis. Our inability to anticipate, respond to or utilize changing technologies could have an adverse effect on our business, financial condition or results of operations. Moreover, technological and other changes in our customers products or processes may render some of our specialty chemicals unnecessary, which would reduce the demand for those chemicals.

BECAUSE WE DEPEND ON SEVERAL LARGE CUSTOMERS FOR A SIGNIFICANT PORTION OF OUR REVENUES, OUR OPERATING RESULTS COULD BE ADVERSELY AFFECTED BY ANY DISRUPTION OF OUR RELATIONSHIP WITH THESE CUSTOMERS OR ANY MATERIAL ADVERSE CHANGE IN THEIR BUSINESSES.

We depend on several large customers for a significant portion of our business. In 2008, the top five customers accounted for 41% of net sales. Sales to Nichia Chemical Corporation represented approximately 22% of net sales in

2008. Any disruption in our relationships with our major customers, including any adverse modification of our agreements with them or the unwillingness or inability of them to perform their obligations under the agreements, would adversely affect our operating results. In addition, any material adverse change in the financial condition of any of our major customers would have similar adverse effects.

WE OPERATE IN VERY COMPETITIVE INDUSTRIES, WHICH COULD ADVERSELY AFFECT OUR PROFITABILITY.

We have many competitors. Some of our principal competitors have greater financial and other resources and greater brand recognition than we have. Accordingly, these competitors may be better able to withstand changes in conditions within the industries in which we operate and may have significantly greater operating and financial flexibility than we do. As a result of the competitive environment in the markets in which we operate, we currently face and will continue to face pressure on the sales prices of our products from competitors and large customers. With these pricing pressures, we may experience future reductions in the profit margins on our sales, or may be unable to pass on future raw material price or operating cost increases to our customers, which also would reduce profit margins. Since we conduct our business mainly on a purchase order basis, with few long-term commitments from our customers, this competitive environment could give rise to a sudden loss of business.

INDUSTRY CONSOLIDATION BY COMPETITORS MAY LEAD TO INCREASED COMPETITION AND MAY HARM OUR OPERATING RESULTS.

There has been a trend toward industry consolidation in our markets. We believe that industry consolidation among our peers may result in stronger competitors with greater financial and other resources that are better able to compete for customers. This could lead to more variability in operating results and could have a material adverse effect on our business, operating results, and financial condition.

FAILURE TO RETAIN AND RECRUIT KEY PERSONNEL WOULD HARM OUR ABILITY TO MEET KEY OBJECTIVES.

Our key personnel are critical to the management and direction of our businesses. Our future success depends, in large part, on our ability to retain key personnel and other capable management personnel. It is particularly important that we maintain our senior management group that is responsible for implementing our strategic transformation. If we were not able to attract and retain talented personnel and replace key personnel should the need arise, the inability could make it difficult to meet key objectives and disrupt the operations of our businesses.

CHANGES IN EFFECTIVE TAX RATES OR ADVERSE OUTCOMES RESULTING FROM EXAMINATION OF OUR INCOME TAX RETURNS COULD ADVERSELY AFFECT OUR RESULTS.

We are subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in evaluating our worldwide provision for income taxes. During the ordinary course of business, there are many transactions for which the ultimate tax determination is uncertain. For example, our effective tax rates could be adversely affected by

- earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates

- changes in the valuation of our deferred tax assets and liabilities

- the timing and amount of earnings of foreign subsidiaries that we repatriate to the United States

- changes in the relevant tax, accounting and other laws, regulations, principles and interpretations.

We are subject to audit in various jurisdictions, and such jurisdictions may assess additional income tax against us. The final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on our financial condition or cash flows in the period or periods for which that determination is made.

WE MAY NOT BE ABLE TO ADEQUATELY PROTECT OR ENFORCE OUR INTELLECTUAL PROPERTY RIGHTS, WHICH MAY ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.
We rely on U.S. and foreign patents and trade secrets to protect our intellectual property. We attempt to protect and restrict access to our trade secrets and proprietary information, but it may be possible for a third party to obtain our information and develop similar technologies.

If a competitor infringes upon our patent or other intellectual property rights, enforcing those rights could be difficult, expensive and time-consuming, making the outcome uncertain. Even if we are successful, litigation to enforce our intellectual property rights or to defend our patents against challenge could be costly and could divert management s attention.

OUR STOCK PRICE MAY CONTINUE TO BE VOLATILE.
Historically, our common stock has experienced substantial price volatility, particularly as a result of changes in metal prices, primarily unrefined cobalt, which is our primary raw material. In addition, the stock market has experienced and continues to experience significant price and volume volatility that has often been unrelated to the operating performance of our Company. These broad market fluctuations may adversely affect the market price of our common stock.

CONTINUING DISRUPTION IN THE CREDIT MARKETS MAY REDUCE AVAILABILITY UNDER OUR CREDIT AGREEMENT AND OUR ABILITY TO RAISE CAPITAL.
Due to the current volatile state of the credit markets, there is risk that lenders, even those with strong balance sheets and sound lending practices, could fail to honor their legal commitments and obligations under existing credit commitments, including extending credit up to the maximum permitted by a credit facility, allowing access to additional credit features and otherwise accessing capital and/or honoring loan commitments. If our lenders fail to honor their legal commitments under our credit facility, it could be difficult in the current environment to replace our credit facility on similar terms. The failure of any of the lenders under our credit facility may impact our ability to fund our working capital needs or future acquisitions. In addition, continuing disruption in the credit markets may adversely affect our ability to raise capital for future acquisitions or other capital needs.

WE MAINTAIN CASH BALANCES IN U.S. AND FOREIGN FINANCIAL INSTITUTIONS WHICH COULD ADVERSELY AFFECT OUR LIQUIDITY.
While we monitor the financial institutions with which we maintain accounts, we may not be able to recover our funds in the event that a financial institution fails. In addition, we may be limited in the amount and timing of funds to be repatriated from foreign financial institutions. As a result, this could adversely affect our ability to fund normal operations or capital expenditures.

Item 1B. Unresolved Staff Comments
The Company has received no written comments regarding its periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days or more preceding the end of its 2008 fiscal year and that remain unresolved.

Item 2. Properties
The Company believes that its plants and facilities, which are of varying ages and of different construction types, have been satisfactorily maintained, are suitable for the Company s operations and generally provide sufficient capacity to meet the Company s production requirements. The depreciation lives of fixed assets associated with leases do not exceed the lives of the leases.

The Company s Kokkola, Finland production facility is situated on property owned by Boliden Kokkola Oy. The Company and Boliden Kokkola Oy share certain physical facilities, services and utilities under agreements with

varying expiration dates.

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Information regarding the Company s primary offices, research and product development, and manufacturing and refining facilities, is set forth below:

Location	Facility Function*	Segment	Approximate Square Feet	Leased/Owned
Africa:				
Lubumbashi, DRC	M	Advanced Materials	116,000	joint venture (55% owned)
North America:				
Cleveland, Ohio	A	Corporate	24,500	Leased
Westlake, Ohio	A, R	Specialty Chemicals	35,200	Owned
Belleville, Ontario	M	Specialty Chemicals	38,000	Owned
Franklin, Pennsylvania	M	Specialty Chemicals	331,500	Owned
Newark, New Jersey	Held for sale	Specialty Chemicals	32,000	Owned
South Plainfield, New Jersey	A, R	Specialty Chemicals	18,400	Leased
Los Gatos, California	M, A	Specialty Chemicals	24,912	Leased
Fremont, California	M, A	Specialty Chemicals	16,000	Leased
Maple Plain, Minnesota	M, A, R	Specialty Chemicals	65,000	Owned
Asia-Pacific:				
Kuching, Malaysia	M, A, R,	Specialty Chemicals	55,000	Land-Leased Building - Owned
Tokyo, Japan	A	Advanced Materials	2,300	Leased
Taipei, Taiwan	A	Specialty Chemicals	2,350	Leased
Chung-Li, Taiwan	M, A, R	Specialty Chemicals	37,000	Leased
Suzhou, China	M, A	Specialty Chemicals	85,530	Owned
Wuzhong, Suzhou, China	M, A	Specialty Chemicals	30,000	Leased
Shenzen, China	A, W	Specialty Chemicals	25,000	Leased
Singapore Electronic Chemicals	M, A, R	Specialty Chemicals	57,856	Leased
Singapore UPC	A, W	Specialty Chemicals	70,000	Leased
Europe:				
Manchester, England	M, A, R	Specialty Chemicals	73,300	Owned
Kokkola, Finland	M, A, R	Advanced Materials	470,000	Land-Leased Building - Owned
Glenrothes, Scotland	M, A	Specialty Chemicals	80,000	Owned
Riddings, England	M, A, R	Specialty Chemicals	30,000	Leased
Saint Cheron, France	W	Specialty Chemicals	42,030	Owned
Saint Fromond, France	M, A, R	Specialty Chemicals	99,207	Owned
Rousset Cedex, France	A, W	Specialty Chemicals	14,400	Leased
Castres, France	M, A	Specialty Chemicals	43,000	Owned
Lagenfeld, Germany	A, R	Specialty Chemicals	47,430	Leased

* M Manufacturing/refining; A Administrative; R Research and Development; W Warehouse

Item 3. Legal Proceedings

The Company is a party to various legal and administrative proceedings incidental to its business. In the opinion of the Company, disposition of all suits and claims related to its ordinary course of business should not in the aggregate have a material adverse effect on the Company s financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the Company s 2008 fiscal year.

Executive Officers of the Registrant

The information under this item is being furnished pursuant to General Instruction G of Form 10-K.

There is set forth below the name, age, positions and offices held by each of the Company s executive officers, as well as their business experience during the past five years. Years indicate the year the individual was named to the indicated position.

Joseph M. Scaminace 55

Chairman and Chief Executive Officer, August 2005

Chief Executive Officer, June 2005

President, Chief Operating Officer and Board Member, The Sherwin-Williams Company 1999-2005

Kenneth Haber 58

Chief Financial Officer, March 2006

Interim Chief Financial Officer, November 2005 March 2006

Owner and President, G&H Group Company, dba Partners in Success, May 2000 March 2006

Valerie Gentile Sachs 53

Vice President, General Counsel and Secretary, September 2005

Executive Vice President, General Counsel and Secretary, Jo-Ann Stores, Inc., 2003-2005

Stephen D. Dunmead 45

Vice President and General Manager, Specialties, January 2006

Vice President and General Manager, Cobalt Group, August 2003 January 2006

Gregory J. Griffith 53

Vice President, Strategic Planning, Development and Investor Relations, February 2007

Vice President, Corporate Affairs and Investor Relations, October 2005 February 2007

Director of Investor Relations, July 2002 October 2005

James T. Kenyon 51

Vice President, Human Resources, June 2008

Vice President, Human Resources, Danaher Tool Group 2002 2007

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company s common stock is traded on the New York Stock Exchange under the symbol OMG . As of December 31, 2008, the approximate number of record holders of the Company s common stock was 1,400.

The high and low market prices for the Company s common stock for each quarter during the past two years are presented in the table below:

	2008			2007		
	Sales Price		Cash	Sales Price		Cash
	High	Low	Dividend	High	Low	Dividend
First quarter	**$ 66.00**	**$ 49.00**	**$**	$ 53.83	$ 39.36	$
Second quarter	**$ 62.14**	**$ 32.65**	**$**	$ 63.73	$ 43.35	$
Third quarter	**$ 37.84**	**$ 20.36**	**$**	$ 56.03	$ 36.22	$
Fourth quarter	**$ 25.62**	**$ 12.20**	**$**	$ 61.42	$ 43.90	$

The Company intends to continue to retain earnings for use in the operation and expansion of the business and therefore does not anticipate paying cash dividends in 2009.

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Item 6. Selected Financial Data

	Year Ended December 31,				
	2008	2007	2006	2005	2004
(In millions, except per share data)					
Income Statement Data:					
Net sales	**$ 1,736.8**	$ 1,021.5	$ 660.1	$ 617.5	$ 689.5
Cost of products sold (excluding lower of cost or market charge)	**1,356.6**	708.3	475.4	516.5	468.9
Lower of cost or market inventory charge	**27.7**				
Gross profit	**352.5**	313.2	184.7	101.0	220.6
Goodwill impairment	**8.8**				
Selling, general and administrative expenses	**166.1**	117.0	109.4	75.9	116.2
Operating profit	**$ 177.6**	$ 196.2	$ 75.3	$ 25.1	$ 104.4
Income (loss) from continuing operations before cumulative effect of change in accounting principle	**$ 134.9**	$ 111.5	$ 23.6	$ (12.4)	$ 40.1
Income of discontinued operations, net of tax	**0.1**	63.1	192.2	49.0	88.5
Gain on sale of discontinued operations, net of tax		72.3			
Cumulative effect of a change in accounting principle			0.3	2.3	
Net income	**$ 135.0**	$ 246.9	$ 216.1	$ 38.9	$ 128.6
Net income (loss) per common share basic:					
Continuing operations	**$ 4.48**	$ 3.73	$ 0.80	$ (0.43)	$ 1.41
Discontinued operations		4.52	6.55	1.71	3.11
Cumulative effect of change in accounting principle			0.01	0.08	
Net income	**$ 4.48**	$ 8.25	$ 7.36	$ 1.36	$ 4.52
Net income (loss) per common share assuming dilution:					
Continuing operations	**$ 4.45**	$ 3.68	$ 0.80	$ (0.43)	$ 1.40
Discontinued operations		4.47	6.50	1.71	3.09
Cumulative effect of a change in accounting principle			0.01	0.08	
Net income	**$ 4.45**	$ 8.15	$ 7.31	$ 1.36	$ 4.49
Dividends declared and paid per common share	**$**	$	$	$	$
Ratio of earnings to fixed charges(a)	**n/a**	n/a	2.5x		2.5x

Balance Sheet Data:										
Total assets	**$**	**1,434.4**	$	1,469.2	$	1,618.2	$	1,220.3	$	1,334.7
Long-term debt, excluding current portion(b)	**$**	**26.1**	$	1.1	$	1.2	$	416.1	$	24.7

(a) The ratio of earnings to fixed charges is not applicable for 2008 and 2007 as a result of the redemption on March 7, 2007 of the entire $400.0 million of the Company s outstanding 9.25% Senior Subordinated Notes due 2011 (the Notes). The ratio of earnings to fixed charges has been recalculated for all periods presented to reflect the Nickel business as discontinued operations. Earnings were inadequate to cover fixed charges by $16.6 million in 2005.

(b) Amount in 2006 excludes the $400.0 million of outstanding Notes. On February 2, 2007, the Company notified its noteholders that it had called for redemption all $400.0 million of its outstanding Notes and,

accordingly, the Notes were classified as a current liability at December 31, 2006. Amount in 2004 excludes the $400.0 million of Notes, which were then in default and classified as a current liability.

Results for 2008 include a $46.6 million tax benefit related to an election to take foreign tax credits on prior year U.S. tax returns.

Results for 2007 include a pretax and after-tax gain on the sale of the Nickel business of $77.0 million and $72.3 million, respectively. In addition, 2007 results also include a $21.7 million charge ($14.1 million after tax) related to the redemption of the Notes and income tax expense of $45.7 million related to repatriation of cash from overseas primarily as a result of the redemption of the Notes in March 2007.

Results for 2006 include a $12.2 million pre tax gain related to the sale of common shares of Weda Bay Minerals, Inc. The net book value of the investment was zero due to a permanent impairment charge recorded in prior years. Results for 2006 also include a $3.2 million pre tax charge for the settlement of litigation related to the former chief executive officer s termination. Income tax expense for 2006 includes $14.1 million to provide additional U.S. income taxes on $384.1 million of undistributed earnings of consolidated foreign subsidiaries in connection with the Company s planned redemption of the Notes in March 2007.

Results for 2005 include $27.5 million of pre tax income related to the receipt of net insurance proceeds related to shareholder class action and derivative lawsuits, and $4.6 million of pre tax income related to the mark-to-market of 380,000 shares of common stock issued in connection with the shareholder derivative litigation, both partially offset by an $8.9 million charge related to the former chief executive officer s termination.

Results for 2004 include a charge of $7.5 million for the shareholder derivative lawsuits.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Management s discussion and analysis of financial condition and results of operations should be read in conjunction with the consolidated financial statements and the notes thereto appearing elsewhere in this Annual Report.

General

OM Group, Inc. (the Company) is a diversified global developer, producer and marketer of value-added specialty chemicals and advanced materials that are essential to complex chemical and industrial processes. The Company believes it is the world s largest refiner of cobalt and producer of cobalt-based specialty products.

The Company is executing a deliberate strategy to grow through continued product innovation, as well as tactical and strategic acquisitions. The strategy is part of a transformational process to leverage the Company s core strengths in developing and producing value-added specialty products for dynamic markets while reducing the impact of metal price volatility on financial results. The strategy is designed to allow the Company to deliver sustainable and profitable volume growth in order to drive consistent financial performance and enhance the Company s ability to continue to build long-term shareholder value. The Company has completed three important transactions in connection with this long-term strategy:

On March 1, 2007, the Company completed the sale of its Nickel business to Norilsk Nickel (Norilsk) for cash proceeds of $490.0 million, net of transaction costs. The Nickel business consisted of the Harjavalta, Finland nickel refinery; the Cawse, Australia nickel mine and intermediate refining facility; a 20% equity interest in MPI Nickel Pty. Ltd.; and an 11% ownership interest in Talvivaara Mining Company, Ltd. In connection with the sale of the Nickel business, the Company entered into five-year supply agreements with Norilsk for cobalt and nickel raw materials.

On October 1, 2007, the Company completed the acquisition of Borchers GmbH (Borchers), a European-based specialty coatings additive supplier with locations in France and Germany, for $20.7 million, net of cash acquired.

On December 31, 2007, the Company completed the acquisition of the Electronics businesses (REM) of Rockwood Specialties Group, Inc., which consisted of its Printed Circuit Board (PCB) business, its Ultra-Pure

Chemicals (UPC) business, and its Compugraphics (Photomasks) business, for $321.5 million, net of cash acquired.

The REM and Borchers acquisitions (the 2007 Acquisitions) represent an important step in the Company s effort to transform itself into a diversified, market-facing global provider of specialty chemicals and advanced materials. To better align its transformation and growth strategy, the Company, effective January 1, 2008, reorganized its management structure and external reporting around two segments: Advanced Materials and Specialty Chemicals. The Advanced Materials segment consists of Inorganics, smelter joint venture (GTL) in the Democratic Republic of Congo (the DRC) and metal resale. The Specialty Chemicals segment is comprised of Electronic Chemicals (which includes the acquired PCB business), Advanced Organics (which includes the acquired coatings business), UPC and Photomasks.

The Advanced Materials segment manufactures inorganics products using unrefined cobalt and other metals and serves the battery, powder metallurgy, ceramic and chemical end markets by providing functional characteristics critical to the success of our customers products. These products improve the electrical conduction of rechargeable batteries used in cellular phones, video cameras, portable computers, power tools and hybrid electrical vehicles, and also strengthen and add durability to diamond and machine cutting tools and drilling equipment used in construction, oil and gas drilling, and quarrying. The GTL smelter is a primary source for cobalt raw material feed. GTL is consolidated in the Company s financial statements because the Company has a 55% controlling interest in the joint venture.

The Specialty Chemicals segment consists of the following:

Electronic Chemicals: Electronic Chemicals develops and manufactures products for the electronic packaging, memory disk, general metal finishing and printed circuit board finishing markets and includes the PCB business. The PCB business develops and manufactures chemicals for the printed circuit board industry, such as oxide treatments, electroplating additives, etching technology and electroless copper processes used in the manufacturing of printed circuit boards widely used in computers, communications, military/aerospace, automotive, industrial and consumer electronics applications. Memory disk products include electroless nickel solutions and preplate chemistries for the computer and consumer electronics industries and for the manufacture of hard drive memory disks used for memory and data storage applications. Memory disk applications include computer hard drives, digital video recorders, MP3 players, digital cameras and business and enterprise servers.

Advanced Organics: Advanced Organics develops and manufactures products for the tire, coating and inks, additives and chemical markets. These products promote adhesion of metal to rubber in tires and faster drying of paints, coatings, and inks. Within the additives and chemical markets, these products catalyze the reduction of sulfur dioxide and other emissions and also accelerate the curing of polyester resins found in reinforced fiberglass. The Borchers acquisition, which has been integrated into Advanced Organics, offers products to enhance the performance of coatings and ink systems from the production stage through customer end use.

Ultra Pure Chemicals: UPC develops, manufactures and distributes a wide range of ultra-pure chemicals used in the manufacture of electronic and computer components such as semiconductors, silicon chips, wafers and liquid crystal displays. These products include chemicals used to remove controlled portions of silicon and metal, cleaning solutions, photoresist strippers, which control the application of certain light-sensitive chemicals, edge bead removers, which aid in the uniform application of other chemicals, and solvents. UPC also develops and manufactures a broad range of chemicals used in the manufacturing of photomasks and provides a range of analytical, logistical and development support services to the semiconductor industry. These include Total Chemicals Management, under which the Company manages the clients entire electronic process chemicals operations, including coordination of logistics services, development of application-specific chemicals, analysis and control of customers chemical distribution systems and quality audit and control of all inbound chemicals.

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Photomasks: Photomasks manufactures photo-imaging masks (high-purity quartz or glass plates containing precision, microscopic images of integrated circuits) and reticles for the semiconductor, thin film head (hard disk drive), optoelectronics and microelectronics industries under the Compugraphics brand name. Photomasks are a key component of the semiconductor and integrated circuit industries and perform a function similar to that of a negative in conventional photography.

The Company s business is critically connected to both the price and availability of raw materials. The primary raw material used by the Advanced Materials segment is unrefined cobalt. Cobalt raw materials include ore, concentrate, slag and scrap. The Company attempts to mitigate changes in availability of raw materials by maintaining adequate inventory levels and long-term supply relationships with a variety of suppliers. The cost of the Company s raw materials fluctuates due to changes in the cobalt reference price, actual or perceived changes in supply and demand of raw materials and changes in availability from suppliers. The Company attempts to pass through to its customers increases in raw material prices, and certain sales contracts and raw material purchase contracts contain variable pricing that adjusts based on changes in the price of cobalt. During periods of rapidly changing metal prices, however, there may be price lags that can impact the short-term profitability and cash flow from operations of the Company both positively and negatively. Fluctuations in the price of cobalt have been significant, historically and in 2008, and the Company believes that cobalt price fluctuations are likely to continue in the future. Reductions in the price of raw materials or declines in the selling prices of the Company s finished goods can result in the Company s inventory carrying value being written down to a lower market value, as occurred at the end of 2008.

The Company has manufacturing and other facilities in North America, Europe, Africa and Asia-Pacific, and markets its products worldwide. Although a significant portion of the Company s raw material purchases and product sales are based on the U.S. dollar, prices of certain raw materials, non-U.S. operating expenses and income taxes are denominated in local currencies. As such, the Company s results of operations are subject to the variability that arises from exchange rate movements (particularly the Euro). In addition, fluctuations in exchange rates may affect product demand and profitability in U.S. dollars of products provided by the Company in foreign markets in cases where payments for its products are made in local currency. Accordingly, fluctuations in currency prices affect the Company s operating results.

Executive Overview

Throughout the first three quarters of 2008, the Company s operating results were driven by a number of factors. The Company benefited from higher product selling prices as a result of the high average reference price for cobalt during this period. In addition, demand for the Company s products was strong in most of its end markets, especially in rechargeable batteries and powder metallurgy. Further, the Company s coating and electronic technologies businesses, that were part of the 2007 Acquisitions, contributed to the Company s operating results during this period.

However, as the global credit crisis and economic downturn accelerated in the fourth quarter of 2008, demand for the Company s products decreased in most of its end markets, particularly in markets serving the electronics industry, including rechargeable batteries and powder metallurgy. In addition, the reference price of cobalt fell precipitously during the second half of 2008. Largely as a result of these developments, the Company recorded an operating loss of $46.0 million for the fourth quarter of 2008, as compared to operating profit of $94.6 million, $83.6 million and $45.4 million for the first, second and third quarters of 2008, respectively. Reflecting the rapid and significant decline in the cobalt reference price during the second half of 2008, and in particular in the fourth quarter, the Company recorded a $27.7 million charge to reduce the carrying value of certain inventories to market value.

The deterioration in end-market demand accelerated as 2008 ended and has continued into 2009. The Company believes it is likely to experience continued weak market conditions during 2009, at least for the first half of the year. However, the Company generated significant cash from operations during the second half of 2008, resulting in a strong cash position at December 31, 2008 to complement its low level of debt. It also has taken steps to attempt to

mitigate the impact of the current economic downturn, including spending cuts and capital project delays, and is

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continuing to actively monitor the effects of economic conditions upon the Company in case further protective actions become necessary.

Consolidated Operating Results for 2008, 2007 and 2006
Set forth below is a summary of the Statements of Consolidated Income for the years ended December 31,

(Millions of dollars & percent of net sales)	**2008**		2007		2006	
Net sales	**$ 1,736.8**		$ 1,021.5		$ 660.1	
Cost of products sold (excluding lower of cost or market charge)	**1,356.6**		708.3		475.4	
Lower of cost or market inventory charge	**27.7**					
Gross profit	**352.5**	**20.3%**	313.2	30.7%	184.7	28.0%
Goodwill impairment	**8.8**					
Selling, general and administrative expenses	**166.1**	**9.6%**	117.0	11.5%	109.4	16.6%
Operating profit	**177.6**	**10.2%**	196.2	19.2%	75.3	11.4%
Other income (expense), net	**(5.3)**		2.0		(14.8)	
Income tax expense	**(16.1)**		(76.3)		(30.6)	
Minority partners share of (income) loss	**(21.3)**		(10.4)		(6.3)	
Income from continuing operations before cumulative effect of change in accounting principle	**134.9**		111.5		23.6	
Discontinued operations:						
Income from discontinued operations, net of tax	**0.1**		63.1		192.2	
Gain on sale of discontinued operations, net of tax			72.3			
Total income from discontinued operations, net of tax	**0.1**		135.4		192.2	
Income before cumulative effect of change in accounting principle	**135.0**		246.9		215.8	
Cumulative effect of change in accounting principle					0.3	
Net income	**$ 135.0**		$ 246.9		$ 216.1	
Net income per common share basic:						
Continuing operations	**$ 4.48**		$ 3.73		$ 0.80	
Discontinued operations			4.52		6.55	
Cumulative effect of change in accounting principle					0.01	

Net income	**$ 4.48**	$ 8.25	$ 7.36
Net income per common share assuming dilution:			
Continuing operations	**$ 4.45**	$ 3.68	$ 0.80
Discontinued operations		4.47	6.50
Cumulative effect of change in accounting principle			0.01
Net income	**$ 4.45**	$ 8.15	$ 7.31
Weighted average shares outstanding:			
Basic	**30,124**	29,937	29,362
Assuming dilution	**30,358**	30,276	29,578

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2008 Compared with 2007

Net sales increased to $1,736.8 million in 2008 from $1,021.5 million in 2007. The $715.3 million increase was due to a number of factors. Higher product selling prices in the Advanced Materials segment, which resulted principally from an increase in the average cobalt reference price in 2008 compared with 2007, contributed $263.9 million to the overall increase. The 2007 Acquisitions contributed $264.0 million in 2008. The remaining increase in net sales was primarily due to a $148.6 million increase from the resale of cobalt metal; increased volumes in the Advanced Materials segment, which contributed $60.2 million; and favorable pricing in the Specialty Chemicals segment, which contributed $41.6 million. These increases were partially offset by decreased volumes ($56.8 million) in the Specialty Chemicals segment primarily due to decreased demand, especially in the fourth quarter of 2008.

Gross profit increased to $352.5 million in 2008, compared with $313.2 million in 2007. The $39.3 million increase in gross profit was due to a number of factors. The 2007 Acquisitions contributed $62.9 million in gross profit in 2008. Also impacting the Specialty Chemicals segment was improved pricing ($10.0 million) partially offset by unfavorable volume ($19.5 million) and inventory charges ($7.0 million) to reduce the carrying value of certain inventory to market value. In the Advanced Materials segment, improved volume ($26.4 million) and price ($9.1 million) were offset by inventory charges ($20.7 million) to reduce the carrying value of certain inventory to market value, an unfavorable currency impact ($11.4 million) and increased distribution/manufacturing and non-cobalt raw material costs ($11.3 million). The decrease in gross profit as a percentage of sales (20.3% in 2008 versus 30.7% in 2007) was primarily due to the effect of the rapid decline in the cobalt reference price during the second half of 2008 (including the $20.7 million inventory adjustment), which resulted in lower gross profit from the sale of finished goods manufactured using higher cost cobalt raw materials purchased prior to and during the price decline.

Cobalt prices declined significantly during the second half of 2008. Cobalt price plays an important role in determining the profitability of the Company due to the length of the cobalt supply chain. In a rising price environment, the Company benefits through higher selling prices relative to raw material costs, both of which are dependent upon the prevailing cobalt price at the time. Conversely, a falling price environment challenges the Company as product selling prices could fall below inventory carrying costs. During 2008, cobalt prices fluctuated significantly. The reference price of low grade (formerly 99.3%) cobalt listed in the trade publication, Metal Bulletin, rose from $40.00 at the beginning of 2008 to near $50.00 by the end of the first quarter. During the second half of the year, the reference price decreased from $40.75 at June 30, 2008 to an average of $32.54 per pound in the third quarter of 2008, an average of $20.81 per pound in the fourth quarter of 2008, ending the year at $10.50 per pound.

In the fourth quarter of 2008, the Company recorded a non-cash charge totaling $8.8 million in the Specialty Chemicals segment for the impairment of goodwill related to the Ultra Pure Chemicals business. The charge reduced a portion of the goodwill recorded in connection with the 2007 REM acquisition.

Selling, general and administrative expenses (SG&A) increased to $166.1 million in 2008, compared with $117.0 million in 2007. The $49.1 million increase was primarily due to $46.5 million of REM and Borchers SG&A expenses, including amortization expense of $6.3 million on acquired intangibles. SG&A was also impacted by increased administrative expenses ($8.0 million) and the unfavorable impact of the weaker U.S. dollar ($2.0 million). The increase in administrative expenses was primarily due to increased information technology and travel costs associated with the 2007 Acquisitions integration and Enterprise Resource Planning (ERP) system implementation ($5.0 million) in Specialty Chemicals. These increases were partially offset by a $4.6 million decrease in expenses related to the environmental remediation liability for the Company s closed Newark, New Jersey site. In addition, SG&A expenses in 2007 included $3.2 million for legal fees incurred by Specialty Chemicals for a lawsuit the Company filed related to the use by a third-party of proprietary information. The lawsuit was settled in the third quarter of 2007. SG&A was also impacted by a $1.5 million increase in corporate expenses in 2008 compared with 2007, primarily due to an increase in professional services fees and employee incentive and share-based compensation expense.

The decrease in operating profit for 2008, compared to operating profit in 2007, was due to the factors discussed above.

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Other income (expense), net for 2008 was $5.3 million of expense compared with income of $2.0 million in 2007. The following table summarizes the components of Other income (expense), net:

	Year Ended December 31,		
(In thousands)	**2008**	**2007**	**Change**
Interest expense	**$ (1,597)**	$ (7,820)	$ 6,223
Loss on redemption of Notes		(21,733)	21,733
Interest income	**1,920**	19,396	(17,476)
Interest income on Notes receivable from joint venture partner		4,526	(4,526)
Foreign exchange gain (loss)	**(3,744)**	8,100	(11,844)
Other expense, net	**(1,913)**	(449)	(1,464)
	$ (5,334)	$ 2,020	$ (7,354)

The $6.2 million decrease in interest expense and the Loss on redemption of Notes in 2007 were primarily due to the redemption, on March 7, 2007, of $400 million of 9.25% Senior Subordinated Notes due 2011 (the Notes) as discussed below under 2007 Compared with 2006 . The decrease in interest income and the foreign exchange loss in 2008 both relate to the higher average cash balances earning interest throughout 2007, before $337 million of existing cash was used in the fourth quarter of 2007 to fund the 2007 Acquisitions. Interest income in 2007 also includes $4.5 million related to the notes receivable from the 25% minority shareholder in the joint venture in the DRC (See Note 1 to the Consolidated Financial Statements in this Form 10-K). In addition, certain cash balances were held in foreign currencies during 2007, generating foreign exchange gains due primarily to the strengthening of the euro against the U.S. dollar during that period. See additional discussion below under Liquidity and Capital Resources.

Income tax expense in 2008 was $16.1 million on pre-tax income of $172.3 million, or 9.3%, compared to income tax expense in 2007 of $76.3 million on pre-tax income of $198.3 million, or 38.5%. During 2008, the Company completed an analysis of foreign tax credit positions and recorded a $46.6 million tax benefit related to an election to take foreign tax credits on prior year U.S. tax returns. The benefit related to the foreign tax credits was $1.54 per diluted share in 2008. As originally filed, such returns claimed these amounts as deductions rather than foreign tax credits because the Company was in a net operating loss carryover position in the U.S. during those years. However, due to income taxes paid in the U.S. in connection with the 2007 repatriation of foreign earnings, the Company is able to utilize these foreign tax credits previously taken as deductions. The $46.6 million tax benefit includes interest income of $0.6 million, a $0.6 million reduction of a penalty related to underpayment of 2007 estimated taxes and is net of a valuation allowance of $1.5 million on deferred tax assets as to which the Company believes it is more likely than not it will be unable to realize as a result of its election to claim the foreign tax credits. Excluding the tax benefit related to the foreign tax credits, the Company s effective income tax rate would have been 36.4% for 2008. In 2008, the effective tax rate, excluding the discrete item noted above, was higher than the U.S. statutory rate due to several factors: the non-deductible goodwill impairment charge, the cost of repatriating foreign earnings and the ability to recognize tax benefits for only a portion of U.S. losses. Income tax expense in 2007 includes $45.7 million of expense for the repatriation of foreign earnings in the first quarter of 2007, partially offset by a $7.6 million income tax benefit related to the $21.7 million loss on redemption of the Notes. Excluding these discrete items, the effective income tax rate would have been 17.3% in 2007. Excluding the discrete items discussed above, the effective income tax rate was lower than the U.S. statutory rate in 2007 due primarily to income earned in foreign tax jurisdictions with lower statutory tax rates than the U.S. (primarily Finland), a tax holiday in Malaysia, and the recognition of tax benefits for U.S. losses.

Minority partners share of income relates to the Company s 55%-owned smelter joint venture in the DRC. The increase in the minority partners income in 2008 compared with 2007 was primarily due to higher average cobalt prices and increased deliveries.

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Income from continuing operations was $134.9 million in 2008 compared with $111.5 million in 2007 due primarily to the aforementioned factors.

Income from discontinued operations for 2007 was primarily related to the operations of the Nickel business. Total income from discontinued operations for 2007 also included the $72.3 million gain on the sale of the Nickel business.

Net income was $135.0 million, or $4.45 per diluted share, in 2008 compared with $246.9 million, or $8.15 per diluted share, in 2007, due primarily to the aforementioned factors.

2007 Compared with 2006
Net sales increased $361.4 million to $1,021.5 million in 2007 from $660.1 million in 2006, primarily due to increased product selling prices ($291.0 million). The increase in product selling prices was primarily caused by the increase in the average cobalt reference price during 2007 compared with 2006. The resale of cobalt metal resulted in a $72.8 million increase to net sales in 2007 compared with 2006, and increased volume, primarily in the inorganics and electronic chemical product line groupings, contributed an additional $27.0 million. The acquisition of Borchers in October 2007 contributed an additional $12.7 million in net sales. These increases were partially offset by a $9.5 million decrease related to copper by-product sales and a $9.1 million unfavorable shift in product mix. The decrease in copper by-product sales was primarily due to a decrease in copper by-product volume partially offset by an increase in copper price. In connection with the sale of the Nickel business to Norilsk, the Company entered into two-year agency and distribution agreements for certain specialty nickel salts products. Under the contracts, the Company now acts as a distributor of these products on behalf of Norilsk and records the related commission revenue on a net basis. Prior to March 1, 2007, the Company, through its Specialties business, was the primary obligor for these sales and recorded the revenue on a gross basis. This change resulted in a $23.5 million decrease in net sales in 2007 compared with 2006.

Gross profit increased to $313.2 million in 2007, compared with $184.7 million in 2006, and as a percentage of net sales increased to 30.7% from 28.0%. Gross profit in 2007 was higher due to the impact of both the higher cobalt reference price and the sale into a higher price environment of finished products that were manufactured using cobalt raw material that was purchased at lower prices ($121.7 million), increased volume ($11.7 million) and a $6.7 million unrealized gain on cobalt forward purchase contracts (see discussion of these contracts below). These increases were partially offset by a decrease in profit associated with lower copper by-product sales ($16.1 million). The increase in gross profit as a percentage of sales (30.7% in 2007, 28.0% in 2006) was primarily due to the positive factors discussed above, partially offset by the low margins on the resale of cobalt metal.

During 2007, the Company entered into cobalt forward purchase contracts to establish a fixed margin and mitigate the risk of price volatility related to the anticipated sale during the second quarter of 2008 of cobalt-containing finished products that are priced based on a formula that includes a fixed cobalt price component. These forward purchase contracts were not designated as hedging instruments under Statement of Accounting Standards (SFAS) No. 133, Accounting for Derivative and Hedging Activities. Accordingly, these contracts were adjusted to fair value at the end of each reporting period, with the gain or loss recorded in cost of products sold. The adjustment to fair value had no cash impact in 2007 as the contracts were net settled with the counterparty in 2008. As noted above, the Company recorded a $6.7 million gain in 2007 related to these contracts. These contracts will continue to be marked to fair value until settlement, resulting in additional gains or losses based on changes in the cobalt reference price.

SG&A expenses were $117.0 million in 2007 compared with $109.4 million in 2006. The increase was primarily due to increased selling expenses as a result of the increase in sales. SG&A expense in 2007 also includes $3.5 million in legal fees incurred by Specialties for a lawsuit the Company filed related to the unauthorized use by a third-party of proprietary information; and $3.1 million of SG&A expense related to Plaschem Specialty Products Pte Ltd. (Plaschem), which was acquired on March 21, 2006, and Borchers, which was acquired on October 1, 2007. Included

in SG&A are corporate expenses in 2007 of $35.8 million compared with $40.1 million in 2006. Corporate expenses consist of unallocated corporate overhead, including legal, finance, human resources,

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information technology, strategic development and corporate governance activities, as well as share-based compensation. The decrease in corporate expenses was primarily due to a $3.2 million charge for the settlement of litigation related to the former chief executive officer s termination in 2006 and a $2.9 million decrease in corporate legal and other professional fees, partially offset by a $3.0 million increase in employee incentive and share-based compensation expense.

Operating profit for 2007 increased to $196.2 million from $75.3 million in 2006 due to the factors impacting gross profit and SG&A expenses discussed above.

Other income (expense), net for 2007 was to $2.0 million of income compared with $14.8 million of expense in 2006. The following table summarizes the components of Other income (expense), net:

	Year Ended December 31,		
(In thousands)	**2007**	**2006**	**Change**
Interest expense	**$ (7,820)**	$ (38,659)	$ 30,839
Loss on redemption of Notes	**(21,733)**		(21,733)
Interest income	**19,396**	8,566	10,830
Interest income on Notes receivable from joint venture partner	**4,526**		4,526
Foreign exchange gain	**8,100**	3,661	4,439
Gain on sale of investment		12,223	(12,223)
Other income (expense), net	**(449)**	(582)	133
	$ 2,020	$ (14,791)	$ 16,811

The Company redeemed all $400.0 million of its outstanding Notes on March 7, 2007, at a redemption price of 104.625% of the principal amount, or $418.5 million, plus accrued interest of $8.4 million. The loss on redemption of the Notes was $21.7 million, which includes the premium of $18.5 million plus related deferred financing costs of $5.7 million less a deferred net gain on terminated interest rate swaps of $2.5 million. The loss on redemption of the Notes was offset by a $30.8 million decrease in interest expense due to the redemption of the Notes. Increased interest income in 2007 was primarily due to increased interest earned on the higher average cash balance throughout 2007 and $1.2 million of interest earned on the working capital adjustment related to the Norilsk transaction. In addition, 2007 also includes $4.5 million of interest income related to the notes receivable from the 25% minority shareholder in its joint venture in the DRC (See Note 1 to the Consolidated Financial Statements in this Form 10-K). The $12.2 million gain included in 2006 was related to the sale of the Company s investment in Weda Bay (See Note 5 to the Consolidated Financial Statements in this Form 10-K).

Income tax expense in 2007 was $76.3 million on pre-tax income of $198.3 million, or 38.5%, compared with income tax expense in 2006 of $30.6 million on pre-tax income of $60.5 million, or 50.5%. Income tax expense in 2007 includes $45.7 million of expense for the repatriation of foreign earnings in the first quarter of 2007, partially offset by a $7.6 million income tax benefit related to the $21.7 million loss on redemption of the Notes. Excluding these discrete items, the effective income tax rate would have been 17.3% in 2007. This rate is lower than the U.S. statutory rate (35%) due primarily to income earned in foreign tax jurisdictions with lower statutory tax rates than the U.S., a tax holiday in Malaysia and the recognition of tax benefits for domestic losses in 2007. During the fourth quarter of 2007, the Company was informed by the DRC taxing authority that its tax holiday had expired, resulting in $9.8 million of expense related to income earned in the DRC. In both years, the strengthening Euro compared with the US dollar positively impacted the effective tax rate, as the Company s statutory tax liability in Finland is calculated

and payable in Euros but is remeasured to the US dollar functional currency for preparation of the consolidated financial statements.

Minority partners share of income relates to the Company s 55%-owned smelter joint venture in the DRC. The increase in the minority partner s income in 2007 compared with 2006 is primarily due to higher cobalt prices.

Income from continuing operations was $111.5 million in 2007 compared with $23.6 million in 2006 due primarily to the aforementioned factors.

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Income from discontinued operations for 2007 and 2006 was primarily related to the operations of the Nickel business. Total income from discontinued operations for 2007 also included the $72.3 million gain on the sale of the Nickel business. Also included in income from discontinued operations in 2006 was $5.8 million of income from the discontinued operations of the Company s former Precious Metals Group (PMG) primarily due to the reversal of a $4.6 million tax contingency accrual and a $2.4 million gain on the sale of a former PMG building that had been fully depreciated, both partially offset by foreign exchange losses of $1.8 million from remeasuring Euro-denominated liabilities to U.S. dollars.

Net income in 2006 includes $0.3 million of income related to the cumulative effect of a change in accounting principle for the adoption of SFAS No. 123R, Share-Based Payments. See further discussion of the adoption of SFAS No. 123R in Note 2 to the Consolidated Financial Statements in this Form 10-K.

Net income was $246.9 million, or $8.15 per diluted share, in 2007 compared with $216.1 million, or $7.31 per diluted share, in 2006, due primarily to the aforementioned factors.

Segment Results and Corporate Expenses
Advanced Materials

(Millions of dollars)	**For the Year Ended December 31, 2008**	**2007**	**2006**
Net sales	**$ 1,192.4**	$ 721.9	$ 428.6
Operating profit	**$ 203.5**	$ 212.6	$ 89.1

The following table reflects the volumes in the Advanced Materials segment:

	2008	**2007**	**2006**
Volumes			
Sales volume metric tons	**31,450**	25,432	27,435
Cobalt refining volume metric tons	**9,639**	9,158	8,582

* Sales volume includes cobalt metal resale and copper by-product sales and excludes volume related to specialty nickel salts sales under the Norilsk distribution agreement, as explained below.

The following table summarizes the percentage of sales dollars by end market for the year ended December 31,

	2008	**2007**	**2006**
Batteries	**46%**	43%	41%
Chemical	**12%**	14%	14%
Powder Metallurgy	**11%**	12%	15%
Ceramics	**4%**	6%	8%
Other*	**27%**	25%	22%

* Other includes cobalt metal resale and copper by-product sales.

The following table summarizes the percentage of sales dollars by region for the year ended December 31,

	2008	**2007**	**2006**
Americas	**9%**	14%	13%
Asia	**49%**	51%	63%
Europe	**42%**	35%	24%

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The following table summarizes the average quarterly reference price per pound of low grade cobalt (as published in Metal Bulletin magazine):

	2008	2007	2006
First Quarter	**$ 46.19**	$ 25.82	$ 12.43
Second Quarter	**$ 45.93**	$ 28.01	$ 14.43
Third Quarter	**$ 32.54**	$ 25.84	$ 15.59
Fourth Quarter	**$ 20.81**	$ 32.68	$ 18.66
Full Year	**$ 36.58**	$ 27.99	$ 15.22

2008 Compared with 2007

Net Sales

Net sales increased to $1,192.4 million in 2008 from $721.9 million in 2007. As discussed under Consolidated Operating Results for 2008, 2007, and 2006) above, the net sales increase in 2008 was due primarily to increased product selling prices resulting from an increase in the average cobalt reference price, increased cobalt metal resale and increased volume. In 2008, copper by-product sales contributed an additional $11.4 million to net sales, primarily due to increased volume. The increase in cobalt metal resale in 2008 compared with 2007 reflects increased volume and the increase in the average cobalt reference price. Increased volume resulted primarily from sales of metal received under the five-year supply agreement with Norilsk. This agreement was entered into in the first quarter of 2007; however, the Company did not receive regular deliveries of cobalt metal until the second half of 2007.

In connection with the sale of the Nickel business to Norilsk, the Company entered into two-year agency and distribution agreements for certain specialty nickel salts products. Under these agreements, the Company now acts as a distributor of these products on behalf of Norilsk and records the related commission revenue on a net basis. Prior to March 1, 2007, the Company was the primary obligor for sales of certain specialty nickel salts products and recorded the sales revenue on a gross basis. This change resulted in a $15.9 million decrease in net sales in 2008 compared with 2007.

Operating Profit

The $9.1 million decrease in operating profit in 2008 compared to 2007 was due to inventory charges ($20.7 million) to reduce the carrying value of certain inventory to market value, an unfavorable currency impact ($13.7 million), increased manufacturing and non-cobalt raw material costs ($11.3 million) and a $2.2 million increase in SG&A due to higher administrative expenses. These decreases were partially offset by improved volume ($26.4 million) (including metal resale and excluding copper by-product and specialty nickel salts), favorable pricing ($9.1 million) and increased copper by-product sales ($2.0 million).

2007 Compared with 2006

Net Sales

Net sales increased $293.3 million to $721.9 million in 2007 from $428.6 million in 2006, primarily due to increased product selling prices ($243.5 million) primarily due to the increase in the average cobalt reference price during 2007 compared with 2006. The resale of cobalt metal resulted in a $72.8 million increase to net sales in 2007 compared with 2006, and increased volume contributed an additional $19.0 million. These increases were partially offset by a $9.5 million decrease related to copper by-product sales and a $7.2 million unfavorable shift in product mix. The decrease in copper by-product sales was primarily due to a decrease in copper by-product volume partially offset by an increase in copper price. The change discussed above regarding the distribution of specialty nickel salts effective March 1, 2007 resulted in a $23.5 million decrease in net sales in 2007 compared with 2006.

Operating Profit

The $123.5 million increase in operating profit in 2008 compared to 2007 was due to the impact of both the higher cobalt reference price and the sale into a higher price environment of finished products that were manufactured using cobalt raw material that was purchased at lower prices ($128.8 million), a $6.7 million unrealized gain on

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cobalt forward purchase contracts (see discussion of these contracts below), increased volume ($4.6 million), specialty nickel salts sales ($4.1 million) and cobalt metal resale ($3.4 million). These increases were partially offset by a decrease in profit associated with lower copper by-product sales ($16.1 million) and an unfavorable currency impact ($8.8 million).

Specialty Chemicals Segment

	For the Year Ended December 31,		
(Millions of dollars)	**2008**	**2007**	**2006**
Net sales	**$ 546.7**	$ 303.9	$ 237.6
Operating profit	**$ 11.2**	$ 18.2	$ 27.7

The following table summarizes the percentage of sales dollars by end market for the year ended December 31,

	2008	**2007**	**2006**
Semiconductor	**24%**	3%	3%
Coatings	**18%**	20%	20%
Tire	**14%**	23%	22%
PCB	**17%**	2%	4%
Memory Disk	**10%**	26%	26%
Chemical	**11%**	17%	17%
General Metal Finishing	**2%**	4%	4%
Other	**4%**	5%	4%

The following table summarizes the percentage of sales dollars by region for the year ended December 31,

	2008	**2007**	**2006**
Americas	**29%**	32%	39%
Asia	**39%**	43%	33%
Europe	**32%**	25%	28%

The following table reflects the volumes in the Specialty Chemicals segment for the year ended December 31,

	2008	**2007**	**2006**
Volumes			
Advanced Organics sales volume metric tons*	**28,956**	30,272	27,524
Electronic Chemicals sales volume gallons (thousands)**	**11,270**	7,278	6,635
Ultra Pure Chemicals sales volume liters (thousands)	**19,502**	n/a	n/a
Photomasks # of masks	**27,834**	n/a	n/a

* 2007 sales volumes include volume related to Borchers as of the acquisiton date October 1, 2007.

** 2007 and 2006 sales volumes do not include volume related to the REM PCB business, which was acquired on December 31, 2007.

2008 Compared with 2007

Net Sales

Net sales increased to $546.7 million in 2008 from $303.9 million in 2007. The 2007 Acquisitions contributed $264.0 million in 2008. Excluding the 2007 Acquisitions, improved pricing resulted in an additional $41.6 million in net sales in 2008 compared with 2007, which was more than offset by decreased volume ($57.9 million) in both Advanced Organics and Electronic Chemicals and an unfavorable currency impact ($5.3 million). Favorable pricing in Advanced Organics was partially offset by unfavorable pricing in Electronic Chemicals, primarily due to a decline in the price of nickel.

Operating Profit

Operating profit in 2008 decreased to $11.2 million from $18.2 million in 2007. In connection with the REM acquisition, the Company allocated a portion of the total purchase price to inventory to reflect manufacturing profit in inventory at the date of the acquisition. The inventory step-up to fair value was recognized as a charge to cost of products sold in 2008, as the inventory was sold in the normal course of business. The 2007 Acquisitions contributed $16.4 million to operating profit, including the inventory fair value step-up expense of $1.7 million, in 2008. Excluding the 2007 Acquisitions, operating profit was impacted by decreased volume ($19.5 million), a non-cash charge totaling $8.8 million for the impairment of goodwill related to the Ultra Pure Chemicals business, inventory charges ($7.0 million) to reduce the carrying value of certain inventory to market value at December 31, 2008, primarily due to the rapid decline in the cobalt reference price at the end of 2008; an increase in certain administrative expenses ($5.0 million) primarily due to ERP system implementation, increased information technology and travel costs associated with the 2007 Acquisition integration; higher distribution costs ($1.4 million); and a $0.9 million charge for a distributor termination. These amounts were partially offset by favorable pricing ($10.0 million) and a $4.6 million decrease in expenses related to the environmental remediation liability for the Company s closed Newark, New Jersey site. In addition, 2007 included $3.5 million in legal fees for a lawsuit the Company filed related to the use by a third-party of proprietary information.

2007 Compared with 2006

Net Sales

Net sales increased $66.3 million to $303.9 million in 2007 from $237.6 million in 2006, primarily due to increased product selling prices ($47.5 million) and improved volume ($8.0) million). The acquisition of Borchers in October 2007 contributed an additional $12.7 million.

Operating Profit

Operating profit in 2007 decreased to $18.2 million from $27.7 million in 2006. Improved volume ($7.1 million), primarily in Electronic Chemicals, was offset by unfavorable pricing ($7.8 million) and unfavorable currency impact ($1.7 million). Operating profit was also unfavorably impacted by a $2.4 million increase in expense for environmental remediation at the Company s closed Newark, New Jersey site and $3.5 million in legal fees incurred by Specialty Chemicals for a lawsuit the Company filed related to the use by a third-party of proprietary information.

Corporate Expenses

Corporate expenses consist of unallocated corporate overhead supporting both segments, including legal, finance, human resources and strategic development activities, as well as share-based compensation for all eligible employees worldwide.

2008 Compared with 2007

Corporate expenses were $37.5 million in 2008 compared with $35.8 million in 2007. The increase in corporate expenses in 2008 was primarily due to an increase in employee incentive and share-based compensation expense and increased professional services fees. The increase in employee incentive and share-based compensation was primarily due to higher headcount in 2008, as a result of the 2007 Acquisitions. Increased professional services fees were primarily for fees associated with income tax projects, including the analysis of foreign tax credit positions which resulted in a $46.6 million tax benefit in 2008 and the remediation in 2008 of the 2007 material weakness in the income tax financial statement closing process.

2007 Compared with 2006

Corporate expenses were $35.8 million in 2007 compared with $40.1 million in 2006. The decrease in corporate expenses in 2007 was primarily due to a $3.2 million charge for the settlement of litigation related to the former chief executive officer s termination in 2006 and a $2.9 million decrease in corporate legal and other professional fees, partially offset by a $3.0 million increase in employee incentive and share-based compensation expense.

Liquidity and Capital Resources
Cash Flow Summary
The Company s cash flows from operating, investing and financing activities, as reflected in the Statements of Consolidated Cash Flows, are summarized and discussed in the following tables (in millions) and related narrative:

	2008	2007	change
Net cash provided by (used for):			
Operating activities	**$ 172.1**	$ 41.0	$ 131.1
Investing activities	**(17.9)**	135.2	(153.1)
Financing activities	**(6.7)**	(406.7)	400.0
Effect of exchange rate changes on cash	**(2.9)**	1.4	(4.3)
Discontinued operations-net cash used for operating activities		48.5	(48.5)
Discontinued operations-net cash used for investing activities		(1.5)	1.5
Net change in cash and cash equivalents	**$ 144.6**	$ (182.1)	$ 326.7

The increase in net cash flows from operating activities was primarily driven by three factors: higher income from continuing operations, higher non-cash charges in 2008, and a reduction in net working capital (accounts receivable plus inventories minus accounts payable). Income from continuing operations increased by $23.4 million in 2008 compared to 2007. Significant non-cash charges consisting of depreciation and amortization, deferred tax benefits, 2008 inventory charges and goodwill impairment, bad debt expense and the 2007 Loss on redemption of Notes were $96.1 million in 2008 compared to $39.7 million in 2007. Bad debt expense increased in 2008 compared with 2007 due primarily to the 2007 Acquisitions and the impact of the deteriorating global economy. Net working capital (as defined above) reductions contributed positive cash flows of $0.9 million in 2008 compared to negative cash flows of $111.9 million in 2007. In 2008, accounts receivable and inventories (excluding the inventory charges included in non-cash items) declined versus the beginning of the year, due primarily to the declining price of cobalt in the second half of 2008 and the resulting impact on net sales and inventory costs. Accounts payable balances declined for the same reason. In 2007, the opposite effect occurred, when rising cobalt prices primarily drove higher working capital needs in 2007. Partially offsetting these positive operating cash flow factors was the negative impact of an increase in refundable and prepaid income taxes and a decrease in accrued income taxes.

Net cash used in investing activities in 2008 includes capital expenditures of $30.7 million (see below for further discussion); proceeds from settlement of cobalt forward purchase contracts ($10.7 million); proceeds from loans to consolidated joint venture partners ($10.3 million); and cash payments made in 2008 for professional fees incurred in connection with the 2007 Acquisitions. The amount in 2007 includes $490.0 million of net proceeds related to the sale of the Nickel business partially offset by the cash outflow for the 2007 Acquisitions ($337.0 million, net of cash acquired). Net cash provided by investing activities in 2007 also includes $7.6 million of proceeds from the repayment of a loan made to a former non-consolidated Nickel joint venture partner.

Net cash used in financing activities in 2008 includes $26.2 million for payments made by the Company s consolidated joint venture to the joint venture partners, partially offset by net borrowings under the Company s revolving line of credit of $25 million. Net cash used in financing activities in 2007 includes the $418.5 million payment to redeem the Notes, partially offset by $11.3 million of proceeds from stock option exercises.

	2007	2006	change
Net cash provided by (used for):			

Operating activities	$ 41.0	$ 95.0	$ (54.0)
Investing activities	135.2	(18.0)	153.2
Financing activities	(406.7)	(5.7)	(401.0)
Effect of exchange rate changes on cash	1.4	4.6	(3.2)
Discontinued operations-net cash used for operating activities	48.5	107.4	(58.9)
Discontinued operations-net cash used for investing activities	(1.5)	(15.6)	14.1
Net change in cash and cash equivalents	$ (182.1)	$ 167.7	$ (349.8)

The $54.0 million decrease in net cash provided by operating activities, was primarily due to a $165.7 million increase in inventories during 2007 compared with a $27.6 million increase in inventories during 2006, and a $38.4 million increase in accounts receivable during 2007 compared with a $3.9 million increase in accounts receivable during 2006. These items were partially offset by a $92.2 million increase in accounts payable during 2007 compared with a $39.3 million increase in 2006. These increases in inventories, accounts receivable and accounts payable in 2007, which exclude amounts acquired in business combinations, were primarily due to higher cobalt metal prices in 2007 compared with 2006. Also impacting net cash provided by operating activities was the positive cash flow impact of income from continuing operations of $111.5 million in 2007 compared with income from continuing operations of $23.6 million in 2006. In addition, 2007 includes a $21.7 million charge related to the redemption of the Notes while 2006 includes a $12.2 million gain on the sale of the Company s investment in Weda Bay. The $21.7 million charge related to the redemption of the Notes consisted of a cash premium of $18.5 million and non-cash charges totaling $3.2 million. The $18.5 million cash premium payment is included as a component of financing activities. The receipt of the Weda Bay proceeds is included as a component of investing activities

Net cash provided by investing activities increased $153.2 million in 2007 compared with 2006 primarily due to the $490.0 million of net proceeds related to the sale of the Nickel business partially offset by the cash outflow for the acquisitions of REM and Borchers ($337.0 million, net of cash acquired). Net cash provided by investing activities in 2007 also includes $7.6 million of proceeds from the repayment of a loan made to a former non-consolidated Nickel joint venture partner. Investing activities in 2006 include proceeds of $12.2 million from the sale of the Company s investment in Weda Bay, a $5.4 million payment for the Plaschem acquisition and a $6.9 million loan to a former non-consolidated Nickel joint venture partner.

Net cash used in financing activities increased $401.0 million in 2007 compared with 2006 primarily due to the $418.5 million payment to redeem the Notes.

Debt and Other Financing Activities

The Company has a Revolving Credit Agreement (the Revolver) with availability of up to $100.0 million, including up to the equivalent of $25.0 million in Euros or other foreign currencies. The Revolver includes an accordion feature under which the Company may increase the availability by $50.0 million to a maximum of $150.0 million subject to certain conditions. Obligations under the Revolver are guaranteed by each of the Company s U.S. subsidiaries and are secured by a lien on the assets of the Company and such subsidiaries. The Revolver contains certain covenants, including financial covenants, that require the Company to (i) maintain a minimum net worth and (ii) not exceed a certain debt to adjusted earnings ratio. As of December 31, 2008, the Company was in compliance with all of the covenants under the Revolver. The Company has the option to specify that interest be calculated based either on a London interbank offered rate (LIBOR), plus a calculated margin amount, or a base rate. The applicable margin for the LIBOR rate ranges from 0.50% to 1.00%. The Revolver also requires the payment of a fee of 0.125% to 0.25% per annum on the unused commitment. The margin and unused commitment fees are subject to quarterly adjustment based on a certain debt to adjusted earnings ratio. The outstanding Revolver balance was $25.0 million at December 31, 2008 at an interest rate of 2.8%. The Revolver provides for interest-only payments during its term, with principal due at maturity on December 20, 2010.

During 2008, the Company s Finnish subsidiary, OMG Kokkola Chemicals Oy (OMG Kokkola), entered into a 25 million credit facility agreement (the Credit Facility). Under the Credit Facility, subject to the Bank s discretion, the Company can draw short-term loans, ranging from one to six months in duration, in U.S. dollars at LIBOR plus a margin of 0.55%. The Credit Facility has an indefinite term, and either party can immediately terminate the Credit Facility after providing notice to the other party. The Company agreed to unconditionally guarantee all of the obligations of OMG Kokkola under the Credit Facility. There were no borrowings outstanding under the Credit Facility at December 31, 2008.

The Company has a term loan outstanding that expires in 2019 and requires monthly principal and interest payments. The balance of the term loan was $1.1 million at December 31, 2008. At December 31, 2007, the Company had two term loans outstanding totaling $1.3 million and a $0.3 million short-term note payable.

On March 7, 2007, the Company redeemed the entire $400.0 million of its outstanding Notes at a redemption price of 104.625% of the principal amount, or $418.5 million, plus accrued interest of $8.4 million. The premium amount of $18.5 million plus related deferred financing costs of $5.7 million less the deferred net gain on terminated interest rate swaps of $2.5 million is included in the Loss on redemption of Notes in the Statements of Consolidated Income.

The Company believes that cash flow from operations, together with its strong cash position, low debt level and the availability of funds under the Revolver and the Credit Facility available to OMG Kokkola, will be sufficient to meet working capital, debt service, acquisition and planned capital expenditures for at least the next twelve months. However, if the global economic weakness and financial market disruption continue for an extended period of time, the Company s liquidity and financial position could be adversely affected.

The Company did not pay cash dividends in 2008, 2007 or 2006. The Company intends to continue to retain earnings for use in the operation and expansion of the business and therefore does not anticipate paying cash dividends in 2009.

Capital Expenditures

Capital expenditures in 2008 were $30.7 million, were funded through cash flows from operations, and were primarily related to ongoing projects to maintain current operating levels. The Company expects to incur capital spending of approximately $49.0 million in 2009 for projects to expand capacity; to maintain and improve throughput; for compliance with environmental, health and safety regulations; and for other fixed asset additions at existing facilities. The Company expects to fund 2009 capital expenditures through cash generated from operations and cash on hand at December 31, 2008.

Contractual Obligations

The Company has entered into contracts with various third parties in the normal course of business that will require future payments. The following table summarizes the Company s contractual cash obligations and their expected maturities at December 31, 2008 (in thousands).

	Payments due by period						
	2009	**2010**	**2011**	**2012**	**2013**	**Thereafter**	**Total**
Purchase and other obligations(1)	$ 96,857	$ 86,866	$ 86,549	$ 19,028	$ 1,339	$	$ 290,639
Debt obligations	80	25,139	139	139	139	508	26,144
Operating lease obligations	6,635	5,972	3,584	3,192	1,694	8,586	29,663
Income tax contingencies	1,037	4,400				1,800	7,237
Total	$ 104,609	$ 122,377	$ 90,272	$ 22,359	$ 3,172	$ 10,894	$ 353,683

(1) For 2009 through 2013, purchase obligations include raw material contractual obligations reflecting estimated future payments based on committed tons of material per the applicable contract multiplied by the reference price of each metal. The price used in the computation is the average daily price for the last week of December 2008 for each respective metal. Commitments made under these contracts represent future purchases in line with expected usage.

Pension funding and postretirement benefit payments can vary significantly each year due to changes in legislation and the Company s significant assumptions. As a result, pension funding and post-retirement benefit payments have not been included in the table above. The Company expects to contribute approximately $0.3 million related to its SCM pension plan in 2009. Pension benefit payments are made from assets of the pension plan. The Company expects to make payments related to its other postretirement benefit plans of approximately $0.5 million annually over the next ten years. Benefit payments beyond that time cannot currently be estimated. The Company also has an unfunded obligation to its former chief executive officer in settlement of an unfunded supplemental executive retirement plan, for which the Company expects to make annual benefit payments of approximately $0.7 million.

Future cash flows for income tax contingencies reflect the recorded liability, including interest and penalties, in accordance with FIN No. 48 as of December 31, 2008. Amounts where the Company can not reasonably estimate the year of settlement are reflected in the Thereafter column.

Off Balance Sheet Arrangements

The Company has not entered into any off balance sheet financing arrangements, other than operating leases, which are disclosed in the contractual obligations table above and in Note 17 to the consolidated financial statements included in Item 8 of this Annual Report.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the Company s management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements. In preparing these financial statements, management has made their best estimates and judgments of certain amounts included in the financial statements related to the critical accounting policies described below. The application of these critical accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. In addition, other companies may utilize different estimates, which may impact the comparability of the Company s results of operations to similar businesses.

Revenue Recognition Revenues are recognized when the revenue is realized or realizable, and has been earned, in accordance with the U.S. Securities and Exchange Commission s Staff Accounting Bulletin No. 104, Revenue Recognition in Financial Statements. The majority of the Company s sales are related to sales of product. Revenue for product sales is recognized when persuasive evidence of an arrangement exists, unaffiliated customers take title and assume risk of loss, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Revenue recognition generally occurs upon shipment of product or usage of consignment inventory. Freight costs and any directly related associated costs of transporting finished product to customers are recorded as Cost of products sold.

Inventories The Company s inventories are stated at the lower of cost or market and valued using the first-in, first-out (FIFO) method. The Company evaluates the need for an LCM adjustment to inventories based on the end-of-the-reporting period selling prices of its finished products. In periods of raw material metal price declines or declines in the selling prices of the Company s finished products, inventory carrying values may exceed the amount the Company could realize on sale, resulting in a lower of cost or market charge.

For cobalt metal re-sale inventory and inventory for which sales prices are highly correlated to cobalt prices (primarily in the Advanced Materials segment), volatile cobalt prices can have a significant impact on the LCM calculation. Fluctuations in the price of cobalt have been significant in the past and may be significant in the future. When evaluating whether such cobalt-based inventory is stated at the lower of cost or market, the Company generally considers cobalt reference prices at the end of the period. However, to the extent cobalt prices increase subsequent to the balance sheet date but before issuance of the financial statements, the Company considers these price movements in its LCM evaluation and determination of net realizable value (NRV). To the extent such price increases have an impact on the NRV of the Company s inventory as of the balance sheet date, the Company will use the higher prices in its calculation so as not to recognize a loss when an actual loss will not be realized.

Goodwill and Other Intangible Assets In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, the Company is required to test goodwill and indefinite-lived intangible assets for impairment annually and more often if indicators of impairment exist. The goodwill impairment test is a two-step process. During the first step, the Company estimates the fair value of the reporting unit and compares that amount to the carrying value of that reporting unit. Under SFAS No. 142, reporting units are defined as an operating segment or one level below an

operating segment (i.e. component level). The Company tests goodwill at the component level. The Company s reporting units are Advanced Materials, Electronic Chemicals, Advanced Organics, Ultra Pure Chemicals and Photomasks. Goodwill was allocated to the reporting units based on their estimated fair value.

To test goodwill for impairment, the Company is required to estimate the fair value of each of its reporting units. Since quoted market prices in an active market are not available for the Company s reporting units, the Company has developed a model to estimate the fair value of the reporting units utilizing a discounted cash flow valuation technique (DCF model). The impairment test incorporates the Company s estimates of future cash flows, allocations of certain assets, liabilities and cash flows among reporting units, future growth rates, terminal value amounts and the applicable weighted-average cost of capital (the WACC) used to discount those estimated cash flows. These estimates are based on management s judgment. The estimates and projections used in the estimate of fair value are consistent with the Company s current budget and long-range plans. Changes to these estimates and projections could result in a significantly different estimate of the fair value of the reporting units which could result in an impairment of goodwill.

The Company conducts its annual goodwill impairment test as of October 1, 2008. The results of the testing as of October 1, 2008 confirmed the fair value of each of the reporting units exceeded its carrying value and therefore no impairment loss was required to be recognized. However, during the fourth quarter of 2008, indicators of potential impairment caused the Company to conduct an additional impairment test as of December 31, 2008 in connection with the preparation of its annual financial statements for the year ended on that date. Those indicators included the fact that the Company s stock has been trading below net book value per share since the end of the second quarter of 2008; the existence of operating losses in the fourth quarter of 2008 and revisions to the 2009 plan; and an increase in the respective WACC calculations due to significant deterioration in the capital markets in the fourth quarter of 2008.

The Company reviewed and updated as deemed necessary all of the assumptions used in its DCF model during the fourth quarter. The estimates and judgments that most significantly affect the fair value calculation are future operating cash flow assumptions, future cobalt price assumptions and the WACC used in the DCF model. Due to the recent general downturn in the economy and resulting increased uncertainty in forecasted future cash flows, the Company increased the company-specific risk factor component in the WACC calculations.

The results of the testing as of December 31, 2008 confirmed that the carrying value of the Ultra Pure Chemicals reporting unit exceeded its fair value. As such, the Company conducted a preliminary step-two analysis in accordance with SFAS No. 142 in order to determine the amount of the goodwill impairment and, as a result of that analysis, the Company recorded an estimated goodwill impairment charge of $8.8 million in the Statement of Consolidated Income. The Company expects to finalize step-two during the first quarter of 2009, and any adjustments to the $8.8 million estimate will be recorded in the first quarter of 2009. The Company did not recognize any goodwill impairment charges in 2007 or 2006.

The Company reconciled the sum of the fair values of the reporting units to the Company s market capitalization at December 31, 2008 plus an estimated control premium. The Advanced Materials segment utilizes unrefined cobalt as a significant raw material. The cobalt market is very small compared to other metals such as nickel and copper; cobalt is not traded on a terminal market (such as the London Metal Exchange), which contributes to price volatility; significant cobalt price volatility makes it difficult for investors to predict the Company s operating results; and the majority of cobalt is produced in the DRC, which is considered a high-risk country in which to do business. The Company believes these factors influence its stock price and a control premium is required to appropriately reflect the Company s fair value. The Company also believes its stock price is influenced by the strategic transformation being undertaken by the Company and by the fact that the Company does not issue earnings guidance.

The Company has goodwill of $268.7 million that is subject to an annual test of impairment. Although the Company believes the assumptions, judgments and estimates used are reasonable and appropriate, different assumptions, judgments and estimates could materially affect the goodwill test and, potentially, the Company s results of operations and financial position if a goodwill impairment charge were recorded.

Due to the recent general downturn in the economy and resulting increased uncertainty in forecasted future cash flows, the Company increased the company-specific risk factor component in the WACC calculations by 320 basis

points on average, which resulted in an average increase in the total WACC of 2.5%. The WACC s used in the goodwill testing at December 31, 2008 ranged from 12.43% to 17.43%, with an average of 14.59%.

In order to evaluate the sensitivity of the fair value calculations on the goodwill impairment testing for each reporting unit, we applied a hypothetical 5% decrease to the fair value of each reporting unit and determined that such decrease would result in excess fair value over carrying value of at least $4 million for each reporting unit that passed step-one of the testing. For the UPC reporting unit, the 5% decrease to fair value would result in an additional $3.8 million shortfall of fair value below carrying value. In addition, we separately applied a hypothetical increase of 100 basis points to the company-specific risk factor component of each reporting unit, and determined that there would still be no impairment of goodwill for the four reporting units that passed step-one. For the UPC reporting unit, such increase would result in an additional $5.9 million shortfall of fair value below carrying value. Finally, we applied a hypothetical increase of 100 basis points to the overall WACC amount for each reporting unit, and determined that there would continue to be no goodwill impairment for the Advanced Materials, Advanced Organics and Photomasks reporting units. However, such increase would cause the carrying value of the Electronic Chemicals reporting unit to exceed its hypothetical fair value (using the higher WACC) by approximately $4 million. For the UPC reporting unit, the WACC increase would result in an additional $7.6 million shortfall of fair value below carrying value.

Intangible assets consist of (i) definite-lived assets subject to amortization and (ii) indefinite-lived intangible assets not subject to amortization. Definite-lived intangible assets consist principally of customer relationships, developed technology and capitalized software and are being amortized using the straight-line method. Indefinite-lived intangible assets consist of trade names. The Company evaluates the carrying value of definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The definite-lived intangible asset would be considered impaired if the future net undiscounted cash flows generated by the asset are less than its carrying value. The Company evaluates the carrying value of indefinite-lived intangible assets for impairment annually as of October 1 and between annual evaluations if changes in circumstances or the occurrence of certain events indicate potential impairment. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized.

In performing its annual intangible asset impairment testing at October 1, 2008, the Company determined that certain indefinite-lived trade names in its Photomasks reporting unit are impaired due to downward revisions in estimates of future revenue. As a result, the Company recorded an impairment loss of $0.2 million in 2008 in SG&A. Although the Company believes the assumptions, judgments and estimates used are reasonable and appropriate, different assumptions, judgments and estimates could materially affect the intangible asset impairment test and, potentially the Company s results of operations and financial position if additional impairment charges were required to be recorded. At December 31, 2008, the Company has definite-lived intangible assets of $76.6 million and indefinite-lived intangible assets of $8.2 million.

Long-Lived Assets Long-lived assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company generally invests in long-lived assets to secure raw material feedstocks, produce new products, or increase production capacity or capability. Because market conditions may change, future cash flows may be difficult to forecast. Furthermore, the assets and related businesses may be in different stages of development. If the Company determined that the future undiscounted cash flows from these investments were not expected to exceed the carrying value of the investments, the Company would record an impairment charge. However, determining future cash flows is subject to estimates and different estimates could yield different results. Additionally, other changes in the estimates and assumptions, including the discount rate and expected long-term growth rate, which drive the valuation techniques employed to estimate the future cash flows of the these investments, could change and, therefore, impact the analysis of impairment in the future.

Income Taxes Deferred income taxes are provided to recognize the effect of temporary differences between financial and tax reporting. Deferred income taxes are not provided for undistributed earnings of foreign consolidated subsidiaries, to the extent such earnings are determined to be reinvested for an indefinite period of time. The Company has significant operations outside the United States, where most of its pre-tax earnings are

derived, and in jurisdictions where the statutory tax rate is lower than in the United States. The Company s tax assets, liabilities, and tax expense are supported by its best estimates and assumptions of its global cash requirements, planned dividend repatriations, and expectations of future earnings. When the Company determines that it is more likely than not that deferred tax assets will not be realized, a valuation allowance is established.

Prior to December 31, 2006, the Company had recorded a valuation allowance against its U.S. net deferred tax assets, primarily related to net operating loss carryforwards, because it was more likely than not that those deferred tax assets would not be realized. However, the Company now believes that it is more likely than not that a portion of the net deferred tax asset related to temporary differences that reverse in 2009 and 2010 will be realized. Because there has been no fundamental change in the Company s U.S. operations, it is more likely than not that deferred tax assets related to state and local net operating loss carryforwards and temporary differences that will reverse beyond 2010 will not be realized, and therefore the Company has recorded a valuation allowance against those deferred tax assets.

Share-Based Compensation The computation of the expense associated with share-based compensation requires the use of a valuation model. The Company currently uses a Black-Scholes option pricing model to calculate the fair value of its stock options. The Black-Scholes model requires the use of subjective assumptions, including estimating the expected term of stock options and expected stock price volatility. Changes in the assumptions to reflect future stock price volatility and actual forfeiture experience could result in a change in the assumptions used to value awards in the future and may result in a material change to the fair value calculation of share-based awards. The fair value of share-based compensation awards less estimated forfeitures is amortized over the vesting period.

The fair value of time-based and performance-based restricted stock grants is calculated based upon the market value of an unrestricted share of the Company s common stock at the date of grant. The performance-based restricted stock vests solely upon the Company s achievement of specific measurable criteria over a three-year performance period. A recipient of performance-based restricted stock may earn a total award ranging from 0% to 100% of the initial grant. No payout will occur unless the Company equals or exceeds certain threshold performance objectives. The amount of compensation expense recognized is based upon current performance projections for the three-year period and the percentage of the requisite service that has been rendered.

Recently Issued Accounting Standards

Accounting Standards adopted in 2008:

SFAS No. 157: In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. SFAS No. 157 clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements but does not require any new fair value measurements. SFAS No. 157 only applies to accounting pronouncements that already require or permit fair value measures, except for standards that relate to share-based payments (SFAS No. 123R Share Based Payment).

SFAS No. 157 s valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect market assumptions.
SFAS No. 157 classifies these inputs into the following hierarchy:

Level 1 Inputs Quoted unadjusted prices for identical instruments in active markets to which the Company has access at the date of measurement.

Level 2 Inputs Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Inputs Model-derived valuations in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are those inputs that reflect the Company s own assumptions that market participants would use to price the asset or liability based on the best available information.

In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, The Effective Date of FASB Statement No. 157 , which provides a one-year deferral of the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

In October 2008, the FASB issued FSP No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, which clarifies the application of SFAS No. 157 in determining the fair values of assets or liabilities in a market that is not active. This FSP became effective upon issuance, including prior periods for which financial statements have not been issued. The adoption did not have any impact on the Company s results of operations, financial position or related disclosures.

As of January 1, 2008, in accordance with FSP 157-2, the Company has adopted the provisions of SFAS No. 157 with respect to financial assets and liabilities that are measured at fair value within the financial statements. The adoption of SFAS No. 157 did not have a material impact on the Company s results of operations or financial position. The provisions of FAS 157 have not been applied to non-financial assets and non-financial liabilities. The Company is currently assessing the impact of SFAS No. 157 for non-financial assets and non-financial liabilities on its results of operations, financial position and related disclosures. See Note 10.

SFAS No. 158: In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of defined benefit pension and other postretirement plans as an asset or liability in its consolidated balance sheet and to recognize changes in the funded status in the year in which the changes occur as a component of comprehensive income. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end consolidated balance sheet.

The Company adopted the requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end consolidated balance sheet as of December 31, 2008. SFAS No. 158 allows employers to choose one of two transition methods to adopt the measurement date requirement. The Company chose to adopt the measurement date requirement in 2008 using the 14-month approach. Under this approach, an additional two months of net periodic benefit cost, covering the period between the previous measurement date, October 31st, and the December 31st measurement date is recognized as an adjustment to the opening balance of retained earnings in the year of adoption. The effect of adoption was a $0.2 million reduction to retained earnings at January 1, 2008. The Company adopted the requirement to recognize the funded status of a defined benefit postretirement plan as an asset or liability in its Consolidated Balance Sheet as of December 31, 2006. The adoption resulted in an additional $0.6 million liability related to its postretirement plan and corresponding debit to Accumulated other comprehensive income.

SFAS No. 159: In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 does not affect any existing pronouncements that require assets and liabilities to be carried at fair value, and does not eliminate disclosure requirements included under existing pronouncements. The Company adopted SFAS No. 159 on January 1, 2008 and did not elect to report any additional assets or liabilities at fair value that were not already reported at fair value. Therefore, the adoption of SFAS No. 159 did not have any impact on the Company s results of operations, financial position or related disclosures.

EITF No. 06-4: In September 2006, the Emerging Issues Task Force (EITF) reached a consensus on EITF No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements, which requires the application of the provisions of SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, to endorsement split-dollar life

insurance arrangements. SFAS No. 106 requires the Company to recognize a liability for the discounted future benefit obligation that the Company will have to pay upon the death of the underlying insured employee. An endorsement-type arrangement generally exists when the Company owns and controls all incidents of ownership of the underlying policies. The Company adopted EITF No. 06-4 on January 1, 2008. The adoption did not have any impact on the Company s results of operations, financial position or related disclosures.

EITF No. 06-10: In November 2006, the FASB issued EITF Issue No. 06-10, Accounting for Deferred Compensation and Postretirement Benefits Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements. EITF Issue No. 06-10 establishes that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, or Accounting Principles Board Opinion No. 12, Omnibus Opinion, if, based on the substantive agreement with the employee, the employer has agreed to maintain a life insurance policy during the postretirement period or provide a death benefit. The EITF Issue No. 06-10 also concluded that an employer should recognize and measure an associated asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The Company has one arrangement with a former executive under which the Company has agreed to fund a life insurance policy during the former executive s retirement. The insurance policy is a collateral assignment split-dollar agreement owned by a trust established by the former executive. The collateral assignment provides the Company with an interest in the policy equal to its cumulative premium payments. The Company adopted EITF No. 06-10 on January 1, 2008. The effect of adoption was a $0.2 million cumulative effect adjustment to decrease retained earnings at January 1, 2008.

Accounting Standards Not Yet Adopted

SFAS No. 160: In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51). SFAS No. 160 requires (i) that noncontrolling (minority) interests be reported as a component of shareholders equity, (ii) that net income attributable to the parent and to the noncontrolling interest be separately identified in the consolidated statement of operations, (iii) that changes in a parent s ownership interest while the parent retains its controlling interest be accounted for as equity transactions, (iv) that any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value, and (v) that sufficient disclosures are provided that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for annual periods beginning after December 15, 2008 and should be applied prospectively. However, the presentation and disclosure requirements of the statement shall be applied retrospectively for all periods presented. The adoption of SFAS No. 160 is not expected to have any impact on the Company s results of operations or financial position but will change the disclosure and financial statement presentation related to noncontrolling (minority) interests.

SFAS No. 141R: In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations . SFAS No. 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R requires restructuring and acquisition-related costs to be recognized separately from the acquisition and establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. SFAS No. 141R must be applied prospectively to business combinations for which the acquisition date is on or after the adoption date. Early adoption is not permitted.

SFAS No. 161: On March 19, 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement 133. SFAS No. 161 enhances required disclosures regarding derivatives and hedging activities, including how: (i) an entity uses derivative instruments, (ii) derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging

Activities , and (iii) derivative instruments and related hedged items affect an entity s

financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS No. 161 will change the disclosures related to derivative instruments held by the Company.

FSP FAS No. 142-3: In April 2008, the FASB issued FSP FAS No. 142-3, Determination of the Useful Life of Intangible Assets. FSP FAS No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. FSP FAS No. 142-3 allows the Company to use its historical experience in renewing or extending the useful life of intangible assets, is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years and shall be applied prospectively to intangible assets acquired after the effective date.

FSP FAS No. 132(R)-1: In December 2008, the FASB issued FSP FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets, amending FASB Statement No. 132(R), Employers Disclosures about Pensions and Other Postretirement Benefits, effective for fiscal years ending after December 15, 2009. FSP FAS 132(R)-1 requires an employer to disclose investment policies and strategies, categories, fair value measurements, and significant concentration of risk among its pension or other postretirement benefit plan assets. The adoption of FSP FAS 132(R)-1 will change the disclosures related to pension assets but is not expected to have a material effect on the Company s consolidated financial statements.

Effects of Foreign Currency

The Company has manufacturing and other facilities in North America, Europe, Africa and Asia-Pacific, and markets its products worldwide. Although a significant portion of the Company s raw material purchases and product sales are based on the U.S. dollar, prices of certain raw materials, non-U.S. operating expenses and income taxes are denominated in local currencies. As such, the results of operations are subject to the variability that arises from exchange rate movements (particularly the Euro). In addition, fluctuations in exchange rates may affect product demand and profitability in U.S. dollars of products provided by the Company in foreign markets in cases where payments for its products are made in local currency. Accordingly, fluctuations in currency prices affect the Company s operating results.

Beginning in 2009, the Company has entered into foreign currency forward contracts to mitigate the variability in cash flows due to changes in the Euro/US dollar exchange rate.

Environmental Matters

The Company is subject to a wide variety of environmental laws and regulations in the United States and in foreign countries as a result of its operations and use of certain substances that are, or have been, used, produced or discharged by its plants. In addition, soil and/or groundwater contamination presently exists and may in the future be discovered at levels that require remediation under environmental laws at properties now or previously owned, operated or used by the Company.

The European Union s REACH legislation establishes a new system to register and evaluate chemicals manufactured in, or imported to, the European Union and will require additional testing, documentation and risk assessments for the chemical industry. Due to the ongoing development and understanding of facts and remedial options and due to the possibility of unanticipated regulatory developments, the amount and timing of future environmental expenditures could vary significantly. Although it is difficult to quantify the potential impact of compliance with or liability under environmental protection laws, based on presently available information, the Company believes that its ultimate aggregate cost of environmental remediation as well as liability under environmental protection laws will not result in a material adverse effect upon its financial condition or results of operations.

See Item I of this Annual Report on Form 10-K for further discussion of these matters.

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Cautionary Statement for Safe Harbor Purposes under the Private SecuritiesLitigation Reform Act of 1995

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company. This report contains statements that the Company believes may be forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are not historical facts and generally can be identified by use of statements that include words such as believe, expect, anticipate, intend, plan, foresee or other words or phrases of similar import. Similarly, statem describe the Company s objectives, plans or goals also are forward-looking statements. These forward-looking statements are subject to risks and uncertainties that are difficult to predict, may be beyond the Company s control and could cause actual results to differ materially from those currently anticipated. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Significant factors affecting these expectations are set forth under Item 1A Risk Factors in this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Quantitative and Qualitative Disclosures about Market Risk

The Company, as a result of its global operating and financing activities, is exposed to changes in commodity prices, interest rates and foreign currency exchange rates which may adversely affect its results of operations and financial position. In seeking to minimize the risks and/or costs associated with such activities, the Company manages exposures to changes in commodity prices, interest rates and, at times, foreign currency exchange rates through its regular operating and financing activities, which include the use of derivative instruments.

Commodity Price Risk

The primary raw material used by the Company in manufacturing its products is unrefined cobalt. There are a limited number of supply sources for cobalt. Production problems or political or civil instability in supplier countries, primarily the DRC, Finland and Russia, have affected and may continue to affect the supply and market price of cobalt. In particular, political and civil instability in the DRC may affect the availability of raw materials from that country. Although the Company has never experienced a significant shortage of cobalt raw material, production problems and political and civil instability in certain supplier countries may in the future affect the supply and market price of cobalt raw materials.

The Company s business is critically connected to both the price and availability of raw materials. The primary raw material used by the Advanced Materials segment is unrefined cobalt. Cobalt raw materials include ore, concentrate, slag and scrap. The Company attempts to mitigate changes in availability of raw materials by maintaining adequate inventory levels and long-term supply relationships with a variety of suppliers. The cost of the Company s raw materials fluctuates due to changes in the cobalt reference price, actual or perceived changes in supply and demand of raw materials and changes in availability from suppliers. The Company attempts to pass through to its customers increases in raw material prices, and certain sales contracts and raw material purchase contracts contain variable pricing that adjusts based on changes in the price of cobalt. During periods of rapidly changing metal prices, however, there may be price lags that can impact the short-term profitability and cash flow from operations of the Company both positively and negatively. Fluctuations in the price of cobalt have been significant, historically and in 2008, and the Company believes that cobalt price fluctuations are likely to continue in the future. Reductions in the price of raw materials or declines in the selling prices of the Company s finished goods can result in the Company s inventory carrying value being written down to a lower market value, as occurred at the end of 2008.

The Company enters into derivative instruments and hedging activities to manage, where possible and economically efficient, commodity price risk. All derivatives are reflected at their fair value in the Consolidated Balance Sheets. Changes in the fair values of derivatives not designated in a hedging relationship are recognized in earnings each period.

The Company, from time to time, employs derivative instruments in connection with certain purchases and sales of inventory in order to establish a fixed margin and mitigate the risk of price volatility. Some customers request fixed pricing and the Company may use a derivative to mitigate price risk. While this hedging may limit the Company s

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ability to participate in gains from favorable commodity price fluctuations, it eliminates the risk of loss from adverse commodity price fluctuation.

Interest Rate Risk

The Company is exposed to interest rate risk primarily through its borrowing activities. If needed, the Company predominantly utilizes U.S. dollar-denominated borrowings to fund its working capital and investment needs. There is an inherent rollover risk for borrowings as they mature and are renewed at current market rates. The extent of this risk is not quantifiable or predictable because of the variability of future interest rates and business financing requirements (see Note 9 to the consolidated financial statements contained in Item 8 of this Annual Report).

From time to time, the Company enters into derivative instruments and hedging activities to manage, where possible and economically efficient, interest rate risk related to borrowings. The Company had no outstanding interest rate derivatives during 2008.

Credit Risk

By using derivative instruments to hedge exposures to changes in commodity prices and interest rates, the Company exposes itself to credit risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and the Company does not possess credit risk. To mitigate credit risk, it is the Company s policy to execute such instruments with creditworthy banks and not enter into derivative instruments for speculative purposes. There were no counterparty defaults during the years ended December 31, 2008, 2007 and 2006.

Market Risk

By using derivative instruments to hedge exposures to changes in commodity prices and interest rates, the Company exposes itself to market risk. Market risk is the change in value of a derivative instrument that results from a change in commodity prices or interest rates. The market risk associated with commodity prices and interests is managed by establishing and monitoring parameters that limit the types and degree

Foreign Currency Exchange Rate Risk

In addition to the United States, the Company has manufacturing and other facilities in Africa, Canada, Europe and Asia-Pacific, and markets its products worldwide. Although a significant portion of the Company s raw material purchases and product sales are based on the U.S. dollar, prices of certain raw materials, non-U.S. operating expenses and income taxes are denominated in local currencies. As such, the results of operations are subject to the variability that arises from exchange rate movements (particularly the Euro). In addition, fluctuations in exchange rates may affect product demand and profitability in U.S. dollars of products provided by the Company in foreign markets in cases where payments for its products are made in local currency. Accordingly, fluctuations in currency prices affect the Company s operations. During 2008, the Company did not hedge against the risk of exchange rate fluctuation.

The functional currency for the Company s Finnish subsidiary is the U.S. dollar since a majority of their purchases and sales are denominated in U.S. dollars. Accordingly, foreign currency exchange gains and losses related to transactions denominated in other currencies (principally the Euro) are included in the Statements of Consolidated Income. While the majority of the Company s Finnish subsidiary s raw material purchases are in U.S. dollars, it also has some Euro-denominated expenses. Beginning in 2009, the Company has entered into foreign currency forward contracts to mitigate a portion of the variability in those Euro-denominated cash flows due to changes in the Euro/U.S. dollar exchange rate.

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Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of OM Group, Inc.

We have audited the accompanying consolidated balance sheets of OM Group, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the index at Item 15. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of OM Group, Inc. and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth herein.

As discussed in Notes 2, 8, 11 and 15 to the consolidated financial statements, as of December 31, 2006 and 2008, the Company adopted the liability provisions and the measurement date provisions, respectively, of Statement of Financial Reporting Standards No. 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R) ; as of January 1, 2007, the Company adopted the Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ; as of January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payment and as of January 1, 2006, the Company adopted Emerging Issues Task Force No. 04-6, Accounting for Stripping Costs Incurred during Production in the Mining Industry.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), OM Group, Inc. s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2009 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Cleveland, Ohio
February 26, 2009

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of OM Group, Inc.

We have audited OM Group, Inc. s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). OM Group, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting, appearing on page 88. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, OM Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) the consolidated balance sheets of OM Group, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2008 of OM Group, Inc. and subsidiaries and our report dated February 26, 2009 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Cleveland, Ohio
February 26, 2009

OM Group, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share data)	December 31, 2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	**$ 244,785**	$ 100,187
Accounts receivable, less allowance of $7,877 in 2008 and $5,268 in 2007	**130,217**	178,481
Inventories	**306,128**	413,434
Refundable and prepaid income taxes	**55,059**	9,986
Other current assets	**59,227**	50,669
Interest receivable from joint venture partner		3,776
Total current assets	**795,416**	756,533
Property, plant and equipment, net	**245,202**	288,834
Goodwill	**268,677**	322,172
Intangible assets	**84,824**	46,454
Notes receivable from joint venture partner, less allowance of $5,200 in 2008 and 2007	**13,915**	24,179
Other non-current assets	**26,393**	31,038
Total assets	**$ 1,434,427**	$ 1,469,210
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Short-term debt	**$**	$ 347
Current portion of long-term debt	**80**	166
Accounts payable	**89,470**	214,244
Accrued income taxes	**17,677**	32,040
Accrued employee costs	**31,168**	34,707
Other current liabilities	**21,074**	25,435
Total current liabilities	**159,469**	306,939
Long-term debt	**26,064**	1,136
Deferred income taxes	**26,764**	29,645
Minority interests	**47,429**	52,314
Other non-current liabilities	**44,052**	50,790
Stockholders equity:		
Preferred stock, $.01 par value:		
Authorized 2,000,000 shares, no shares issued or outstanding		
Common stock, $.01 par value:		
Authorized 90,000,000 shares in 2008 and 60,000,000 shares in 2007; 30,317,403 shares issued in 2008 and 30,122,209 shares issued 2007	**303**	301

Capital in excess of par value	**563,454**	554,933
Retained earnings	**602,365**	467,726
Treasury stock (136,328 shares in 2008 and 61,541 shares in 2007, at cost)	**(5,490)**	(2,239)
Accumulated other comprehensive income (loss)	**(29,983)**	7,665
Total stockholders equity	**1,130,649**	1,028,386
Total liabilities and stockholders equity	**$ 1,434,427**	$ 1,469,210

See accompanying notes to consolidated financial statements.

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OM Group, Inc. and Subsidiaries

Statements of Consolidated Income

	Year Ended December 31		
	2008	**2007**	**2006**
(In thousands, except per share data)			
Net sales	**$ 1,736,849**	$ 1,021,501	$ 660,104
Cost of products sold (excluding lower of cost or market charge)	**1,356,573**	708,257	475,437
Lower of cost or market inventory charge	**27,728**		
Gross profit	**352,548**	313,244	184,667
Goodwill impairment	**8,800**		
Selling, general and administrative expenses	**166,126**	117,009	109,408
Operating profit	**177,622**	196,235	75,259
Other income (expense):			
Interest expense	**(1,597)**	(7,820)	(38,659)
Loss on redemption of Notes		(21,733)	
Interest income	**1,920**	19,396	8,566
Interest income on Notes receivable from joint venture partner		4,526	
Foreign exchange gain (loss)	**(3,744)**	8,100	3,661
Gain on sale of investment			12,223
Other expense, net	**(1,913)**	(449)	(582)
	(5,334)	2,020	(14,791)
Income from continuing operations before income taxes, minority interest and cumulative effect of change in accounting principle	**172,288**	198,255	60,468
Income tax expense	**(16,076)**	(76,311)	(30,554)
Minority partners share of (income) loss	**(21,301)**	(10,405)	(6,291)
Income from continuing operations before cumulative effect of change in accounting principle	**134,911**	111,539	23,623
Discontinued operations:			
Income from discontinued operations, net of tax	**92**	63,057	192,163
Gain on sale of discontinued operations, net of tax		72,270	
Total income from discontinued operations, net of tax	**92**	135,327	192,163
Income before cumulative effect of change in accounting principle	**135,003**	246,866	215,786
Cumulative effect of change in accounting principle		0	287
Net income	**$ 135,003**	$ 246,866	$ 216,073
Net income per common share basic:			

Continuing operations	**$ 4.48**	$ 3.73	$ 0.80
Discontinued operations		4.52	6.55
Cumulative effect of change in accounting principle			0.01
Net income	**$ 4.48**	$ 8.25	$ 7.36
Net income per common share assuming dilution:			
Continuing operations	**$ 4.45**	$ 3.68	$ 0.80
Discontinued operations		4.47	6.50
Cumulative effect of change in accounting principle			0.01
Net income	**$ 4.45**	$ 8.15	$ 7.31
Weighted average shares outstanding:			
Basic	**30,124**	29,937	29,362
Assuming dilution	**30,358**	30,276	29,578

See accompanying notes to consolidated financial statements.

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OM Group, Inc. and Subsidiaries

Statements of Consolidated Comprehensive Income

(In thousands)	Year Ended December 31 2008	2007	2006
Net income	**$ 135,003**	$ 246,866	$ 216,073
Foreign currency translation adjustments	**(36,109)**	(11,014)	10,394
Reclassification of hedging activities into earnings, net of tax		(9,824)	(954)
Unrealized gain on cash flow hedges, net of tax expense of $3,117 in 2006			9,824
Realized gain on available-for-sale securities			(4,745)
Additional pension and post-retirement obligation	**(1,539)**	(390)	(199)
Net change in accumulated other comprehensive income (loss)	**(37,648)**	(21,228)	14,320
Comprehensive income	**$ 97,355**	$ 225,638	$ 230,393

See accompanying notes to consolidated financial statements.

OM Group, Inc. and Subsidiaries

Statements of Consolidated Cash Flows

(In thousands)	Year Ended December 31 2008	2007	2006
Operating activities			
Net income	**$ 135,003**	$ 246,866	$ 216,073
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Income from discontinued operations	**(92)**	(63,057)	(192,163)
Gain on sale of discontinued operations		(72,270)	
Income from cumulative effect of change in accounting principle			(287)
Gain on sale of investment			(12,223)
Loss on redemption of Notes		21,733	
Depreciation and amortization	**56,116**	33,229	31,841
Share-based compensation expense	**7,621**	7,364	5,227
Excess tax benefit on exercise of stock options	**(28)**	(1,744)	
Foreign exchange (gain) loss	**3,744**	(8,100)	(3,661)
Gain on cobalt forward purchase contracts	**(4,002)**	(6,735)	
Interest income receivable from joint venture partner	**3,776**	(3,776)	
Deferred income tax provision (benefit)	**(894)**	(15,756)	13,864
Lower of cost or market inventory charge	**27,728**		
Goodwill impairment	**8,800**		
Minority partners share of income	**21,301**	10,405	6,291
Other non-cash items	**4,536**	431	(1,944)
Changes in operating assets and liabilities, excluding the effect of business acquisitions			
Accounts receivable	**48,641**	(38,364)	(3,879)
Inventories	**76,985**	(165,694)	(27,613)
Accounts payable	**(124,712)**	92,161	39,310
Refundable, prepaid and accrued income taxes	**(64,455)**	(5,984)	(2,597)
Other, net	**(27,944)**	10,295	26,728
Net cash provided by operating activities	**172,124**	41,004	94,967
Investing activities			
Expenditures for property, plant and equipment	**(30,712)**	(19,357)	(14,547)
Proceeds from settlement of cobalt forward purchase contracts	**10,736**		
Net proceeds from the sale of the Nickel business		490,036	
Proceeds from loans to consolidated joint venture partner	**10,264**		
Proceeds from loans to non-consolidated joint ventures		7,568	
Acquisitions	**(5,799)**	(336,976)	(5,418)
Expenditures for software	**(1,673)**	(4,483)	(3,329)
Other, net	**(750)**	(1,539)	5,335
Net cash provided by (used for) investing activities	**(17,934)**	135,249	(17,959)
Financing activities			
Payments of long-term debt and revolving line of credit	**(45,513)**	(400,000)	(17,250)

Proceeds from the revolving line of credit	**70,000**		
Premium for redemption of notes		(18,500)	
Payment of loan from consolidated joint venture partner	**(2,657)**		
Payment related to surrendered shares	**(3,251)**		
Distribution to joint venture partners	**(26,184)**	(1,350)	
Proceeds from exercise of stock options	**874**	11,344	11,558
Excess tax benefit on exercise of stock options	**28**	1,744	
Net cash used for financing activities	**(6,703)**	(406,762)	(5,692)
Effect of exchange rate changes on cash	**(2,889)**	1,440	4,569
Cash and cash equivalents			
Increase (decrease) from continuing operations	**144,598**	(229,069)	75,885
Discontinued operations net cash provided by operating activities		48,508	107,379
Discontinued operations net cash used for investing activities		(1,540)	(15,594)
Balance at the beginning of the year	**100,187**	282,288	114,618
Balance at the end of the year	**$ 244,785**	$ 100,187	$ 282,288

See accompanying notes to consolidated financial statements

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OM Group, Inc. and Subsidiaries

Statements of Consolidated Stockholders Equity

(In thousands)	Year Ended December 31 2008	2007	2006
Common Stock Shares Outstanding, net of Treasury Shares			
Beginning balance	**30,061**	29,740	29,307
Shares issued under share-based compensation plans	**120**	321	433
	30,181	30,061	29,740
Common Stock Dollars			
Beginning balance	**$ 301**	$ 297	$ 293
Shares issued under share-based compensation plans	**2**	4	4
	303	301	297
Capital in Excess of Par Value			
Beginning balance	**554,933**	533,818	516,510
Shares issued under share-based compensation plans	**872**	11,340	11,555
Excess tax benefit on the exercise of stock options	**28**	1,744	
Share-based compensation employees	**7,279**	7,929	5,753
Share-based compensation non-employee directors	**342**	102	
	563,454	554,933	533,818
Retained Earnings			
Beginning balance, as originally reported	**467,726**	221,310	6,811
Adoption of SFAS No. 158	**(171)**		
Adoption of EITF No. 06-10	**(193)**		
Adoption of FIN No. 48		(450)	
Adoption of EITF No. 04-6			(1,574)
Beginning balance, as adjusted	**467,362**	220,860	5,237
Net income	**135,003**	246,866	216,073
	602,365	467,726	221,310
Treasury Stock			
Beginning balance	**(2,239)**	(2,239)	(2,226)
Reacquired shares	**(3,251)**		(13)
	(5,490)	(2,239)	(2,239)
Accumulated Other Comprehensive Income (Loss)			
Beginning balance	**7,665**	28,893	15,145

Foreign currency translation	**(36,109)**	(11,014)	10,394
Reclassification of hedging activities into earnings, net of tax		(9,824)	(954)
Unrealized gain on cash flow hedges, net of tax expense of $3,541 in 2006			9,824
Reclassification of realized gain on available-for-sale securities into earnings			(4,745)
Additional pension and post-retirement obligation	**(1,599)**	(390)	(199)
Adoption of SFAS No. 158	**60**		(572)
	(29,983)	7,665	28,893
Total Stockholders Equity	**$ 1,130,649**	$ 1,028,386	$ 782,079

See accompanying notes to consolidated financial statements

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Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries

(In thousands, except as noted and share and per share amounts)

Note 1 Significant Accounting Policies

Principles of Consolidation The consolidated financial statements include the accounts of OM Group, Inc. (the Company) and its consolidated subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. The Company has a 55% interest in a joint venture that has a smelter in the Democratic Republic of Congo (the DRC). The joint venture is consolidated because the Company has a controlling interest in the joint venture. Minority interest is recorded for the remaining 45% interest. The equity method of accounting is applied to non-consolidated entities in which the Company can exercise significant influence over the entity with respect to its operations and major decisions. The book value of investments carried on the equity method and cost method were immaterial at December 31, 2008 and 2007.

On November 17, 2006, the Company entered into a definitive agreement to sell its Nickel business to Norilsk Nickel (Norilsk). As a result, in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the consolidated financial statements and accompanying notes reflect the Nickel business as a discontinued operation for all periods presented. The transaction closed on March 1, 2007.

Unless otherwise indicated, all disclosures and amounts in the Notes to Consolidated Financial Statements relate to the Company s continuing operations.

Use of Estimates The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions in certain circumstances that affect the amounts reported in the accompanying consolidated financial statements and notes. Actual results could differ from these estimates.

Cash Equivalents All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Revenue Recognition The Company recognizes revenue when persuasive evidence of an arrangement exists, unaffiliated customers take title and assume risk of loss, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Revenue recognition generally occurs upon shipment of product or usage of inventory consigned to customers.

In connection with the sale of the Nickel business to Norilsk, the Company entered into two-year agency and distribution agreements for certain specialty nickel salts products. Under the contracts, the Company now acts as a distributor of these products on behalf of Norilsk and records the related commission revenue on a net basis. Prior to March 1, 2007, the Company, through its Advanced Materials business, was the primary obligor for these sales and recorded the revenue on a gross basis.

The Company collects and remits taxes assessed by different governmental authorities that are both imposed on and concurrent with revenue producing transactions between the Company and its customers. These taxes may include sales, use and value-added taxes. The Company reports the collection of these taxes on a net basis (excluded from revenues).

All amounts in a sales transaction billed to a customer related to shipping and handling are reported as revenues.

Cost of Products Sold Cost of sales is comprised of raw material costs, direct production, maintenance, utility costs, depreciation, other overhead costs and shipping and handling costs.

Allowance for Doubtful Accounts The Company has recorded an allowance for doubtful accounts to reduce accounts receivable to their estimated net realizable value. The allowance is based upon an analysis of historical bad debts, a review of the aging of accounts receivable and the current creditworthiness of customers. Accounts are written off against the allowance when it becomes evident that collections will not occur. Bad debt expense is

Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries *Continued*

included in selling, general and administrative expenses and amounted to $4.3 million in 2008 and $0.5 million in both 2007 and 2006.

Inventories Inventories are stated at the lower of cost or market and valued using the first-in, first-out (FIFO) method. The cost of the Company s raw materials fluctuates due to actual or perceived changes in supply and demand of raw materials, changes in cobalt market prices and changes in availability from suppliers. Changes in the cobalt price can have a significant impact on inventory valuation. The Company evaluates the need for a lower of cost or market (LCM) adjustment to inventories based on the end-of-the-reporting period selling prices of its finished products. In periods of raw material metal price declines or declines in the selling prices of the Company s finished products, inventory carrying values may exceed the amount the Company could realize on sale, resulting in a lower of cost or market charge.

Receivables from Joint Venture Partners and Minority Interests The Company has a 55% interest in a joint venture that has a smelter in the DRC. The remaining 45% interest is owned by two partners at 25% and 20%, respectively.

In years prior to 2005, the Company refinanced the capital contribution for the 25% minority shareholder in its joint venture in the DRC. At December 31, 2008 and 2007, the notes receivable from this partner were $13.9 million and $24.2 million, net of a $5.2 million valuation allowance. In January 2008, the Company and the joint venture partner agreed to modify the terms of the notes. The modified terms include a new interest rate of LIBOR (4.2% at December 31, 2008) and a revised repayment date for the entire balance on December 31, 2010, which may be extended at the Company s option.

Prior to December 31, 2007, the Company had a full valuation allowance against the interest receivable under the notes. During 2008 and 2007, the Company received $3.8 million and $0.8 million, respectively, which was recorded as interest income. During 2008 and 2007, the Company agreed to forgive $0.8 million and $4.0 million of interest due, respectively. Due to the uncertainty of collection, the Company will continue to record a full allowance against unpaid interest receivable under the notes until payment is received.

Under the terms of the receivables, a portion (80%) of the partner s share of any dividends from the joint venture and any other cash flow distributions (secondary considerations) paid by the joint venture, if any, first serve to reduce the Company s receivables before any amounts are remitted to the joint venture partner. The receivables are secured by 80% of the partner s interest in the joint venture (book value of $21.8 million and $28.2 million, at December 31, 2008 and 2007, respectively), and by a loan payable from the joint venture to the partner (total principal and interest balance of $1.3 million and $5.0 million at December 31, 2008 and 2007, respectively).

The Company currently anticipates that repayment of the receivables, net of the reserve, will be made from the partner s share of any dividends from the joint venture and any other secondary considerations paid by the joint venture, including returns of capital.

Property, Plant and Equipment Property, plant and equipment is recorded at historical cost less accumulated depreciation. Depreciation of plant and equipment is provided by the straight-line method over the useful lives of 5 to 25 years for land improvements, 5 to 40 years for buildings and improvements and 3 to 20 years for equipment and furniture and fixtures. Leasehold improvements are depreciated over the shorter of the estimated useful life or the term of the lease.

The Company records the fair value of a liability for an asset retirement obligation in the period in which it is incurred, if a reasonable estimate of fair value can be made. The related asset retirement costs are capitalized as a part of the carrying amount of the long-lived asset and amortized over the asset s useful life.

Internal Use Software The Company capitalizes costs associated with the development and installation of internal use software in accordance with American Institute of Certified Public Accountants Statement of Position No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Accordingly,

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Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries *Continued*

internal use software costs are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage or post-implementation stage. Amounts capitalized are amortized over the estimated useful lives of the software.

Long-lived Assets Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Events or circumstances that would result in an impairment review primarily include operating losses, a significant change in the use of an asset, or the planned disposal or sale of the asset. The asset would be considered impaired when the future net undiscounted cash flows generated by the asset are less than its carrying value. An impairment loss would be recognized based on the amount by which the carrying value of the asset exceeds its estimated fair value.

Goodwill and Intangible Assets In accordance with SFAS No. 142 Goodwill and Other Intangible Assets, the Company evaluates the carrying value of goodwill and indefinite-lived intangible assets for impairment annually as of October 1 and between annual evaluations if changes in circumstances or the occurrence of certain events indicate potential impairment. If the carrying value of goodwill or an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized.

Intangible assets consist of (i) definite-lived assets subject to amortization and (ii) indefinite-lived intangible assets not subject to amortization. Definite-lived intangible assets consist principally of customer relationships, developed technology and capitalized software and are being amortized using the straight-line method. Indefinite-lived intangible assets consist of trade names.

Retained Liabilities of Businesses Sold Retained liabilities of businesses sold include obligations of the Company related to its former Precious Metals Group (PMG), which was sold on July 31, 2003. Under terms of the sale agreement, the Company will reimburse the buyer of this business for certain items that become due and payable by the buyer subsequent to the sale date. Such items are principally comprised of taxes payable related to periods during which the Company owned PMG. The liability at December 31, 2008 was $7.8 million, of which $2.8 million was included in current liabilities and $5.0 million was included in Other non-current liabilities. As of December 31, 2007 the liability was $8.0 million, of which $2.7 million was included in current liabilities and $5.3 million was included in Other non-current liabilities.

Research and Development Research and development costs are charged to expense when incurred, are included in selling, general and administrative expenses and amounted to $10.8 million, $8.2 million, and $8.1 million in 2008, 2007, and 2006, respectively.

Repairs and Maintenance The Company expenses repairs and maintenance costs, including periodic maintenance shutdowns at its manufacturing facilities, when incurred.

Accounting for Leases Lease expense is recorded on a straight-line basis. The noncancellable lease term used to calculate the amount of the straight-line expense is generally determined to be the initial lease term, including any optional renewal terms that are reasonably assured. Leasehold improvements related to these operating leases are amortized over the shorter of their estimated useful lives or the noncancellable lease.

Income Taxes Deferred income taxes are provided to recognize the effect of temporary differences between financial and tax reporting. Deferred income taxes are not provided for undistributed earnings of certain foreign

consolidated subsidiaries, to the extent such earnings are determined to be reinvested for an indefinite period of time.

Foreign Currency Translation   The functional currency for the Company s Finnish subsidiary and related DRC operations is the U.S. dollar since a majority of their purchases and sales are denominated in U.S. dollars. Accordingly, foreign currency exchange gains and losses related to assets, liabilities and transactions denominated in other currencies (principally the Euro) are included in the Statements of Consolidated Income.

Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries *Continued*

The functional currency for the Company s other operating subsidiaries outside of the United States is the applicable local currency. For those operations, financial statements are translated into U.S. dollars at year-end exchange rates as to assets and liabilities and weighted average exchange rates as to revenues and expenses. The resulting translation adjustments are recorded as a component of Accumulated other comprehensive income (loss) in stockholders equity.

Derivative Instruments The Company enters into derivative instruments and hedging activities to manage, where possible and economically efficient, commodity price risk and interest rate risk related to borrowings. It is the Company s policy to execute such instruments with creditworthy banks and not enter into derivative instruments for speculative purposes. All derivatives are reflected at their fair value and recorded in other current assets and other current liabilities as of December 31, 2008 and 2007. The accounting for the fair value of a derivative depends upon whether it has been designated as a hedge and on the type of hedging relationship. To qualify for designation in a hedging relationship, specific criteria must be met and appropriate documentation prepared. Changes in the fair values of derivatives not designated in a hedging relationship are recognized in earnings.

The Company, from time to time, employs derivative instruments in connection with purchases and sales of inventory in order to establish a fixed margin and mitigate the risk of price volatility. Some customers request fixed pricing and the Company may use a derivative to mitigate price risk. While this hedging may limit the Company s ability to participate in gains from favorable commodity price fluctuations, it eliminates the risk of loss from adverse commodity price fluctuations.

Periodically, the Company enters into certain derivative instruments designated as cash flow hedges. For these hedges, the effective portion of the gain or loss from the financial instrument is initially reported as a component of Accumulated other comprehensive income (loss) in stockholders equity and subsequently reclassified into earnings in the same line as the hedged item in the same period or periods during which the hedged item affects earnings. There were no outstanding cash flow hedges at December 31, 2008.

Beginning in 2008, the Company entered into certain cobalt forward purchase contracts designated as fair value hedges. For fair value hedges, changes in the fair value of the derivative instrument are offset against the change in fair value of the hedged item through earnings. At December 31, 2008, the notional quantity of open contracts designated as fair value hedges under SFAS No. 133 was 0.3 million pounds.

Note 2 Recently Issued Accounting Standards

Accounting Standards adopted in 2008:

SFAS No. 157: In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements but does not require any new fair value measurements. SFAS No. 157 only applies to accounting pronouncements that already require or permit fair value measures, except for standards that relate to share-based payments (SFAS No. 123R Share Based Payment).

SFAS No. 157 s valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect market assumptions.
SFAS No. 157 classifies these inputs into the following hierarchy:

Level 1 Inputs Quoted unadjusted prices for identical instruments in active markets to which the Company has access at the date of measurement.

Level 2 Inputs Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

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Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries *Continued*

Level 3 Inputs Model-derived valuations in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are those inputs that reflect the Company s own assumptions that market participants would use to price the asset or liability based on the best available information.

In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, The Effective Date of FASB Statement No. 157 , which provides a one-year deferral of the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

In October 2008, the FASB issued FSP No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, which clarifies the application of SFAS No. 157 in determining the fair values of assets or liabilities in a market that is not active. This FSP became effective upon issuance, including prior periods for which financial statements have not been issued. The adoption did not have any impact on the Company s results of operations, financial position or related disclosures.

As of January 1, 2008, in accordance with FSP 157-2, the Company has adopted the provisions of SFAS No. 157 with respect to financial assets and liabilities that are measured at fair value within the financial statements. The adoption of SFAS No. 157 did not have a material impact on the Company s results of operations or financial position. The provisions of FAS 157 have not been applied to non-financial assets and non-financial liabilities. The Company is currently assessing the impact of SFAS No. 157 for non-financial assets and non-financial liabilities on its results of operations, financial position and related disclosures. See Note 10.

SFAS No. 158: In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of defined benefit pension and other postretirement plans as an asset or liability in its consolidated balance sheet and to recognize changes in the funded status in the year in which the changes occur as a component of comprehensive income. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end consolidated balance sheet.

The Company adopted the requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end consolidated balance sheet as of December 31, 2008. SFAS No. 158 allows employers to choose one of two transition methods to adopt the measurement date requirement. The Company chose to adopt the measurement date requirement in 2008 using the 14-month approach. Under this approach, an additional two months of net periodic benefit cost, covering the period between the previous measurement date, October 31st, and the December 31st measurement date is recognized as an adjustment to the opening balance of retained earnings in the year of adoption. The effect of adoption was a $0.2 million reduction to retained earnings at January 1, 2008. The Company adopted the requirement to recognize the funded status of a defined benefit postretirement plan as an asset or liability in its Consolidated Balance Sheet as of December 31, 2006. The adoption resulted in an additional $0.6 million liability related to its postretirement plan and corresponding debit to Accumulated other comprehensive income (loss).

SFAS No. 159: In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an

instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 does not affect any existing pronouncements that require assets and liabilities to be carried at fair value, and does not eliminate disclosure requirements included under existing pronouncements. The Company adopted SFAS No. 159 on January 1, 2008 and did not elect to report any additional assets or liabilities at fair value that were not already

Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries *Continued*

reported at fair value. Therefore, the adoption of SFAS No. 159 did not have any impact on the Company s results of operations, financial position or related disclosures.

EITF No. 06-4: In September 2006, the Emerging Issues Task Force (EITF) reached a consensus on EITF No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements, which requires the application of the provisions of SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, to endorsement split-dollar life insurance arrangements. SFAS No. 106 requires the Company to recognize a liability for the discounted future benefit obligation that the Company will have to pay upon the death of the underlying insured employee. An endorsement-type arrangement generally exists when the Company owns and controls all incidents of ownership of the underlying policies. The Company adopted EITF No. 06-4 on January 1, 2008. The adoption did not have any impact on the Company s results of operations, financial position or related disclosures.

EITF No. 06-10: In November 2006, the FASB issued EITF Issue No. 06-10, Accounting for Deferred Compensation and Postretirement Benefits Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements. EITF Issue No. 06-10 establishes that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, or Accounting Principles Board Opinion No. 12, Omnibus Opinion, if, based on the substantive agreement with the employee, the employer has agreed to maintain a life insurance policy during the postretirement period or provide a death benefit. EITF Issue No. 06-10 also concluded that an employer should recognize and measure an associated asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The Company has one arrangement with a former executive under which the Company has agreed to fund a life insurance policy during the former executive s retirement. The insurance policy is a collateral assignment split-dollar agreement owned by a trust established by the former executive. The collateral assignment provides the Company with an interest in the policy equal to its cumulative premium payments. The Company adopted EITF No. 06-10 on January 1, 2008. The effect of adoption was a $0.2 million cumulative effect adjustment to decrease retained earnings at January 1, 2008.

Accounting Standards Not Yet Adopted
SFAS No. 160: In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51). SFAS No. 160 requires (i) that noncontrolling (minority) interests be reported as a component of shareholders equity, (ii) that net income attributable to the parent and to the noncontrolling interest be separately identified in the consolidated statement of operations, (iii) that changes in a parent s ownership interest while the parent retains its controlling interest be accounted for as equity transactions, (iv) that any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value, and (v) that sufficient disclosures are provided that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for annual periods beginning after December 15, 2008 and should be applied prospectively. However, the presentation and disclosure requirements of the statement shall be applied retrospectively for all periods presented. The adoption of SFAS No. 160 is not expected to have any impact on the Company s results of operations or financial position but will change the disclosure and financial statement presentation related to noncontrolling (minority) interests.

SFAS No. 141R: In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations . SFAS No. 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 141R establishes principles and requirements for how an

acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R requires restructuring and acquisition-related costs

Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries *Continued*

to be recognized separately from the acquisition and establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. SFAS No. 141R must be applied prospectively to business combinations for which the acquisition date is on or after the adoption date. Early adoption is not permitted.

SFAS No. 161: On March 19, 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement 133. SFAS No. 161 enhances required disclosures regarding derivatives and hedging activities, including how: (i) an entity uses derivative instruments, (ii) derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and (iii) derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS No. 161 will change the disclosures related to derivative instruments held by the Company.

FSP No. 142-3: In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. FSP No. 142-3 allows the Company to use its historical experience in renewing or extending the useful life of intangible assets, is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years and shall be applied prospectively to intangible assets acquired after the effective date.

FSP FAS No. 132(R)-1: In December 2008, the FASB issued FSP FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets, amending FASB Statement No. 132(R), Employers Disclosures about Pensions and Other Postretirement Benefits, effective for fiscal years ending after December 15, 2009. FSP FAS 132(R)-1 requires an employer to disclose investment policies and strategies, categories, fair value measurements, and significant concentration of risk among its pension or other postretirement benefit plan assets. The adoption of FSP FAS 132(R)-1 will change the disclosures related to pension assets but is not expected to have a material effect on the Company s consolidated financial statements.

Note 3 Inventories
Inventories consist of the following as of December 31,

	2008	2007
Raw materials and supplies	**$ 168,060**	$ 199,901
Work-in-process	**14,797**	32,565
Finished goods	**123,271**	180,968
	$ 306,128	$ 413,434

The 2008 amount includes the effect of a $27.7 million charge to reduce the carrying value of certain inventories to market value, which was lower than cost at December 31, 2008, due primarily to the declining price of cobalt in the second half of 2008.

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Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries *Continued*

Note 4 Property, Plant and Equipment, net

Property, plant and equipment, net consists of the following as of December 31,

	2008	2007
Land and improvements	**$ 9,180**	$ 10,482
Buildings and improvements	**140,082**	140,742
Machinery and equipment	**431,893**	440,350
Furniture and fixtures	**12,118**	12,907
Property, plant and equipment, at cost	**593,273**	604,481
Less accumulated depreciation	**348,071**	315,647
	$ 245,202	$ 288,834

Total depreciation expense on property, plant and equipment was $45.6 million in 2008, $31.5 million in 2007 and $31.4 million in 2006.

Note 5 Investments

During 2008, the Company invested $0.7 million in CrisolteQ Oy (CrisolteQ), a private Finnish Company, through the purchase of common stock and a convertible loan. The Company accounts for its investment in CrisolteQ under the equity method. CrisolteQ is developing and commercializing new metal recycling technology for spent catalyst materials.

During 2007, the Company invested $2.0 million in Quantumsphere, Inc. (QSI) through the purchase of 615,385 shares of common stock and warrants to purchase an additional 307,692 shares of common stock. The Company allocated $1.6 million to the common stock and $0.4 million to the warrants. The Company accounts for its investment in QSI under the cost method. The Company and QSI have agreed to co-develop new, proprietary applications for the high-growth, high-margin clean-energy and portable power sectors. In addition, the Company has the right to market and distribute certain QSI products.

During 2006, the Company sold the common shares it held in Weda Bay Minerals, Inc and received cash proceeds of $12.2 million. The Company recognized a $12.0 million gain, net of $0.2 million tax expense, upon completion of the sale. The gain is included in Gain on sale of investment in the Statements of Consolidated Income. The Weda Bay Nickel deposit in Indonesia has not yet been developed, but the Company may be entitled to certain future royalties if the project is completed.

Note 6 Acquisitions

On December 31, 2007, the Company completed the acquisition of the Electronics businesses (REM) of Rockwood Specialties Group, Inc. for $321.5 million in cash, including professional fees of $5.1 million associated with this transaction. The REM businesses, which had combined sales of approximately $200 million in 2007 and employ approximately 700 people, include its Printed Circuit Board (PCB) business, Ultra-Pure Chemicals (UPC) business, and Photomasks business. The businesses supply customers with chemicals used in the manufacture of

semiconductors and printed circuit boards as well as photo-imaging masks primarily for semiconductor and photovoltaic manufacturers and have locations in the United States, England, Scotland, France, Taiwan, Singapore and China. The acquisition of REM provides new products and expanded distribution channels for the Company s Electronic Chemicals business unit. The REM businesses are included in the Specialty Chemicals segment.

The purchase price exceeded the fair value of acquired net assets and, accordingly, $164.0 million was allocated to goodwill. Goodwill is not deductible for tax purposes.

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Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries *Continued*

The following table summarizes the final purchase price allocation:

Cash	$ 15,754
Accounts receivable	47,919
Inventories	20,527
Other current assets	7,925
Property, plant and equipment	63,127
Intangibles	82,318
Other assets	269
Goodwill	164,224
Total assets acquired	402,063
Accounts payable	24,322
Other current liabilities	11,980
Other liabilities	28,512
Total liabilities assumed	64,814
Net assets acquired	337,249
Cash acquired	15,754
Purchase price, net of cash acquired	$ 321,495

During 2008, the Company finalized the purchase price allocation. The changes since the initial allocation to inventories, property, plant and equipment, and intangibles reflect adjustments to the fair values based on market-based valuations. The change in liabilities is primarily related to the adjustment of deferred tax liabilities as a result of the adjustments to inventories, property, plant and equipment and intangibles.

Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries *Continued*

On October 1, 2007, the Company completed the acquisition of Borchers GmbH (Borchers), a European-based specialty coatings additive supplier, with locations in France and Germany, for approximately $20.7 million, net of cash acquired. Borchers had sales of approximately $42 million in the first nine months of 2007. The Company incurred fees of approximately $1.4 million associated with this transaction. The impact of the Borchers acquisition was not deemed to be material to the results of operations or financial position of the Company. Borchers is included in Advanced Organics in the Company s Specialty Chemicals segment.

On March 21, 2006, the Company completed the acquisition of Plaschem Specialty Products Pte Ltd. and its subsidiaries (Plaschem). Plaschem develops and produces specialty chemicals for printed circuit board chemistries, semiconductor chemistries and general metal finishing with integrated manufacturing, research and technical support facilities in Singapore and the Shanghai area of China. In connection with the acquisition, the Company paid $5.1 million in cash, net of cash acquired, and issued a $0.5 million note payable which was paid in 2007. The Company incurred fees of approximately $0.2 million associated with this transaction. Goodwill of $1.2 million was recognized as a result of this acquisition. Plaschem is included in Electronic Chemicals in the Company s Specialty Chemicals segment.

The results of operations of each acquisition have been included in the results of the Company from the respective dates of acquisition.

Note 7 Goodwill and Other Intangible Assets

Goodwill is tested for impairment on an annual basis and more often if indicators of impairment exist. The goodwill impairment test is a two-step process. During the first step, the Company estimates the fair value of the reporting unit and compares that amount to the carrying value of that reporting unit. Under SFAS No. 142, reporting units are defined as an operating segment or one level below an operating segment (i.e. component level). The Company tests goodwill at the component level. The Company s reporting units are Advanced Materials, Electronic Chemicals, Advanced Organics, Ultra Pure Chemicals and Photomasks. Goodwill was allocated to the reporting units based on their estimated fair value.

To test goodwill for impairment, the Company is required to estimate the fair value of each of its reporting units. Since quoted market prices in an active market are not available for the Company s reporting units, the Company uses other valuation techniques. The Company has developed a model to estimate the fair value of the reporting units utilizing a discounted cash flow valuation technique (DCF model). The impairment test incorporates the Company s estimates of future cash flows, allocations of certain assets, liabilities and cash flows among reporting units, future growth rates, terminal value amounts and the applicable weighted-average cost of capital (the WACC) used to discount those estimated cash flows. These estimates are based on management s judgment. The estimates and projections used in the estimate of fair value are consistent with the Company s current budget and long-range plans. Due to the recent general downturn in the economy and resulting increased uncertainty in forecasted future cash flows, the Company increased the company-specific risk factor component in the WACC calculation.

The Company conducts its annual goodwill impairment test as of October 1, 2008. The results of the testing as of October 1, 2008 confirmed the fair value of each of the reporting units exceeded its carrying value and therefore no impairment loss was required to be recognized. However, during the fourth quarter of 2008, indicators of potential impairment caused the Company to conduct an additional impairment test as of December 31, 2008. Those indicators included the fact that the Company s stock has been trading below net book value per share since the end of the second quarter of 2008; operating losses in the fourth quarter of 2008 and revisions to the 2009 plan; and significant

deterioration in the capital markets in the fourth quarter of 2008 that resulted in an increase to the respective WACC calculations.

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Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries *Continued*

The results of the testing as of December 31, 2008 confirmed the carrying value of the Ultra Pure Chemicals reporting unit exceeded its fair value. As such, the Company began a preliminary step-two analysis in accordance with SFAS No. 142 in order to determine the amount of the goodwill impairment. The Company recorded an estimated goodwill impairment charge of $8.8 million (of a total of $32.8 million allocated to the Ultra Pure Chemicals reporting unit) in the Statement of Consolidated Income. The Company expects to finalize step-two during the first quarter of 2009. Any adjustments to the $8.8 million estimate will be recorded in the first quarter of 2009. The Company did not recognize any goodwill impairment charges in 2007 or 2006.

The change in the carrying amount of goodwill is as follows:

	Advanced Materials	Specialty Chemicals	Consolidated
Balance at January 1, 2007	$ 103,326	$ 34,217	$ 137,543
REM Acquisition preliminary allocation		179,955	179,955
Borchers Acquisition preliminary allocation		2,660	2,660
Foreign currency translation adjustments		2,014	2,014
Balance at December 31, 2007	103,326	218,846	322,172
Final purchase price adjustments REM		(15,731)	(15,731)
Final purchase price adjustments Borchers		1,062	1,062
Income tax adjustment (valuation allowance)		(11,500)	(11,500)
Goodwill impairment		(8,800)	(8,800)
Foreign currency translation adjustments		(18,526)	(18,526)
Balance at December 31, 2008	**$ 103,326**	**$ 165,351**	**$ 268,677**

The acquired deferred tax liabilities of the U.S. REM entities reduced the amount of the deferred tax valuation allowance against the Company s deferred tax assets which would have otherwise been required at the date of acquisition. As a result, under the provisions of SFAS No. 109, the valuation allowance was reduced, with a corresponding reduction in goodwill.

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Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries *Continued*

A summary of intangible assets follows:

	Gross Carrying Amount		Accumulated Amortization		Impairment		Net Balance	
Intangible assets not subject to amortization:								
Tradenames	$	8,385	$		$	(200)	$	8,185
Intangible assets subject to amortization:								
Customer relationships		67,723		(9,859)				57,864
Technology		11,422		(862)				10,560
Capitalized software		10,362		(4,303)				6,059
Other intangibles		4,838		(2,682)				2,156
		94,345		(17,706)				76,639
Balance at December 31, 2008	**$**	**102,730**	**$**	**(17,706)**	**$**	**(200)**	**$**	**84,824**
Customer relationships	$	4,584	$	(3,896)	$		$	688
Capitalized software		8,944		(1,319)				7,625
Other intangibles		40,136		(1,995)				38,141
Balance at December 31, 2007	$	53,664	$	(7,210)	$		$	46,454

The weighted average amortization period is as follows (in years):

Customer relationships	12
Developed technology	16
Capitalized software	3

Intangible assets consist of (i) definite-lived assets subject to amortization and (ii) indefinite-lived intangible assets not subject to amortization. All intangible assets subject to amortization are amortized on a straight-line basis over the estimated useful lives.

Indefinite-lived intangible assets are tested annually for impairment and between annual evaluations if changes in circumstances or the occurrence of certain events indicate potential impairment. In performing its annual intangible asset impairment testing as of October 1, 2008, the Company determined that certain indefinite-lived trade names in its Photomasks reporting unit are impaired due to downward revisions in estimates of future revenue. As a result, the Company recorded an impairment charge of $0.2 million in 2008.

Amortization expense related to intangible assets for the years ended December 31, 2008, 2007 and 2006 was $10.5 million, $1.7 million, and $0.4 million respectively. The increase in amortization expense in 2008 was due to the amortization of intangible assets associated with the 2007 Acquisitions. During 2005, the Company initiated a multi-year Enterprise Resource Planning project that is being implemented to achieve increased efficiency and effectiveness in supply chain, financial processes and management reporting. Implementation of the system began during 2007, at which time the Company began amortizing costs capitalized during the application development stage, which are included above in capitalized software. Amortization of capitalized software was $3.0 million and $1.3 million for the years ended December 31, 2008 and 2007, respectively.

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Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries *Continued*

Estimated annual pretax amortization expense for intangible assets is as follows:

2009	$ 10,365
2010	$ 9,014
2011	$ 7,308
2012	$ 6,646
2013	$ 6,363

Note 8 Discontinued Operations and Disposition of the Nickel Business

On November 17, 2006, the Company entered into a definitive agreement to sell its Nickel business to Norilsk. The Nickel business consisted of the Harjavalta, Finland nickel refinery; the Cawse, Australia nickel mine and intermediate refining facility; a 20% equity interest in MPI Nickel Pty. Ltd.; and an 11% ownership interest in Talvivaara Mining Company, Ltd. The transaction closed on March 1, 2007, and at closing the Company received cash proceeds of $413.3 million. In addition, the agreement provided for a final purchase price adjustment (primarily related to working capital for the net assets sold), which was determined to be $83.2 million and was received by the Company in the second quarter of 2007.

The following table sets forth the components of the proceeds from the sale of the Nickel business:

Initial proceeds	$ 413.3
Final purchase price adjustment	83.2
Transaction costs	(6.5)
	$ 490.0

The agreement also provided for interest on the working capital adjustment from the transaction closing date. In 2007, the Company recorded interest income of $1.2 million which is included in Other income (expense), net.

In 2007, the Company recognized a pretax and after-tax gain on the sale of the Nickel business of $77.0 million and $72.3 million, respectively.

Discontinued operations includes share-based incentive compensation expense related to Nickel management that previously had been included in corporate expenses. No interest expense has been allocated to discontinued operations. Upon adoption of EITF No. 04-6, Accounting for Stripping Costs Incurred during Production in the Mining Industry, the Company wrote off the amount of deferred stripping costs at the Cawse, Australia nickel mine that were incurred after production commenced at each pit. The effect of adoption was a $1.6 million reduction to retained earnings at January 1, 2006.

Discontinued operations also includes income of $1.8 million and $5.8 million in 2007 and 2006, respectively, related to the Company s former copper powders business, SCM Metal Products, Inc. (SCM), and PMG, which were both sold in 2003.

Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries *Continued*

Income from discontinued operations consisted of the following for the years ended December 31:

	2008	2007	2006
Net sales	$	$ 193,091	$ 790,939
Income from discontinued operations before income taxes	$ 92	$ 82,699	$ 236,325
Income tax expense		19,642	44,162
Income from discontinued operations	92	63,057	192,163
Gain on sale of discontinued operations		76,991	
Income tax expense		(4,721)	
Total income from discontinued operations, net of tax	$ 92	$ 135,327	$ 192,163

Note 9 Debt

The Company has a Revolving Credit Agreement (the Revolver) with availability of up to $100.0 million, including up to the equivalent of $25.0 million in Euros or other foreign currencies. The Revolver includes an accordion feature under which the Company may increase the availability by $50.0 million to a maximum of $150.0 million subject to certain conditions. Obligations under the Revolver are guaranteed by each of the Company s U.S. subsidiaries and are secured by a lien on the assets of the Company and such subsidiaries. The Revolver contains certain covenants, including financial covenants, that require the Company to (i) maintain a minimum net worth and (ii) not exceed a certain debt to adjusted earnings ratio. As of December 31, 2008, the Company was in compliance with all of the covenants under the Revolver. The Company has the option to specify that interest be calculated based either on a London interbank offered rate (LIBOR), plus a calculated margin amount, or a base rate. The applicable margin for the LIBOR rate ranges from 0.50% to 1.00%. The Revolver also requires the payment of a fee of 0.125% to 0.25% per annum on the unused commitment. The margin and unused commitment fees are subject to quarterly adjustment based on a certain debt to adjusted earnings ratio. The outstanding Revolver balance was $25.0 million at December 31, 2008 at an interest rate of 2.8%. The Revolver provides for interest-only payments during its term, with principal due at maturity on December 20, 2010.

The Company incurred fees and expenses of approximately $0.4 million in 2005 related to the Revolver. These fees and expenses were deferred and are being amortized to interest expense.

During 2008, the Company s Finnish subsidiary, OMG Kokkola Chemicals Oy (OMG Kokkola), entered into a 25 million credit facility agreement (the Credit Facility). Under the Credit Facility, subject to the Bank s discretion, the Company can draw short-term loans, ranging from one to six months in duration, in U.S. dollars at LIBOR plus a margin of 0.55%. The Credit Facility has an indefinite term, and either party can immediately terminate the Credit Facility after providing notice to the other party. The Company agreed to unconditionally guarantee all of the obligations of OMG Kokkola under the Credit Facility. There were no borrowings outstanding under the Credit Facility at December 31, 2008.

The Company has a term loan outstanding that expires in 2019 and requires monthly principal and interest payments. The balance of the term loan was $1.1 million at December 31, 2008. At December 31, 2007, the Company had two

term loans outstanding totaling $1.3 million and a $0.3 million short-term note payable.

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Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries *Continued*

Debt consists of the following as of December 31:

	2008	2007
Revolving credit agreement	**$ 25,000**	$
Notes payable bank	**1,144**	1,649
	26,144	1,649
Less: Short-term debt		347
Less: Current portion of long-term debt	**80**	166
Total long-term debt	**$ 26,064**	$ 1,136

Aggregate annual maturities of total debt are as follows:

2009	$ 80
2010	25,139
2011	139
2012	139
2013	139
thereafter	508
	$ 26,144

Interest paid on long-term debt was $1.0 million, $8.5 million, and $37.5 million for 2008, 2007, and 2006, respectively. Interest expense has not been allocated to discontinued operations. No interest was capitalized in 2008, 2007 or 2006.

On March 7, 2007, the Company redeemed the entire $400.0 million of its outstanding 9.25% Senior Subordinated Notes due 2011 (the Notes) at a redemption price of 104.625% of the principal amount, or $418.5 million, plus accrued interest of $8.4 million. The loss on redemption of the Notes was $21.7 million, and consisted of the premium of $18.5 million plus related deferred financing costs of $5.7 million less a deferred net gain on terminated interest rate swaps of $2.5 million.

During 2006, the Company completed the termination of, and settled for cash, two interest rate swap agreements expiring in 2011. These swap agreements converted $100 million of the fixed 9.25% Notes to a floating rate. The combined pretax loss on the termination of the swaps of $2.9 million was deferred and was being amortized to interest expense through the date on which the swaps were originally scheduled to mature. In previous years, the Company completed the termination of, and settled for cash, other interest rate swap agreements, resulting in an aggregate pretax gain of $8.0 million that was deferred and was being amortized to interest expense through the date on which the swaps were originally scheduled to mature.

Note 10 Financial Instruments and Fair Value

Cash Flow Hedges

The Company has certain copper forward sales contracts that are designated as cash flow hedges. The Company must assess, both at inception of the hedge transaction and on an ongoing basis, whether the hedge is highly effective in offsetting change in the cash flow of the hedged item. The effective portion of the gain or loss from the financial instrument is initially reported as a component of Accumulated other comprehensive income (loss) in stockholders equity and subsequently reclassified to earnings when the hedged item affects income. During 2008, derivative gains of $0.8 million were recognized in net sales. These gains and losses were offset by gains and losses on the transactions being hedged. Any ineffective portions of such cash flow hedges are recognized immediately in

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Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries *Continued*

earnings. In 2008 and 2007, there was no impact on earnings resulting from hedge ineffectiveness. The Company had no cash flow hedges at December 31, 2008 or 2007.

Fair Value Hedges
Beginning in 2008, the Company entered into certain cobalt forward purchase contracts designated as fair value hedges. For fair value hedges, changes in the fair value of the derivative instrument are offset against the change in fair value of the hedged item through earnings. Any ineffective portions of such fair value hedges are recognized immediately in earnings. In 2008 and 2007, there was no impact on earnings resulting from hedge ineffectiveness. Derivative losses of $6.8 million were recognized in cost of products sold during 2008. These losses were offset by gains on the transactions being hedged. The Company had no fair value hedges at December 31, 2007.

Other Forward Contracts
During 2007, the Company entered into cobalt forward purchase contracts to establish a fixed margin and mitigate the risk of price volatility related to the sales during the second quarter of 2008 of cobalt-containing finished products that were priced based on a formula which included a fixed cobalt price component. These forward purchase contracts were not designated as hedging instruments under SFAS No. 133. Accordingly, these contracts were adjusted to fair value as of the end of each reporting period, with the gain or loss recorded in cost of products sold. The Company recorded a $6.7 million gain in 2007 and a $4.0 million gain in 2008, resulting in a cumulative gain of $10.7 million related to these contracts.

The fair values of derivative liabilities based on the level of inputs are summarized below:

		Fair Value Measurements at Reporting Date Using		
Description	**December 31, 2008**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Derivative Assets	**$ 143**	$	$	**$ 143**
Total	**$ 143**	$	$	**$ 143**
Derivative Liabilities	**$ 200**	$	$	**$ 200**
Total	**$ 200**	$	$	**$ 200**

Cobalt forward purchase contracts are classified as Level 3, as their valuation is based on the expected future cash flows discounted to present value. Future cash flows are estimated using a theoretical forward price as quoted forward prices are not available.

Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries *Continued*

The following table provides a reconciliation of derivatives measured at fair value on a recurring basis which used Level 3 or significant unobservable inputs for the period of January 1, 2008 to December 31, 2008:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Derivatives
January 1, 2008	**$ 6,735**
Total realized or unrealized gains (losses):	
Included in earnings	**(2,752)**
Included in other comprehensive income	
Purchases, issuances, and settlements	**(4,040)**
Transfers in and/or out of Level 3	
December 31, 2008	**$ (57)**

The Company also holds financial instruments consisting of cash, accounts receivable, and accounts payable. The carrying amounts of cash, accounts receivable and accounts payable approximate fair value due to the short-term maturities of these instruments. The carrying amount of the Company s revolver also approximates fair value.

Accounts receivable potentially subjects the Company to a concentration of credit risk. The Company maintains significant accounts receivable balances with several large customers. At December 31, 2008 the accounts receivable balance from our largest customer represented 12% of the Company s net accounts receivable. Generally, the company does not obtain security from its customers in support of accounts receivable.

Sales to Nichia Chemical Corporation represented approximately 22%, 23%, and 19% of net sales in 2008, 2007 and 2006, respectively. Sales to Luvata Pori Oy were approximately 11% of net sales in 2006. No other customer individually represented more than 10% of net sales for any period presented. Sales to the top five customers represented approximately 41% of net sales in 2008. The loss of one or more of these customers could have a material adverse effect on the Company s business, results of operations or financial position.

Note 11 Income Taxes

Income (loss) from continuing operations before income taxes, minority interest and cumulative effect of change in accounting principle consists of the following:

	Year Ended December 31		
	2008	**2007**	**2006**

United States	**$ (41,813)**	$ (50,638)	$ (72,018)
Outside the United States	**214,101**	248,893	132,486
	$ 172,288	$ 198,255	$ 60,468

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Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries *Continued*

Income tax expense (benefit) is summarized as follows:

	Year Ended December 31		
	2008	**2007**	**2006**
Current tax provision (benefit):			
United States:			
Federal	**$ (44,927)**	$ 51,195	$ 422
State and local	**167**	80	150
Outside the United States	**61,730**	40,792	16,118
Total current	**16,970**	92,067	16,690
Deferred tax provision (benefit):			
United States	**5,437**	(18,997)	14,077
Outside the United States	**(6,331)**	3,241	(213)
Total deferred	**(894)**	(15,756)	13,864
	$ 16,076	$ 76,311	$ 30,554

A reconciliation of income taxes computed using the United States statutory rate to income taxes computed using the Company s effective income tax rate is as follows:

	Year Ended December 31		
	2008	**2007**	**2006**
Income from continuing operations before income taxes, minority interest and cumulative effect of change in accounting principle	**$ 172,288**	$ 198,255	$ 60,468
Income taxes at the United States statutory rate (35)%	**$ 60,301**	$ 69,389	$ 21,164
Increase (decrease) in taxes resulting from:			
Effective tax rate differential on income (loss) outside of the United States	**(17,673)**	(40,775)	(23,966)
Repatriation of foreign earnings	**10,284**	45,709	92,841
Goodwill impairment	**2,200**		
Malaysian tax holiday	**(4,962)**	(6,975)	(6,963)
Change in deferred tax rates		1,930	
U.S. losses with no tax benefit	**4,611**		
Valuation allowance	**1,808**	4,103	(53,026)
Liability for uncertain tax positions	**2,317**	240	
Foreign tax credits on amended prior year tax returns	**(46,636)**		

Other, net	**3,826**	2,690	504
Income tax expense	**$ 16,076**	$ 76,311	$ 30,554
Effective income tax rate	**9.3%**	38.5%	50.5%

During 2008, the Company completed an analysis of foreign tax credit positions and recorded a $46.6 million tax benefit related to an election to take foreign tax credits on prior year U.S. tax returns. As originally filed, such returns

Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries *Continued*

claimed these amounts as deductions rather than foreign tax credits because the Company was in a net operating loss carryforward position in the U.S. during those years. However, due to income taxes paid in the U.S. in connection with the 2007 repatriation of foreign earnings, the Company is able to utilize these foreign tax credits previously taken as deductions. The benefit related to the foreign tax credits was $1.54 per diluted share in 2008. The $46.6 million tax benefit is net of a valuation allowance of $1.5 million on deferred tax assets because it is more likely than not that those deferred tax assets will not be realized as a result of the Company s election to claim the foreign tax credits. Excluding the tax benefit related to the foreign tax credits, the Company s effective income tax rate would have been 36.4% for 2008.

Prior to December 31, 2006, the Company had recorded a valuation allowance against its U.S. net deferred tax assets, primarily related to net operating loss carryforwards, because it was more likely than not that those deferred tax assets would not be realized. However, due primarily to the redemption of the Notes in March 2007, the Company decided to repatriate the undistributed earnings of certain subsidiaries during the first quarter of 2007. Previously, the Company had planned to permanently reinvest such undistributed earnings overseas. As a result of the plan to repatriate, the Company recorded a deferred tax liability and reversed a portion of the valuation allowance in 2006. During 2007, the Company repatriated $528.5 million and recorded an additional tax liability of $45.7 million. The additional $45.7 million tax liability recorded in 2007 was due to the repatriation of the proceeds from the sale of the Nickel business and other cash amounts, which in the aggregate were in excess of undistributed earnings overseas at December 31, 2006.

At December 31, 2008, the Company has U.S. state net operating loss carryforwards representing a potential future tax benefit of $7.7 million compared with $7.8 million as of December 31, 2007. These carryforwards expire at various dates from 2009 through 2028. The U.S. federal net operating losses utilized in 2007 were $178.9 million, primarily due to the repatriation of earnings. The Company has foreign net operating loss carryforwards of $8.0 million, representing a potential future tax benefit of $2.4 million in various jurisdictions, some of which expire in 2012 and some of which have no expiration.

The Company intends to repatriate only future earnings and therefore has not provided additional United States income taxes on approximately $185.0 million of undistributed earnings of consolidated foreign subsidiaries. Such earnings could become taxable upon the sale or liquidation of these foreign subsidiaries or upon dividend repatriation. The Company s intent is for such earnings to be permanently reinvested by the subsidiaries. It is not practicable to estimate the amount of unrecognized withholding taxes and tax liability on such earnings.

In connection with an investment incentive arrangement, the Company has a tax holiday from income taxes in Malaysia. This arrangement, which expires on December 31, 2011, reduced income tax expense by $5.0 million, $7.0 million, and $7.0 million for 2008, 2007, and 2006 respectively. The benefit of the tax holiday on net income per diluted share was approximately $0.16, $0.23 and $0.24 in 2008, 2007 and 2006, respectively.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2003. Tax returns of certain of the Company s subsidiaries are being examined by various taxing authorities. The Company has not been informed of any material assessments resulting from such examinations for which an accrual has not been previously provided, and the Company would vigorously contest any material assessment. While the examinations are ongoing, the Company believes that any potential assessment would not materially affect the Company s financial condition or results of

operations.

Income tax payments were $77.4 million, $75.1 million and $24.7 million in 2008, 2007, and 2006, respectively.

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Notes to Consolidated Financial Statements
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Significant components of the Company s deferred income taxes are as follows:

	December 31	
	2008	**2007**
Current asset operating accruals	**$ 14,961**	$ 7,131
Current liability earnings repatriation	**(893)**	
Current liability prepaid expenses	**(11,158)**	(3,069)
Non-current asset employee benefit and other accruals	**17,189**	16,462
Non-current asset foreign operating loss and credit carryforwards	**2,385**	
Non-current asset state operating loss carryforwards	**11,870**	7,827
Non-current liability accelerated depreciation	**(31,701)**	(24,850)
Non-current liability pensions and other post-retirement benefits		(4,793)
Valuation allowance	**(23,037)**	(22,048)
Net deferred tax liability	**$ (20,384)**	$ (23,340)

Deferred income taxes are recorded in the Consolidated Balance Sheets in the following accounts:

	December 31	
	2008	**2007**
Other current assets	**$ 6,299**	$ 2,867
Other non-current assets	**85**	6,507
Other current liabilities	**(4)**	(3,069)
Deferred income taxes non-current liabilities	**(26,764)**	(29,645)
	$ (20,384)	$ (23,340)

The Company has a U.S. net deferred tax asset of $0.5 million which is expected to be recovered based on temporary differences that will reverse in 2009-2010. Because there has been no fundamental change in the Company s U.S. operations, it is more likely than not that deferred tax assets related to state and local net operating loss carryforwards and temporary differences that will reverse beyond 2010 will not be realized, and therefore the Company has recorded a valuation allowance against those deferred tax assets. The Company has also recorded a valuation allowance against deferred tax assets related to foreign operating loss carryforwards, for which it believes it is more likely than not no benefit will be realized.

The Company adopted the provisions of FIN No. 48, Accounting for Uncertainty in Income Taxes on January 1, 2007. As a result of the adoption of FIN No. 48, the Company recognized a $0.5 million liability which was accounted for as a reduction to the January 1, 2007 balance of retained earnings.

Notes to Consolidated Financial Statements
OM Group, Inc. and Subsidiaries *Continued*

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at January 1, 2007	$ 2,045
Additions for tax positions related to the current year	7,976
Additions for tax positions of prior years	379
Reductions for tax positions of prior years	(78)
Balance at December 31, 2007	$ 10,322
Additions for tax positions related to the current year	662
Additions for tax positions of prior years	4,177
Reductions for tax positions of prior years	(8,649)
Foreign currency translation	(157)
Balance at December 31, 2008	**$ 6,355**

If recognized, all uncertain tax positions would affect the effective tax rate. At December 31, 2008, there are no tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties as a component of income tax expense. During the year ended December 31, 2008, the Company recognized approximately $0.1 million in interest and penalties, all of which is accrued at December 31, 2008. During the year ended December 31, 2007, the Company recognized approximately $0.7 million in interest and penalties, all of which is accrued at December 31, 2007.

At December 31, 2008, the liability for unrecognized tax benefits includes $1.0 million for uncertain tax positions for which it is reasonably possible that the unrecognized tax position will decrease within the next twelve months. These unrecognized tax benefits relate to mark-ups on management charges and may decrease upon completion of examination by taxing authorities.

Note 12 Pension and Other Post-Retirement Benefit Plans

The Company sponsors a defined contribution plan covering substantially all eligible U.S. employees. Under this plan, the Company contributes 3.5% of employee compensation unconditionally and matches 100% of participants contributions up to the first three percent of contributions, and 50% on the next 2% of participants contributions. Contributions are directed by the employee into various investment options. This defined contribution plan does not have any direct ownership of the Company s common stock. Prior to 2008, the Company sponsored a defined contribution plan covering all eligible U.S. employees under which Company contributions were determined by the board of directors annually and were computed based upon participant compensation. The Company maintains additional defined contribution plans in certain locations outside the United States. Aggregate defined contribution plan expenses were $3.8 million, $2.7 million and $2.4 million in 2008, 2007 and 2006, respectively.

The Company has a funded, non-contributory, defined benefit pension plan for certain retired employees in the United States related to the Company s divested SCM business. Pension benefits are paid to plan participants directly from

pension plan assets. Certain non-U.S. employees are covered under other defined benefit plans. These non-U.S. plans are not significant and relate to liabilities of the acquired Borchers entities and one acquired REM location. The Company also has an unfunded obligation to its former chief executive officer in settlement of an unfunded supplemental executive retirement plan (SERP) and other unfunded post-retirement benefit plans (OPEB), primarily health care and life insurance, for certain employees and retirees in the United States. The Company also sponsors a non-contributory, nonqualified supplemental executive retirement plan for certain

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employees to restore benefit levels to employees whose benefits have been limited by the defined contribution plan due to IRS limitations.

During 2008, as required by SFAS No. 158, the Company changed the measurement date of its pension and postretirement benefit plans from October 31 to December 31, 2008, the date of its statement of financial position. As a result, an adjustment to beginning retained earnings of $0.2 million was recorded in 2008 and is reflected in the Statement of Consolidated Stockholders Equity.

Actuarial assumptions used in the calculation of the recorded amounts are as follows:

	2008	2007
U.S. Plans		
Weighted-average discount rate	**5.50%**	5.50%
Expected return on pension plan assets	**7.00%**	7.00%
Projected health care cost trend rate	**8.00%**	9.00%
Ultimate health care cost trend rate	**5.00%**	5.00%
Year ultimate health care trend rate is achieved	**2012**	2012
Non U.S. Plans		
Weighted-average discount rate	**5.0% - 6.25%**	5.0% - 5.25%
Expected return on pension plan assets	**5.0% - 6.0%**	5.0% - 6.0%

The Company employs a total return investment approach for the defined benefit pension plan assets. A mix of equities and fixed income investments are used to maximize the long-term return of assets for a prudent level of risk. In determining the expected long-term rate of return on defined benefit pension plan assets, management considers the historical rates of return over a period of time that is consistent with the long-term nature of the underlying obligations of these plans, the nature of investments and an expectation of future investment strategies.

The Company s U.S. pension plan weighted-average asset allocations and target allocation by asset category are as follows:

	Target	December 31,	
	Allocation	2008	2007
Equity securities	50%	**60%**	54%
Debt securities	50%	**39%**	45%
Cash		**1%**	1%
Total assets	100%	**100%**	100%

The Company s investment objective for defined benefit plan assets is to meet the plan s benefit obligations, without undue exposure to risk. The investment strategy focuses on asset class diversification, liquidity to meet benefit

payments and an appropriate balance of long-term investment return and risk. The Investment Committee oversees the investment allocation process, which includes the selection and evaluation of the investment manager, the determination of investment objectives and risk guidelines, and the monitoring of actual investment performance.

The Company s non-U.S. pension plan assets are held in insurance contracts and fixed deposits.

The defined benefit pension plans do not have any direct ownership of OMG common stock.

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Set forth below is a detail of the net periodic pension and other post-retirement benefit expense for the defined benefit plans for the years ended December 31:

	Pension Benefits				
	U.S. Plans			Non-U.S. Plans	
	2008	2007	2006	**2008**	2007
Service cost	**$**	$	$	**$ 130**	$ 4
Interest cost	**1,295**	1,317	1,272	**120**	8
Amortization of unrecognized net loss	**273**	302	269		
Expected return on plan assets	**(857)**	(788)	(922)	**(17)**	(2)
Amortization of unrecognized net transition obligation			9		
SERP expense related to former CEO			1,413		
Net periodic benefit cost	**711**	831	2,041	**233**	10
Net (gain) loss arising during the year	**3,966**	(408)	396	**(325)**	9
Net (gain) loss recognized during the year	**(273)**	(302)			
Exchange rate gain (loss)				**17**	
Adoption of SFAS No. 158	**(46)**				
Total recognized in other comprehensive income	**3,647**	(710)	396	**(308)**	9
Total recognized in net periodic benefit cost and other comprehensive income	**$ 4,358**	$ 121	$ 2,437	**$ (75)**	$ 19

	Other Post-retirement Benefits		
	U.S. Plans		
	2008	2007	2006
Service cost	**$ 112**	$ 82	$ 131
Interest cost	**324**	264	242
Net amortization	**86**	40	40
Net periodic benefit cost	**522**	386	413
Net (gain) loss arising during the year	**(1,700)**	1,131	271
Net (gain) loss recognized during the year	**(46)**		
Amortization of prior service credit	**(40)**	(40)	301
Adoption of SFAS No. 158	**(14)**		
Total recognized in other comprehensive income	**(1,800)**	1,091	572

Total recognized in net periodic benefit cost and other comprehensive income	**$ (1,278)**	$ 1,477	$ 985

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The following table sets forth the changes in the benefit obligation and the plan assets during the year and reconciles the funded status of the defined benefit plans with the amounts recognized in the Consolidated Balance Sheets at December 31:

	Pension Benefits			
	U.S. Plans		Non-U.S. Plans	
	2008	2007	2008	2007
Change in benefit obligation				