OM GROUP INC
Form 10-Q
May 07, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2009

OR

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

Commission file number 001-12515

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

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No 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 þ	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 þ

As of April 30, 2009 there were 30,564,834 shares of Common Stock, par value $.01 per share, outstanding.

OM Group, Inc.
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Part I FINANCIAL INFORMATION
Item 1. Unaudited Financial Statements

OM Group, Inc. and Subsidiaries
Unaudited Condensed Consolidated Balance Sheets

(In thousands, except share data)	**March 31, 2009**	December 31, 2008
ASSETS:		
Current assets		
Cash and cash equivalents	**$ 272,372**	$ 244,785
Accounts receivable, less allowances	**105,557**	130,217
Inventories	**276,066**	306,128
Refundable and prepaid income taxes	**47,906**	55,059
Other current assets	**41,525**	59,227
Total current assets	**743,426**	795,416
Property, plant and equipment, net	**238,560**	245,202
Goodwill	**262,214**	268,677
Intangible assets	**84,745**	84,824
Notes receivable from joint venture partner, less allowance	**13,915**	13,915
Other non-current assets	**26,106**	26,393
Total assets	**$ 1,368,966**	$ 1,434,427
LIABILITIES:		
Current liabilities		
Current portion of long-term debt	**$ 75**	$ 80
Accounts payable	**61,530**	89,470
Accrued income taxes	**11,795**	17,677
Accrued employee costs	**19,663**	31,168
Other current liabilities	**20,709**	21,074
Total current liabilities	**113,772**	159,469
Long-term debt	**25,983**	26,064
Deferred income taxes	**28,337**	26,764
Other non-current liabilities	**43,868**	44,052
Total liabilities	**211,960**	256,349
EQUITY:		
OM Group, Inc. 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; 30,407,253 shares issued in 2009 and 30,317,403 shares issued 2008	**304**	303
Capital in excess of par value	**564,734**	563,454
Retained earnings	**594,088**	602,365
Treasury stock (160,982 in 2009 and 136,328 shares in 2008, at cost)	**(5,862)**	(5,490)
Accumulated other comprehensive loss	**(40,137)**	(29,983)
Total OM Group, Inc. stockholders equity	**1,113,127**	1,130,649
Noncontrolling interest	**43,879**	47,429
Total equity	**1,157,006**	1,178,078
Total liabilities and equity	**$ 1,368,966**	$ 1,434,427

See accompanying notes to unaudited condensed consolidated financial statements.

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OM Group, Inc. and Subsidiaries
Unaudited Condensed Statements of Consolidated Operations

(In thousands, except per share data)	Three Months Ended March 31, **2009**	Three Months Ended March 31, 2008
Net sales	**$ 191,706**	$ 480,795
Cost of products sold	**165,091**	344,129
Gross profit	**26,615**	136,666
Selling, general and administrative expenses	**34,858**	42,032
Goodwill impairment, net	**2,629**	
Operating profit (loss)	**(10,872)**	94,634
Other income (expense):		
Interest expense	**(296)**	(360)
Interest income	**297**	466
Foreign exchange gain	**1,081**	646
Other income (expense), net	**(50)**	90
	1,032	842
Income (loss) from continuing operations before income tax expense	**(9,840)**	95,476
Income tax expense	**(2,249)**	(27,145)
Income (loss) from continuing operations, net of tax	**(12,089)**	68,331
Income (loss) from discontinued operations, net of tax	**264**	(369)
Consolidated net income (loss)	**(11,825)**	67,962
Net (income) loss attributable to the noncontrolling interest	**3,548**	(12,742)
Net income (loss) attributable to OM Group, Inc.	**$ (8,277)**	$ 55,220
Earnings per common share basic:		
Income (loss) from continuing operations attributible to OM Group, Inc. common shareholders	**$ (0.28)**	$ 1.85
Income (loss) from discontinued operations attributible to OM Group, Inc. common shareholders	**0.01**	(0.01)
Net income (loss) attributable to OM Group, Inc. common shareholders	**$ (0.27)**	$ 1.84
Earnings per common share assuming dilution:		
Income (loss) from continuing operations attributible to OM Group, Inc. common shareholders	**$ (0.28)**	$ 1.82
Income (loss) from discontinued operations attributible to OM Group, Inc. common shareholders	**0.01**	(0.01)
Net income (loss) attributable to OM Group, Inc. common shareholders	**$ (0.27)**	$ 1.81

Weighted average shares outstanding				
Basic		**30,187**		30,074
Assuming dilution		**30,187**		30,460
Amounts attributable to OM Group, Inc. common shareholders:				
Income (loss) from continuing operations, net of tax	**$**	**(8,541)**	$	55,589
Income (loss) from discontinued operations, net of tax		**264**		(369)
Net income (loss)	**$**	**(8,277)**	$	55,220

See accompanying notes to unaudited condensed consolidated financial statements.

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OM Group, Inc. and Subsidiaries
Unaudited Statements of Consolidated Comprehensive Income (Loss)

	Three Months Ended March 31	
(In thousands)	**2009**	2008
Consolidated net income (loss)	**$ (11,825)**	$ 67,962
Foreign currency translation adjustments	**(10,623)**	9,381
Reclassification of hedging activities into earnings, net of tax	**(42)**	159
Unrealized gain (loss) on cash flow hedges, net of tax	**511**	(492)
Net change in accumulated other comprehensive income (loss)	**(10,154)**	9,048
Comprehensive income (loss)	**(21,979)**	77,010
Comprehensive (income) loss attributable to noncontrolling interest	**3,550**	(12,744)
Comprehensive income (loss) attributable to OM Group, Inc.	**$ (18,429)**	$ 64,266

See accompanying notes to unaudited condensed consolidated financial statements.

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OM Group, Inc. and Subsidiaries
Unaudited Condensed Statements of Consolidated Cash Flows

	Three Months Ended March 31,	
(In thousands)	**2009**	2008
Operating activities		
Consolidated net income (loss)	**$ (11,825)**	$ 67,962
Adjustments to reconcile consolidated net income (loss) to net cash provided by (used for) operating activities:		
(Income) loss from discontinued operations	**(264)**	369
Depreciation and amortization	**13,290**	13,365
Share-based compensation expense	**1,700**	2,231
Tax deficiency (excess tax benefit) from exercise/vesting of share awards	**420**	(23)
Foreign exchange gain	**(1,081)**	(646)
Q1 2009 Goodwill impairment charge	**6,768**	
Q4 2008 Goodwill impairment charge adjustment	**(4,139)**	
Unrealized gain on cobalt forward purchase contracts		(5,782)
Interest income received from consolidated joint venture partner		3,776
Other non-cash items	**3,972**	(2,753)
Changes in operating assets and liabilities		
Accounts receivable	**24,930**	(59,656)
Inventories	**30,062**	(86,921)
Accounts payable	**(27,939)**	33,080
Other, net	**712**	(18,652)
Net cash provided by (used for) operating activities	**36,606**	(53,650)
Investing activities		
Expenditures for property, plant and equipment	**(5,590)**	(6,725)
Proceeds from loans to consolidated joint venture partner		4,514
Acquisitions		(3,375)
Expenditures for software	**(663)**	(601)
Net cash used for investing activities	**(6,253)**	(6,187)
Financing activities		
Payments of revolving line of credit and long-term debt	**(20)**	(23,046)
Borrowings from revolving line of credit		70,000
Distributions to joint venture partners		(14,934)
Payment related to surrendered shares	**(372)**	
Proceeds from exercise of stock options		818
(Tax deficiency) excess tax benefit from exercise/vesting of share awards	**(420)**	23
Net cash provided by (used for) financing activities	**(812)**	32,861
Effect of exchange rate changes on cash	**(1,954)**	1,679
Cash and cash equivalents		

Increase (decrease) in cash and cash equivalents		**27,587**		(25,297)
Balance at the beginning of the period		**244,785**		100,187
Balance at the end of the period	**$**	**272,372**	$	74,890

See accompanying notes to unaudited condensed consolidated financial statements

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OM Group, Inc. and Subsidiaries
Unaudited Condensed Statements of Consolidated Stockholders Equity

(In thousands)	Three Months Ended March 31, 2009	2008
Common Stock Shares Outstanding, net of Treasury Shares		
Beginning balance	**30,181**	30,061
Shares issued under share-based compensation plans	**65**	21
	30,246	30,082
Common Stock Dollars		
Beginning balance	**$ 303**	$ 301
Shares issued under share-based compensation plans	**1**	
	304	301
Capital in Excess of Par Value		
Beginning balance	**563,454**	554,933
Share-based compensation employees	**1,633**	2,129
Share-based compensation non-employee directors	**67**	102
(Tax deficiency) excess tax benefit from exercise/vesting of share awards	**(420)**	23
Shares issued under share-based compensation plans		817
	564,734	558,004
Retained Earnings		
Beginning balance, as originally reported	**602,365**	467,726
Adoption of EITF No. 06-10 in 2008		(193)
Beginning balance, as adjusted	**602,365**	467,533
Net income (loss) attributable to OM Group, Inc.	**(8,277)**	55,220
	594,088	522,753
Treasury Stock		
Beginning balance	**(5,490)**	(2,239)
Reacquired shares	**(372)**	
	(5,862)	(2,239)
Accumulated Other Comprehensive Income (Loss)		
Beginning balance	**(29,983)**	7,665
Foreign currency translation	**(10,623)**	9,381
Unrealized gain (loss) on cash flow hedges, net of tax (expense) benefit of ($165) and $117 in 2009 and 2008, respectively	**469**	(333)
	(40,137)	16,713

Total OM Group Inc. Stockholders Equity	**1,113,127**	1,095,532
Noncontrolling interest		
Beginning balance	**47,429**	52,314
Net income (loss) attributable to the noncontrolling interest	**(3,548)**	12,742
Distributions to joint venture partners		(14,934)
Foreign currency translation	**(2)**	2
	43,879	50,124
Total Equity	**$ 1,157,006**	$ 1,145,656

See accompanying notes to unaudited condensed consolidated financial statements

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Notes to Unaudited Condensed Consolidated Financial Statements
OM Group, Inc. and Subsidiaries
(In thousands, except as noted and share and per share amounts)

Note 1 Basis of Presentation

OM Group, Inc. (OMG or 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 consolidated financial statements include the accounts of OMG and its consolidated subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. The Company has a 55% interest in a joint venture (GTL) 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. Noncontrolling interest is recorded for the remaining 45% interest.

These financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position of the Company at March 31, 2009 and the results of its operations, its comprehensive income, its cash flows and changes in stockholders equity for the three months ended March 31, 2009 and 2008, have been included. The balance sheet at December 31, 2008 has been derived from the audited consolidated financial statements at that date but does not include all of the information or notes required by U.S. generally accepted accounting principles for complete financial statements. Past operating results are not necessarily indicative of the results which may occur in future periods, and the interim period results are not necessarily indicative of the results to be expected for the full year. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

Note 2 Recently Issued Accounting Standards

Accounting Standards adopted in 2009:

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). 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. As of January 1, 2009, the Company adopted SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities measured at fair value on a non-recurring basis. Examples of nonfinancial assets include goodwill, intangibles, and other long-lived assets. The adoption did not have a material impact on the Company s results of operations or financial position but did change the disclosures related to nonfinancial assets and nonfinancial liabilities measured at fair value on a non-recurring basis. See Note 6.

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. The Company adopted SFAS No. 160 on January 1, 2009. The adoption did not have any impact on the Company s results of operations or financial position but did change the financial statement presentation related to noncontrolling (minority) interests. The financial statement presentation requirement has been applied retrospectively for all periods presented. Certain

reclassifications have been made to prior period amounts to conform to the current period presentation under SFAS No. 160. The adoption resulted in a $47.4 million reclassification

of noncontrolling minority interests from long-term liabilities to equity on the December 31, 2008 Unaudited Condensed Consolidated Balance Sheet.

SFAS No. 141R: In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations . SFAS No. 141R changes 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. The Company adopted SFAS No. 141R on January 1, 2009. SFAS No. 141R will be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

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. The Company adopted SFAS No. 161 on January 1, 2009. The adoption did not have any impact on the Company s results of operations or financial position but did change the disclosures related to derivative instruments held by the Company. See Note 5.

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. The Company adopted FSP No. 142-3 on January 1, 2009. The Company will apply SFAS No. 142-3 prospectively to intangible assets acquired after January 1, 2009. The adoption did not have any impact on the Company s results of operations, financial position or related disclosures.

EITF No. 08-6: In November 2008, the FASB ratified EITF Issue No. 08-6, Equity Method Investment Accounting Considerations. EITF No. 08-6 addresses a number of matters associated with the impact that SFAS No. 141R, Business Combinations , and SFAS No. 160, Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51 , might have on the accounting for equity method investments. EITF No. 08-6 provides guidance on how an equity method investment should initially be measured, how it should be tested for impairment and how changes in classification from equity method to cost method should be treated, as well as other issues. The Company will apply EITF No. 08-6 prospectively. The adoption did not have any impact on the Company s results of operations, financial position or related disclosures.

FSP EITF No. 03-6-1: In June 2008, the FASB ratified FSP EITF Issue No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, which clarifies EITF No. 03-6, Participating Securities and the Two-Class Method Under FAS No. 128. FSP EITF No. 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in paragraphs 60 and 61 of SFAS No. 128, Earnings per Share. Under EITF 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and shall be included in the computation of EPS pursuant to the two-class method. The Company adopted EITF 03-6-1 on January 1, 2009. Share-based payment awards granted by the Company do not contain nonforfeitable rights to dividends, therefore the adoption did not have any impact on the Company s results of operations, financial position or related disclosures.

FSP FAS No. 141(R)-1: In April 2009, the FASB issued FSP FAS No. 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies . FSP FAS No. 141(R)-1 requires an acquirer to recognize assets acquired and liabilities assumed in a business combination that arise from contingencies at fair value, if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be

reasonably estimated, the asset or liability would be recognized in accordance with SFAS No. 5, Accounting for Contingencies. FSP FAS No. 141(R)-1 will be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

Accounting Standards Not Yet Adopted

FSP FAS No. 132(R)-1: In December 2008, the FASB issued FSP FAS No. 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets, amending FASB Statement No. 132(R), Employers Disclosures about Pensions and Other Postretirement

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Benefits, effective for fiscal years ending after December 15, 2009. The Company will adopt FSP FAS No. 132(R)-1 in the fourth quarter of 2009. FSP FAS No. 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 No. 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.

FSP FAS No. 107-1 and APB No. 28-1: In April 2009, the FASB issued FSP FAS No. 107-1 and APB No. 28-1, Interim Disclosures about Fair Value of Financial Instruments, amending FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, effective for interim reporting periods ending after June 15, 2009. The Company will adopt FSP FAS No. 107-1 and APB No. 28-1 in the second quarter of 2009. FSP FAS No. 107-1 and APB No. 28-1 requires disclosure about the fair value of financial instruments in interim periods. The adoption of FSP FAS No. 107-1 and APB No. 28-1 will change the disclosures related to financial instruments but is not expected to have a material effect on the Company s consolidated financial statements.

Note 3 Inventories

Inventories consist of the following:

	March 31, 2009	December 31, 2008
Raw materials and supplies	**$ 162,683**	$ 168,060
Work-in-process	**13,627**	14,797
Finished goods	**99,756**	123,271
	$ 276,066	$ 306,128

The December 31, 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. Reductions in carrying value at December 31 are deemed to establish a new cost basis. Inventory is not written up if estimates of market value subsequently improve. The March 31, 2009 balance includes the effect of a $6.6 million charge to reduce the carrying value of certain inventories to market value, which was lower than cost at March 31, 2009, due primarily to a reduction in selling prices of certain products in the first quarter of 2009.

Note 4 Goodwill

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. If the estimated fair value of the reporting unit is less than its carrying value, SFAS No. 142 requires a second step to determine the implied fair value of goodwill of the reporting unit, and to compare it to the carrying value of the goodwill of the reporting unit. This second step includes valuing all of the tangible and intangible assets and liabilities of the reporting unit as if it had been acquired in a business combination.

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 (UPC) and Photomasks.

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 Company selected the DCF model as it believes it is comparable to what would be used by market participants to estimate its fair value. 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 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 in the March 31, 2009 and December 31, 2008 impairment tests.

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The Company conducts its annual goodwill impairment test as of October 1. 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, the incurrence of operating losses in the fourth quarter of 2008 and revisions made 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.

The results of the testing as of December 31, 2008 confirmed the carrying value of the UPC reporting unit exceeded its fair value. As such, the Company undertook a preliminary step-two analysis in accordance with SFAS No. 142 in order to determine the amount of the goodwill impairment. In the fourth quarter of 2008, the Company recorded an estimated goodwill impairment charge of $8.8 million (of a total of $32.8 million of goodwill related to the UPC reporting unit). The Company finalized the step-two analysis during the first quarter of 2009 and concluded the goodwill impairment charge for UPC was $4.7 million; therefore, the Company recorded a $4.1 million adjustment in the first quarter of 2009 to reverse a portion of the 2008 charge.

During the first quarter of 2009 additional impairment indicators caused the Company to conduct an interim impairment test for its Advanced Organics reporting unit. Those indicators included the incurrence of operating losses in excess of forecast in the first quarter of 2009 and revisions made to the 2009 forecast and outlook beyond 2009 as a result of the decline in the Company s business outlook primarily due to further deterioration in certain end markets. In accordance with SFAS No. 142, the Company completed step one of the impairment analysis and concluded that, as of March 31, 2009, the carrying value of its Advanced Organics reporting unit exceeded its fair value. As such, the Company undertook a preliminary step-two analysis in accordance with SFAS No. 142 in order to determine the amount of the goodwill impairment. In the first quarter of 2009, the Company recorded an estimated goodwill impairment charge of $6.8 million to write off all of the goodwill related to the Advanced Organics reporting unit. Any adjustments to the $6.8 million estimate will be recorded upon finalization of step two of the impairment analysis, which the Company expects to complete in the second quarter of 2009.

The Company reviewed and updated as deemed necessary all of the assumptions used in its DCF model during the first quarter of 2009 to calculate the fair value of its Advanced Organics reporting unit. The estimates and judgments that most significantly affect the fair value calculation are operating cash flow assumptions and the WACC used in the DCF model.

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

	Advanced Materials	Specialty Chemicals	Consolidated
Balance at December 31, 2008	$ 103,326	$ 165,351	$ 268,677
Foreign currency translation adjustments		(3,834)	(3,834)
Q4 2008 goodwill impairment charge adjustment		4,139	4,139
Q1 2009 goodwill impairment charge		(6,768)	(6,768)
Balance at March 31, 2009	**$ 103,326**	**$ 158,888**	**$ 262,214**

Note 5 Derivative Instruments

The Company enters into derivative instruments and hedging activities to manage, where possible and economically efficient, commodity price risk, foreign currency exchange rate 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 on the balance sheet at fair value and recorded in other current assets and other current liabilities in the Unaudited Condensed Consolidated Balance Sheet. 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. Changes in the fair value of derivative instruments are recognized immediately in earnings, unless the

derivative is designated as a hedge and qualifies for hedge accounting. Under hedge accounting, recognition of derivative gains and losses can be matched in the same period with that of the hedged exposure and thereby minimize earnings volatility. To qualify for designation in a hedging relationship, specific criteria must be met and appropriate documentation prepared.

For a fair value hedge, the change in fair value of the hedging instrument and the change in fair value of the hedged item attributable to the risk being hedged are both recognized currently in earnings. For a cash flow hedge, the effective portion of the change in fair value of a hedging instrument is initially recognized in Accumulated other comprehensive income (loss) (AOCI(L)) in stockholders equity and subsequently reclassified to earnings when the hedged item affects income. The ineffective portion of the change in fair

value of a cash flow hedge is recognized immediately in earnings. For a net investment hedge, the effective portion of the change in fair value of the hedging instrument is reported in AOCI(L) as part of the cumulative translation adjustment, while the ineffective portion is recognized immediately in earnings. The Company does not enter into net investment hedges.

Commodity Price Risk

The Company enters into derivative instruments and hedging activities to manage commodity price risk. 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. The Company makes or receives payments based on the difference between a fixed price (as specified in each individual contract) and the market price of the commodity being hedged. These payments will offset the change in prices of the underlying sales or purchases and effectively fix the price of the hedged commodity at the contracted rate for the contracted volume. 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.

Derivative instruments employed by the Company to manage commodity price risk include cash flow and fair value hedges as well as some contracts that are not designated as accounting hedges.

Cash Flow Hedges

From time to time, the Company enters into copper forward sales contracts that are designated as cash flow hedges. The Company had no cash flow hedges at March 31, 2009 or December 31, 2008.

Fair Value Hedges

From time to time, the Company enters into certain cobalt forward purchase contracts designated as fair value hedges. At December 31, 2008, the notional quantity of open contracts designated as fair value hedges under SFAS No. 133 was 0.3 million pounds. The Company had no fair value hedges at March 31, 2009.

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 that 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 had no forward contracts at March 31, 2009 or December 31, 2008.

Foreign Currency Exchange Rate Risk

The functional currency for the Company s Finnish operating subsidiary is the U.S. dollar since a majority of its 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 earnings. While a majority of the subsidiary s raw material purchases are in U.S. dollars, it also has some Euro-denominated expenses. Beginning in 2009, the Company entered into foreign currency forward contracts to mitigate a portion of the earnings volatility in those Euro-denominated cash flows due to changes in the Euro/U.S. dollar exchange rate. The Company had Euro forward contracts with notional values that totaled $13.3 million at March 31, 2009. The Company designated these derivatives as cash flow hedges of its forecasted foreign currency denominated expense. The outstanding contracts as of March 31, 2009 had maturities ranging up to 11 months. As of March 31, 2009, AOCI(L) includes a cumulative gain of $0.5 million, net of tax, related to these contracts, all of which is expected to be reclassified to earnings within the next twelve months.

The following table summarizes the fair value of derivative instruments designated as hedging instruments under SFAS No. 133 as recorded in the Unaudited Condensed Consolidated Balance Sheets:

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	Derivative Assets			
	March 31, 2009		December 31, 2008	
	Balance sheet location	Fair value	Balance sheet location	Fair value
Euro forward contracts	Other current assets	**$ 634**	n/a	$
Commodity contracts	n/a		Other current assets	143
Total		**$ 634**		$ 143

	Derivative liabilities			
	March 31, 2009		December 31, 2008	
	Balance sheet location	Fair value	Balance sheet location	Fair value
Commodity contracts	n/a		Other current liabilities	200
Total		**$**		$ 200

The following table summarizes the effect of derivative instruments for the three months ended March 31 as recorded in the Unaudited Condensed Consolidated Statements of Operations:

Derivatives in SFAS No. 133 Fair Value Hedging Relationships

	Location of Gain (Loss) on Derivative Recognized in Income	Amount of Gain (Loss) on Derivative Recognized in Income	
		March 31, 2009	March 31, 2008
Commodity contracts	Cost of products sold	**$ 227**	$ 48

	Hedged Items in SFAS No. 133 Fair Value Relationships	Location of Gain (Loss) on Related Hedged Item Recognized in Income	Amount of Gain (Loss) on Related Hedged Item Recognized in Income	
			March 31, 2009	March 31, 2008
Commodity contracts	Firm commitment	Cost of products sold	$ **(227)**	$ (48)

Derivatives in SFAS No. 133 Cash Flow Hedging Relationships

	Amount of Gain (Loss) on Derivative Recognized in AOCI(L) (Effective Portion)	
	March 31, 2009	March 31, 2008
Euro forward contracts	**$ 511**	$
Commodity contracts		(492)
Total	**$ 511**	$ (492)

	Location of Gain (Loss) Reclassified from AOCI(L) into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI(L) into Income (Effective Portion)	
		March 31, 2009	March 31, 2008
Euro forward contracts	Cost of products sold	**$ 42**	$
Commodity contracts	Net sales		(159)
Total		**$ 42**	$ (159)

	Location of Gain (Loss) on Derivative Recognized in Income (Ineffective Portion)	Amount of Gain (Loss) Recognized on Derivative in Income (Ineffective Portion) *	
		March 31, 2009	March 31, 2008
Euro forward contracts	n/a	$	$
Commodity contracts	n/a		
Total		$	$

* Hedge ineffectiveness is de minimus

Derivatives Not Designated as Hedging Instruments under SFAS No. 133

	Location of Gain Recognized in Income	Amount of Gain Recognized in Income on Derivative

	on Derivative	March 31, 2009	March 31, 2008
Commodity contracts	Cost of products sold	**$**	$ 5,806
Total		**$**	$ 5,806

Note 6 Fair Value Disclosures

The following table shows the Company s assets accounted for at fair value on a recurring basis:

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		Fair Value Measurements at Reporting Date Using		
Description	March 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Foreign currency forward contracts	$ 634	$	$ 634	$
Total	$ 634	$	$ 634	$

The Company uses significant other observable inputs to value derivative instruments used to hedge foreign currency volatility and therefore they are classified within Level 2 of the valuation hierarchy.

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. The following table provides a reconciliation of derivatives measured at fair value on a recurring basis which used Level 3 inputs for the period of December 31, 2008 to March 31, 2009:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Derivatives
December 31, 2008	$ (57)
Total realized or unrealized gains (losses):	
Included in earnings	227
Included in other comprehensive income	
Purchases, issuances, and settlements	(170)
Transfers in and/or out of Level 3	
March 31, 2009	$

In accordance with the provisions of SFAS No. 142, goodwill related to the UPC reporting unit was written down to its implied fair value of $28.4 million after completing step two in the first quarter of 2009. The resulting $4.1 million adjustment to the estimated goodwill impairment charge of $8.8 million taken in the fourth quarter of 2008 was included in earnings for the three months ended March 31, 2009. Goodwill allocated to the Advanced Organics reporting unit with a carrying amount of $6.8 million was written down to its implied fair value of $0, resulting in an impairment charge of $6.8 million, which was included in earnings for the three months ended March 31, 2009. The fair value measurement of the reporting unit under the step-one analysis and the preliminary step-two analysis in their entirety are classified as Level 3 inputs.

Note 7 Income Taxes

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.

The Company s interim income tax provisions are based on the application of an estimated annual effective income tax rate applied to year-to-date income (loss) from continuing operations before income tax expense. In determining the estimated annual effective income tax rate, the Company analyzes various factors, including forecasts of the Company s projected annual earnings (including specific subsidiaries projected to have pretax income and pretax losses), taxing jurisdictions in which the earnings will be generated, the Company s ability to use tax credits and net operating loss carryforwards, and available tax planning alternatives. The tax effects of discrete items, including the effect of changes in tax laws, tax rates, certain circumstances with respect to valuation allowances or other unusual or non-recurring items, are reflected in the period in which they occur as an addition to, or reduction from, the income tax provision, rather than included in the estimated annual effective income tax rate.

Income (loss) from continuing operations before income tax expense consists of the following:

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	Three Months Ended March 31,	
	2009	**2008**
United States	**$ (15,017)**	$ 577
Outside the United States	**5,177**	94,899
	$ (9,840)	$ 95,476

The Company s effective income tax rates are as follows:

	Three Months Ended March 31,	
	2009	**2008**
Effective income tax rate	**-22.9%**	28.4%

In the first quarter of 2009, the Company recorded discrete tax expense items totaling $4.7 million. Of this amount, $5.9 million related to GTL in the DRC. These GTL items included expense of $3.4 million related to a return-to-provision adjustment made in connection with filing the 2008 GTL tax return in the DRC; errors in the 2008 tax provision for GTL totaling $1.9 million; and a tax penalty of $0.6 million. The Company does not believe that these prior period errors are material to its 2008 financial statements. The errors occurred primarily as a result of a miscalculation of foreign exchange gains and losses associated with translating US Dollar-denominated assets and liabilities into Congolese Francs as required for statutory tax reporting in the DRC. This miscalculation resulted in an understatement of income tax expense in 2008 of $1.9 million, which impacted the Company s 55% share of GTL s 2008 income by $1.0 million. The Company corrected the error in the first quarter of 2009 with a charge to income tax expense, resulting in a reduction of net income attributable to OM Group, Inc. common shareholders for the three months ended March 31, 2009 of $1.0 million.

The Company had $7.1 million and $6.4 million of uncertain tax positions at March 31, 2009 and December 31, 2008, respectively, that are included as a component of other non-current liabilities. In the first quarter of 2009, the Company reversed a $1.2 million liability in France, and recorded an uncertain tax position associated with a claim for a refund related to foreign exchange losses in the DRC. If recognized, all uncertain tax positions would affect the effective income tax rate.

The effect of these discrete items for the three months ended March 31, 2009 is shown in the following table:

	Included in Consolidated Income Tax Expense	Amount Attributable to OM Group, Inc. Common Shareholders	Amount Attributable to Noncontrolling Interest
Discrete tax items related to GTL	$ 5,934	$ 3,264	$ 2,670
Reversal of liability for uncertain tax positions decided in the Company s favor	(1,233)	(1,233)	
Total	$ 4,701	$ 2,031	$ 2,670

Without these discrete items, the effective tax rate for the three months ended March 31, 2009 would have been 24.9%. This rate is lower than the U.S. statutory tax rate primarily due to income earned in tax jurisdictions with lower statutory rates than the U.S. (primarily Finland). This factor was partially offset by losses in certain jurisdictions with no corresponding tax benefit, and taxes related to the planned repatriation of foreign earnings in 2009. The

effective income tax rate for the three months ended March 31, 2008 is lower than the U.S. statutory rate due primarily to income earned in foreign tax jurisdictions with lower statutory tax rates than the U.S. (primarily Finland) and a tax holiday in Malaysia ($1.9 million impact in first quarter 2008). In the three months ended March 31, 2008, these factors were partially offset by tax expense related to foreign earnings repatriation during 2008.

Note 8 Earnings Per Share

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The following table sets forth the computation of basic and diluted income (loss) per common share from continuing operations attributable to OM Group, Inc. common shareholders:

(in thousands, except per share amounts)	Three Months Ended March 31, 2009 2009	2008
Income (loss) from continuing operations attributable to OM Group, Inc. common shareholders	**$ (8,541)**	$ 55,589
Weighted average shares outstanding basic	**30,187**	30,074
Dilutive effect of stock options and restricted stock		386
Weighted average shares outstanding assuming dilution	**30,187**	30,460
Earning per common share:		
Income (loss) from continuing operations attributable to OM Group, Inc. common shareholders basic	**$ (0.28)**	$ 1.85
Income (loss) from continuing operations attributable to OM Group, Inc. common shareholders assuming dilution	**$ (0.28)**	$ 1.82

The following table sets forth the computation of basic and diluted net income (loss) per common share attributable to OM Group, Inc. common shareholders:

(in thousands, except per share amounts)	Three Months Ended March 31, 2009	2008
Net income (loss) attributable to OM Group, Inc. common shareholders	**$ (8,277)**	$ 55,220
Weighted average shares outstanding basic	**30,187**	30,074
Dilutive effect of stock options and restricted stock		386
Weighted average shares outstanding assuming dilution	**30,187**	30,460
Earning per common share:		
Net income (loss) attributable to OM Group, Inc. common shareholders basic	**$ (0.27)**	$ 1.84
Net income (loss) attributable to OM Group, Inc. common shareholders assuming dilution	**$ (0.27)**	$ 1.81

As the Company had a loss from continuing operations for the three months ended March 31, 2009, the effect of including dilutive securities in the earnings per share calculation would have been antidilutive. Accordingly, all stock options and restricted stock were excluded from the calculation of loss from continuing operations attributable to OM Group, Inc. common shareholders assuming dilution and net loss per common share assuming dilution for the three months ended March 31, 2009.

For the three months ended March 31, 2008, 44,702 stock options were not included in the computation of income from continuing operations attributable to OM Group, Inc. common shareholders assuming dilution and net income per common share assuming dilution because such stock options had an exercise price in excess of the average market price of the Company s common stock during the first quarter of 2008 and therefore the effect would be antidilutive.

Note 9 Commitments and Contingencies

The Company s joint venture in the DRC received a letter dated February 11, 2008 from the Ministry of Mines of the DRC. The letter contained the results of an inter-ministerial review of the joint venture s contracts, which was undertaken as part of a broader examination of mining contracts in the DRC to determine whether any such contracts needed to be revisited and whether any adjustments were recommended to be made. On January 24, 2009, the joint venture received a letter from the Prime Minister of the DRC advising that the contract review had been completed and that no changes were recommended to the joint venture s contracts.

The Company has contingent liabilities related to the former PMG operations in Brazil. The contingencies, which remain the responsibility of the Company to the extent the matters relate to the 2001-2003 period during which the Company owned PMG, are potential assessments by Brazilian taxing authorities related to duty drawback tax for items sold by PMG, and certain VAT and/or Service Tax assessments. The Company has assessed the current likelihood of an unfavorable outcome of these contingencies and concluded that it is reasonably possible but not probable. If the ultimate outcome of these contingencies is unfavorable, the loss, based on exchange rates at March 31, 2009, would be up to $19.6 million and would be recorded in discontinued operations.

The Company is a party to various other legal proceedings incidental to its business and is subject to a variety of environmental and pollution control laws and regulations in the jurisdictions in which it operates. As is the case with other companies in similar industries, the Company faces exposure from actual or potential claims and legal proceedings involving environmental matters. A number of factors affect the cost of environmental remediation, including the determination of the extent of contamination, the length of time the remediation may require, the complexity of environmental regulations, and the continuing improvements in remediation techniques. Taking these factors into consideration, the Company estimates the undiscounted costs of remediation, which will be incurred over several years, and accrues an amount consistent with the estimates of these costs when it is probable that a liability has been incurred. At March 31, 2009 and December 31, 2008, the Company has recorded environmental liabilities of $2.9 million and $3.4 million, respectively, primarily related to remediation and decommissioning at the Company s closed manufacturing sites in Newark, New Jersey and Vasset, France.

Although it is difficult to quantify the potential impact of compliance with, or liability under, environmental protection laws, the Company believes that any amount it may be required to pay in connection with environmental matters, as well as other legal proceedings arising out of operations in the normal course of business, is not reasonably likely to exceed amounts accrued by an amount that would have a material adverse effect upon its financial condition, results of operations or cash flows.

Note 10 Share-Based Compensation

Under the 2007 Incentive Compensation Plan (the 2007 Plan), the Company may grant stock options, stock appreciation rights, restricted stock awards and phantom stock and restricted stock unit awards to selected employees and non-employee directors. The 2007 Plan also provides for the issuance of common stock to non-employee directors as all, or part of, their annual compensation for serving as directors, as may be determined by the board of directors. The total number of shares of common stock available for awards under the 2007 Plan (including any annual stock issuances made to non-employee directors) is 3,000,000. The 2007 Plan provides that no more than 1,500,000 shares of common stock may be the subject of awards that are not stock options or stock appreciation rights. In addition, no more than 250,000 shares of common stock may be awarded to any one person in any calendar year, whether in the form of stock options, restricted stock or another form of award. The 2007 Plan provides that all options granted must have an exercise price of not less than the per share fair market value on the date of grant and must have a term of no more than ten years.

The Unaudited Condensed Statements of Consolidated Operations include share-based compensation expense for option grants, restricted stock awards and restricted stock unit awards granted to employees as a component of Selling, general and administrative expenses of $1.7 million and $2.1 million for the three months ended March 31, 2009 and 2008, respectively. At March 31, 2009, there was $8.0 million of total unrecognized compensation expense related to nonvested share-based awards. That cost is expected to be recognized as follows: $4.3 million in the remaining nine months of 2009, $2.6 million in 2010, $1.0 million in 2011 and $0.1 million in 2012. Unearned compensation expense is recognized over the vesting period for the particular grant. Total unrecognized compensation cost will be adjusted for future changes in actual and estimated forfeitures and fluctuations in the fair value of restricted stock unit awards.

Non-employee directors of the Company are paid a portion of their annual retainer in unrestricted shares of common stock. For purposes of determining the number of shares of common stock to be issued, the 2007 Plan provides that shares are to be valued at the average of the high and low sale price of the Company s common stock on the NYSE on the last trading day of the quarter. The Company issued 3,240 and 1,778 shares to non-employee directors during the three months ended March 31, 2009 and 2008, respectively.

Stock Options

Options granted generally vest in equal increments over a three-year period from the grant date. Upon any change in control of the Company, as defined in the applicable plan, and upon death, disability or retirement, the stock options become 100% vested and exercisable. The Company accounts for options that vest over more than one year as one award and recognizes expense related to those awards on a straight-line basis over the vesting period. The Company granted stock options to purchase 188,003 and 163,675 shares of common stock during the first three months of 2009 and 2008, respectively. Included in the 2009 grants are stock options to purchase 7,703 shares of common stock with a vesting period of one year, which were granted to the Company s chief executive officer in connection with payment of his 2008 high-performance bonus.

The fair value of options granted during the first three months of 2009 and 2008 was estimated at the date of grant using a Black-Scholes options pricing model with the following weighted-average assumptions:

	2009	2008
Risk-free interest rate	**2.1%**	2.6%
Dividend yield		
Volatility factor of Company common stock	**0.59**	0.47
Weighted-average expected option life (years)	**6.0**	6.0
Weighted-average grant-date fair value	**$11.23**	$28.09

The risk-free interest rate assumption is based upon the U.S. Treasury yield curve appropriate for the term of the options being valued. The dividend yield assumption is zero, as the Company intends to continue to retain earnings for use in the operations of the business and does not anticipate paying dividends in the foreseeable future. Expected volatilities are based on historical volatility of the Company s common stock. The expected term of options granted is determined using the simplified method allowed by Staff Accounting Bulletin (SAB) No. 110 as historical data was not sufficient to provide a reasonable estimate. Under this approach, the expected term is presumed to be the mid-point between the vesting date and the end of the contractual term.

The following table sets forth the number and weighted-average grant-date fair value:

	Shares	Weighted Average Fair Value at Grant Date
Non-vested at December 31, 2008	294,989	$ 26.03
Granted during the first three months of 2009	**188,003**	**$ 11.23**
Granted during the first three months of 2008	163,675	$ 28.09
Vested during the first three months of 2009	**116,681**	**$ 25.80**
Vested during the first three months of 2008	70,450	$ 30.92
Forfeited during the first three months of 2009	**2,616**	**$ 20.74**
Forfeited during the first three months of 2008		$
Non-vested at March 31, 2009	**363,695**	**$ 18.49**
Non-vested at March 31, 2008	457,568	$ 20.67

No options were exercised in the first three months of 2009. The Company received cash payments of $0.8 million during the three months ended March 31, 2008 in connection with the exercise of stock options. The Company may use authorized and unissued or treasury shares to satisfy stock option exercises and restricted stock awards. The Company does not settle stock options for cash. The total intrinsic value of options exercised was $0.4 million during the first three months of 2008. The intrinsic value of an option represents the amount by which the market value of the stock exceeds the exercise price of the option.

A summary of the Company s stock option activity for the first three months of 2009 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2009	**890,589**	**$38.86**		
Granted	**188,003**	**$20.12**		
Exercised		**$**		
Expired unexercised	**(667)**	**$51.16**		
Forfeited	**(2,616)**	**$41.00**		
Outstanding at March 31, 2009	**1,075,309**	**$35.57**	**7.43**	**$62**
Vested or expected to vest at March 31, 2009	**1,045,107**	**$35.41**	**7.38**	**$62**
Exercisable at March 31, 2009	**711,614**	**$35.26**	**6.58**	**$57**

Restricted Stock Performance-Based Awards

During the first three months of 2009 and 2008, the Company awarded 87,250 and 57,550 shares, respectively, of performance-based restricted stock that vest subject to the Company s financial performance. The number of shares of restricted stock that ultimately vest is based upon the Company s achievement of specific measurable performance criteria. A recipient of performance-based restricted stock may earn a total award ranging from 0% to 100% of the initial grant, with target being 50% of the initial grant. The shares awarded during the first three months of 2009 will vest upon the satisfaction of established performance criteria based on consolidated EBITDA Margin (defined as operating profit plus depreciation and amortization expense divided by revenue) measured against a predetermined peer group, and average return on net assets over a three-year performance period ending December 31, 2011. The shares awarded during 2008 will vest upon the satisfaction of established performance criteria based on consolidated operating profit and average return on net assets over a three-year performance period ending December 31, 2010. In addition, 86,854 shares were awarded during 2007, and 80,600 of those shares will vest upon the satisfaction of established performance criteria based on the Company s consolidated operating profit and average return on net assets over a three-year performance period ending December 31, 2009. The remaining 6,254 shares will vest if the Company meets an established earnings target during any one of the years in the three-year period ending December 31, 2009.

The value of the performance-based restricted stock awards was based upon the market price of an unrestricted share of the Company s common stock at the date of grant. The Company recognizes expense related to performance-based restricted stock ratably over the requisite service period based upon the number of shares that are anticipated to vest. The number of shares anticipated to vest is evaluated quarterly and compensation expense is adjusted accordingly. Upon any change in control of the Company, as defined in the applicable plan, or upon retirement, the shares become 100% vested at the target level. In the event of death or disability, a pro rata number of shares shall remain eligible for vesting at the end of the performance period.

A summary of the Company s performance-based restricted stock awards for the first three months of 2009 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2009	**226,814**	**$41.03**
Granted	**87,250**	**$18.87**
Vested	**(86,610)**	**$28.61**

Non-vested at March 31, 2009	**227,454**	**$37.26**
Expected to vest at March 31, 2009	**75,589**	

The performance period for the shares of restricted stock awarded during 2006 ended on December 31, 2008. During the first quarter of 2009, a total of 86,610 shares vested upon the determination by the Compensation Committee that the performance targets relating

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to the shares were satisfied and that the shares were earned at the maximum (100%) level. Upon vesting, employees surrendered 24,654 shares of common stock to the Company to pay required minimum withholding taxes applicable to the vesting of restricted stock. The surrendered shares are held by the Company as treasury stock.

Restricted Stock Units Performance-Based Awards

During the first three months of 2009, the Company awarded 22,480 performance-based restricted stock units to employees outside the U.S. that vest subject to the Company s financial performance for the three-year performance period ending December 31, 2011. These awards will be settled in cash based on the value of the Company s common stock at the vesting date. Since the awards will be settled in cash, they are recorded as a liability award in accordance with SFAS No. 123(R). Accordingly, the Company records these awards as a component of other non-current liabilities on the balance sheet. The fair value of the award, which determines the measurement of the liability on the balance sheet, is remeasured at each reporting period until the award is settled. Fluctuations in the fair value of the liability awards are recorded as increases or decreases to compensation expense. Over the life of these awards, the cumulative amount of compensation expense recognized will match the actual cash paid. The number of restricted stock units that ultimately vest is based upon the Company s achievement of the same performance criteria as the 2009 performance-based restricted stock awards described above.

The Company recognizes expense related to performance-based restricted stock units ratably over the requisite service period based upon the number of units that are anticipated to vest. The number of units anticipated to vest is evaluated quarterly and compensation expense is adjusted accordingly. Upon any change in control of the Company, as defined in the applicable plan, or upon retirement, the units become 100% vested at the target level. In the event of death or disability, a pro rata number of units shall remain eligible for vesting at the end of the performance period.

A summary of the Company s performance-based restricted stock unit awards for the first three months of 2009 is as follows:

	Units
Non-vested at January 1, 2009	
Granted	**22,480**
Forfeited	**(300)**
Non-vested at March 31, 2009	**22,180**
Expected to vest at March 31, 2009	

Restricted Stock Time-Based Awards

During the first three months of 2009 and 2008, the Company awarded 24,850 and 16,675 shares of time-based restricted stock that vest three years from the date of grant, subject to the respective recipient remaining employed by the Company on that date. In addition, the Company awarded 4,127 shares of restricted stock with a vesting period of one year to its chief executive officer in connection with payment of his 2008 high-performance bonus. The value of the restricted stock awards, based upon the market price of an unrestricted share of the Company s common stock at the respective dates of grant, was $0.6 million for the 2009 awards and $1.0 million for the 2008 awards. Compensation expense is being recognized ratably over the vesting period. Upon any change in control of the Company, as defined in the applicable plan, or upon retirement, the shares become 100% vested. A pro rata number of shares will vest in the event of death or disability prior to the stated vesting date.

A summary of the Company s time-based restricted stock awards for the first three months of 2009 is as follows:

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	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2009	**60,235**	**$45.63**
Granted	**28,977**	**$20.12**
Nonvested at March 31, 2009	**89,212**	**$37.34**
Expected to vest at March 31, 2009	**85,934**	

Restricted Stock Units Time-Based Awards

During the first three months of 2009, the Company awarded 4,400 time-based restricted stock units to employees outside the U.S. These awards will be settled in cash based on the value of the Company s common stock at the vesting date. Since the awards will be settled in cash, they are recorded as a liability award in accordance with SFAS No. 123(R). Accordingly, the Company records these awards as a component of other non-current liabilities on the balance sheet. The fair value of the award, which determines the measurement of the liability on the balance sheet, is remeasured at each reporting period until the award is settled. Fluctuations in the fair value of the liability awards are recorded as increases or decreases to compensation expense. Over the life of these awards, the cumulative amount of compensation expense recognized will match the actual cash paid. The restricted share units vest three years from the date of grant, subject to the respective recipient remaining employed by the Company on that date. Upon any change in control of the Company, as defined in the applicable plan, or upon retirement, the units become 100% vested. A pro rata number of units will vest in the event of death or disability prior to the stated vesting date.

A summary of the Company s time-based restricted stock unit awards for the first three months of 2009 is as follows:

	Units
Nonvested at January 1, 2009	
Granted	**4,400**
Forfeited	**(100)**
Nonvested at March 31, 2009	**4,300**
Expected to vest at March 31, 2009	**3,965**

Note 11 Reportable Segments

The Company is organized into two segments: Advanced Materials and Specialty Chemicals. Intersegment transactions are generally recognized based on current market prices. Intersegment transactions are eliminated in consolidation.