OM GROUP INC
Form 10-Q
November 02, 2007

Table of Contents

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 September 30, 2007

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

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer 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 October 31, 2007 there were 30,419,105 shares of Common Stock, par value $.01 per share, outstanding.

OM Group, Inc.
TABLE OF CONTENTS

PART I FINANCIAL INFORMATION
Item 1. Unaudited Financial Statements

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

PART II OTHER INFORMATION
Item 1A. Risk Factors

Item 6. Exhibits

Signatures
EX-10.1
EX-10.2
EX-10.3
EX-31.1
EX-31.2
EX-32

Table of Contents

Part I FINANCIAL INFORMATION
Item 1. Unaudited Financial Statements

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

(In thousands, except share data)		September 30, 2007		December 31, 2006
ASSETS				
Current assets				
Cash and cash equivalents	$	435,452	$	282,288
Accounts receivable, less allowances		127,978		82,931
Inventories		314,511		216,492
Other current assets		36,163		30,648
Assets of discontinued operations				597,682
Total current assets		914,104		1,210,041
Property, plant and equipment, net		200,662		210,953
Goodwill		140,342		137,543
Notes receivable from joint venture partner, less allowance of $5,200 in 2007 and 2006		24,179		24,179
Other non-current assets		34,342		35,508
Total assets	$	1,313,629	$	1,618,224
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities				
Short-term debt	$	337	$	326
Current portion of long-term debt		191		167
Debt to be redeemed				402,520
Accounts payable		147,379		90,768
Accrued income taxes		35,178		17,497
Accrued employee costs		21,466		28,806
Other current liabilities		37,114		42,057
Liabilities of discontinued operations				167,148
Total current liabilities		241,665		749,289
Long-term debt		1,131		1,224
Deferred income taxes		3,685		4,118
Minority interests		51,228		43,286
Other non-current liabilities		39,403		38,228
Stockholders equity:				
Preferred stock, $.01 par value:				
Authorized 2,000,000 shares, no shares issued or outstanding				

Common stock, $.01 par value:				
Authorized 60,000,000 shares; issued 30,092,869 in 2007 and 29,801,334 shares in 2006		**301**		297
Capital in excess of par value		**551,195**		533,818
Retained earnings		**419,739**		221,310
Treasury stock (61,541 shares in 2007 and 2006, at cost)		**(2,239)**		(2,239)
Accumulated other comprehensive income		**7,521**		28,893
Total stockholders equity		**976,517**		782,079
Total liabilities and stockholders equity	**$**	**1,313,629**	$	1,618,224

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	**2007**	2006	**2007**	2006
Net sales	**$ 264,640**	$ 170,420	**$ 712,134**	$ 488,023
Cost of products sold	**191,502**	117,245	**483,075**	350,159
Gross profit	**73,138**	53,175	**229,059**	137,864
Selling, general and administrative expenses	**31,674**	23,958	**88,276**	74,408
Operating profit	**41,464**	29,217	**140,783**	63,456
Other income (expense):				
Interest expense	**(238)**	(9,712)	**(7,523)**	(29,331)
Interest income	**5,041**	2,358	**15,643**	5,412
Loss on redemption of Notes			**(21,733)**	
Foreign exchange gain	**4,178**	772	**5,962**	3,033
Gain on sale of investment				12,223
Other expense, net	**(501)**	(515)	**(999)**	(162)
	8,480	(7,097)	**(8,650)**	(8,825)
Income from continuing operations before income taxes, minority interest and cumulative effect of change in accounting principle	**49,944**	22,120	**132,133**	54,631
Income tax expense	**(7,926)**	(5,452)	**(57,715)**	(10,498)
Minority partners share of income	**(2,511)**	(2,838)	**(9,320)**	(3,474)
Income from continuing operations before cumulative effect of change in accounting principle	**39,507**	13,830	**65,098**	40,659
Discontinued operations				
Income (loss) from discontinued operations, net of tax	**(1,412)**	74,178	**61,511**	118,350
Gain on sale of discontinued operations, net of tax			**72,270**	
Total income (loss) from discontinued operations, net of tax	**(1,412)**	74,178	**133,781**	118,350
Income before cumulative effect of change in accounting principle	**38,095**	88,008	**198,879**	159,009
Cumulative effect of change in accounting principle				287
Net income	**$ 38,095**	$ 88,008	**$ 198,879**	$ 159,296
Net income (loss) per common share basic:				
Continuing operations	**$ 1.32**	$ 0.47	**$ 2.18**	$ 1.39

Discontinued operations	**(0.05)**	2.53	**4.47**	4.03
Cumulative effect of change in accounting principle				0.01
Net income	**$ 1.27**	$ 3.00	**$ 6.65**	$ 5.43
Net income (loss) per common share assuming dilution:				
Continuing operations	**$ 1.30**	$ 0.47	**$ 2.15**	$ 1.38
Discontinued operations	**(0.04)**	2.50	**4.43**	4.01
Cumulative effect of change in accounting principle				0.01
Net income	**$ 1.26**	$ 2.97	**$ 6.58**	$ 5.40
Weighted average shares outstanding				
Basic	**30,031**	29,336	**29,902**	29,322
Assuming dilution	**30,350**	29,635	**30,235**	29,486

See accompanying notes to unaudited condensed consolidated financial statements.

3

Table of Contents

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

(In thousands)	Nine Months Ended September 30, **2007**	2006
Operating activities		
Net income	**$ 198,879**	$ 159,296
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Income from discontinued operations	**(61,511)**	(118,350)
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	**24,652**	23,706
Share-based compensation expense	**5,180**	3,783
Excess tax benefit on exercise of stock options	**(1,045)**	
Foreign exchange gain	**(5,962)**	(3,033)
Minority partners share of income	**9,320**	3,474
Other non-cash items	**(7,500)**	(1,040)
Changes in operating assets and liabilities		
Accounts receivable	**(45,456)**	(15,682)
Inventories	**(98,019)**	(6,823)
Accounts payable	**56,611**	23,541
Other, net	**4,146**	(3,753)
Net cash provided by operating activities	**28,758**	52,609
Investing activities		
Expenditures for property, plant and equipment	**(12,833)**	(8,876)
Proceeds from sale of asset	**461**	
Net proceeds from the sale of the Nickel business	**490,036**	
Proceeds from sale of investment		12,223
Proceeds from loans to non-consolidated joint ventures	**7,568**	
Loans to non-consolidated joint ventures		(5,046)
Acquisition of businesses, net of cash acquired		(5,417)
Investment in QSI	**(2,000)**	
Expenditures for ERP project	**(3,263)**	(2,456)
Net cash provided by (used for) investing activities	**479,969**	(9,572)
Financing activities		
Payments of long-term debt	**(400,000)**	(17,250)
Premium for redemption of Notes	**(18,500)**	
Distribution to joint venture partners	**(1,350)**	
Proceeds from exercise of stock options	**10,489**	897
Excess tax benefit on exercise of stock options	**1,045**	

Net cash used for financing activities	**(408,316)**	(16,353)
Effect of exchange rate changes on cash	**5,718**	3,287
Cash and cash equivalents		
Increase from continuing operations	**106,129**	29,971
Discontinued operations net cash provided by operating activities	**48,575**	94,893
Discontinued operations net cash used for investing activities	**(1,540)**	(14,691)
Balance at the beginning of the period	**282,288**	114,618
Balance at the end of the period	**$ 435,452**	$ 224,791

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

(In thousands)	Nine Months Ended September 30, 2007	2006
Common Stock Shares Outstanding, net of Treasury Shares		
Beginning balance	**29,740**	29,307
Shares issued under share-based compensation plans	**291**	46
	30,031	29,353
Common Stock Dollars		
Beginning balance	**$ 297**	$ 293
Shares issued under share-based compensation plans	**4**	
	301	293
Capital in Excess of Par Value		
Beginning balance	**533,818**	516,510
Shares issued under share-based compensation plans	**10,485**	897
Excess tax benefit on the exercise of stock options	**1,045**	
Share-based compensation	**5,847**	3,938
	551,195	521,345
Retained Earnings		
Beginning balance, as originally reported	**221,310**	6,811
Adoption of FIN No. 48 in 2007 and EITF 04-6 in 2006	**(450)**	(1,574)
Beginning balance, as adjusted for the adoption of FIN No. 48 and EITF 04-6	**220,860**	5,237
Net income	**198,879**	159,296
	419,739	164,533
Treasury Stock		
Beginning balance	**(2,239)**	(2,226)
Reacquired shares		(13)
	(2,239)	(2,239)
Accumulated Other Comprehensive Income		
Beginning balance	**28,893**	15,145
Foreign currency translation	**(11,548)**	4,062
Reclassification of hedging activities into earnings, net of tax	**(9,824)**	(954)

Unrealized gain on cash flow hedges, net of tax expense of $3,541		7,780
Reclassification of realized gain on available-for-sale securities into earnings		(4,745)
	7,521	21,288
Total Stockholders Equity	**$ 976,517**	$ 705,220

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

Note 1 Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements include the accounts of OM Group, Inc. and its subsidiaries (the Company). 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 September 30, 2007 and the results of its operations for the three and nine months ended September 30, 2007 and 2006 and its cash flows and changes in stockholders equity for the nine months ended September 30, 2007 and 2006 have been included. The balance sheet at December 31, 2006 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, 2006.

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

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 Unaudited Condensed Consolidated Financial Statements and accompanying notes reflect the Nickel business as a discontinued operation for all periods presented.

Note 2 Discontinued Operations and Disposition of 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. For the nine months ended September 30, 2007, the Company recorded interest income of $1.2 million which is included in Other income, net on the Unaudited Condensed Statements of Consolidated Income.

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.

6

Table of Contents

Income (loss) from discontinued operations consisted of the following for the three months ended September 30:

	2007	2006
Net sales	**$**	$ 205,352
Income (loss) from discontinued operations before income taxes	**$ (319)**	$ 91,571
Income tax expense	**1,093**	17,393
Income (loss) from discontinued operations, net of tax	**(1,412)**	74,178
Gain on sale of discontinued operations, net of tax		
Total income (loss) from discontinued operations	**$ (1,412)**	$ 74,178

Income from discontinued operations consisted of the following for the nine months ended September 30:

	2007	2006
Net sales	**$ 193,091**	$ 512,522
Income from discontinued operations before income taxes	**$ 83,289**	$ 144,185
Income tax expense	**21,778**	25,835
Income from discontinued operations, net of tax	**61,511**	118,350
Gain on sale of discontinued operations, net of tax	**72,270**	
Total income from discontinued operations	**$ 133,781**	$ 118,350

Assets and liabilities of discontinued operations at December 31, 2006 were as follows:

	December 31, 2006
Accounts receivable	$ 97,050
Inventories	191,380
Property, plant and equipment, net	149,857
Goodwill	46,481
Other current assets	112,914
Assets of discontinued operations	$ 597,682
Accounts payable	$ 100,644
Other current liabilities	66,504
Liabilities of discontinued operations	$ 167,148

Note 3 Debt

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.

Table of Contents

Debt consists of the following:

	September 30, 2007	December 31, 2006
Senior Subordinated Notes	**$**	$ 400,000
Notes payable bank	**1,659**	1,717
Deferred gain on termination of fair value hedges		2,520
	1,659	404,237
Less: Short-term debt	**337**	326
Less: Current portion of long-term debt	**191**	167
Less: Debt to be redeemed		402,520
Total long-term debt	**$ 1,131**	$ 1,224

Note 4 Inventories

Inventories consist of the following:

	September 30, 2007	December 31, 2006
Raw materials and supplies	$ 162,024	$ 138,913
Work-in-process	22,484	17,265
Finished goods	130,003	60,314
	$ 314,511	$ 216,492

Note 5 Investments and Acquisitions

During the third quarter of 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, OMG will supply QSI with raw materials and has the right to market and distribute certain QSI products.

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 $5.2 million in cash, net of cash acquired and issued a $0.5 million note payable. The Company incurred fees of approximately $0.2 million associated with this transaction. Additional contingent consideration, up to a maximum of $2.0 million, is due to the seller if certain specified financial performance targets of the acquired business are met over the three-year period following the acquisition. At September 30, 2007, the Company has not recorded any contingent consideration. Goodwill of $1.3 million was recognized as a result of this acquisition. Plaschem is included in the Electronic Chemicals product line grouping results of operations since the date of acquisition.

During the second quarter of 2006, the Company sold the outstanding common shares it held in Weda Bay Minerals, Inc. (Weda Bay) 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 as the net book value of the investment was zero due to an

other-than-temporary impairment charge recorded in prior years. The gain is included in Gain on sale of investment in the Unaudited Condensed Statements of Consolidated Income.

Table of Contents

Note 6 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 2002.

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 pre-tax income. In determining the estimated annual effective income tax rate, the Company analyzes various factors, including forecasts of the Company s annual earnings, 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 from continuing operations before income taxes, minority interest and cumulative effect of change in accounting principle consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	**2007**	2006
United States	**$ (9,855)**	$ (35,680)	**$ (48,484)**	$ (63,320)
Outside the United States	**59,799**	57,800	**180,617**	117,951
	$ 49,944	$ 22,120	**$ 132,133**	$ 54,631

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 European 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 the fourth quarter of 2006. During the first quarter of 2007, the Company repatriated $528.5 million and recorded an additional tax liability of $38.8 million. The additional $38.8 million tax liability recorded in the first quarter of 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.

The Company s effective income tax rates are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	**2007**	2006
Effective income tax rate	**15.9%**	24.6%	**43.7%**	19.2%

The effective income tax rate for the first nine months of 2007 includes the $38.8 million tax expense to repatriate foreign cash in the first quarter of 2007 as described above. The effective income tax rate for the first nine months of 2007 also includes a tax benefit of $7.6 million associated with the $21.7 million loss on the redemption of the Notes in the first quarter of 2007. These items were treated as discrete items in the first quarter of 2007. Excluding these discrete items, the effective income tax rates for all periods are lower than the United States statutory rate primarily due to a higher proportion of earnings in foreign jurisdictions having lower statutory tax rates than the United States, a tax holiday in Malaysia and the recognition of tax benefits for domestic losses in 2007.

The Malaysian tax holiday, which results from an investment incentive arrangement and expires December 31, 2011, reduced income tax expense by $1.3 million and $4.9 million in the three and nine months ended September 30, 2007, respectively, and $1.8 million and $4.9 million in the three and nine months ended September 30, 2006, respectively.

The benefit of the tax holiday on net income per diluted share was approximately $0.04 and $0.16 in the three and nine months ended September 30, 2007, respectively, and approximately $0.06 and $0.17 in the three and nine months ended September 30, 2006, respectively.

The Company adopted the provisions of Financial Accounting Standards Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes on January 1, 2007. As a result of the adoption, the Company recognized a $0.5 million liability which was

accounted for as a reduction to the January 1, 2007 balance of retained earnings. Including reserves for tax contingencies previously recorded, the Company has $2.0 million of uncertain tax positions, all of which would affect the Company s effective income tax rate if recognized, and of which $1.8 million is included as a component of other non-current liabilities and $0.2 million is recorded in other current liabilities on the Unaudited Condensed Consolidated Balance Sheet at September 30, 2007. There were no material changes to the liability for uncertain tax positions in the three months ended September 30, 2007.

The Company accrues interest related to uncertain tax positions and penalties as a component of income tax expense. The Company had $0.6 million and $0.5 million accrued at September 30, 2007 and December 31, 2006, respectively, for the payment of interest and penalties.

Included in the liability for uncertain tax positions at September 30, 2007 and December 31, 2006, is $0.2 million for which it is reasonably possible that the liability will decrease due to settlement with the tax authorities within the next 12 months.

Note 7 Pension and Other Postretirement Benefit Plans

The Company sponsors a defined contribution plan covering all eligible U.S. employees. To be eligible for the plan, an employee must be a full-time associate and at least 21 years of age. Company contributions are determined by the board of directors annually and are computed based upon participant compensation. Company contributions are directed by the employee into various investment options. The Company also sponsors a non-contributory, nonqualified supplemental executive retirement plan for certain employees, providing benefits beyond those covered in the defined contribution plan.

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. The Company also has an unfunded supplemental executive retirement plan (SERP) for the former Chief Executive Officer and other unfunded postretirement benefit plans (OPEB), primarily health care and life insurance for certain employees and retirees in the United States. The Company uses an October 31 measurement date for both its pension and postretirement benefit plans.

Set forth below is a detail of the net periodic pension expense for the defined benefit:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2007	**2006**	**2007**	**2006**
Pension Benefits				
Interest cost	**$ 334**	$ 306	**$ 1,002**	$ 918
Amortization of unrecognized net loss	**75**	67	**227**	201
Expected return on plan assets	**(197)**	(228)	**(592)**	(684)
Total expense	**$ 212**	$ 145	**$ 637**	$ 435
Other Postretirement Benefits				
Service cost	**$ 21**	$ 33	**$ 62**	$ 98
Interest cost	**66**	60	**198**	181
Amortization of unrecognized prior service cost	**10**	10	**30**	30
Total expense	**$ 97**	$ 103	**$ 290**	$ 309

Note 8 Earnings Per Share

The following table sets forth the computation of basic and diluted income per common share from continuing operations before cumulative effect of change in accounting principle:

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Income from continuing operations before cumulative effect of change in accounting principle	**$ 39,507**	$ 13,830	**$ 65,098**	$ 40,659
Weighted average shares outstanding	**30,031**	29,336	**29,902**	29,322
Dilutive effect of stock options and restricted stock	**319**	299	**333**	164
Weighted average shares outstanding assuming dilution	**30,350**	29,635	**30,235**	29,486
Income per common share from continuing operations before cumulative effect of change in accounting principle basic	**$ 1.32**	$ 0.47	**$ 2.18**	$ 1.39
Income per common share from continuing operations before cumulative effect of change in accounting principle assuming dilution	**$ 1.30**	$ 0.47	**$ 2.15**	$ 1.38

The following table sets forth the computation of basic and diluted net income per common share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Net income	**$ 38,095**	$ 88,008	**$ 198,879**	$ 159,296
Weighted average shares outstanding	**30,031**	29,336	**29,902**	29,322
Dilutive effect of stock options and restricted stock	**319**	299	**333**	164
Weighted average shares outstanding assuming dilution	**30,350**	29,635	**30,235**	29,486
Net income per common share basic	**$ 1.27**	$ 3.00	**$ 6.65**	$ 5.43
Net income per common share assuming dilution	**$ 1.26**	$ 2.97	**$ 6.58**	$ 5.40

Table of Contents

Note 9 Accumulated Other Comprehensive Income

	Foreign Currency Translation	Unrealized Gains and Losses, Net on Cash Flow Hedging Derivatives	Pension and Post-Retirement Obligation	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2006	$ 29,094	$ 9,824	$ (10,025)	$ 28,893
Reclassification adjustment		2,465		2,465
Current period credit	3,931			3,931
Disposal of Nickel business	(15,479)	(12,289)		(27,768)
Balance at September 30, 2007	**$ 17,546**	**$**	**$ (10,025)**	**$ 7,521**

Comprehensive income, net of related tax effects, for the three months ended September 30, 2007 and 2006 was $40.0 million and $91.9 million, respectively. Comprehensive income, net of related tax effects, for the nine months ended September 30, 2007 and 2006 was $177.5 million and $165.4 million, respectively.

Note 10 Commitments and Contingencies

During 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 cobalt in the form of crude 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. In addition, the Company entered into two-year agency and distribution agreements for nickel salts.

The Division of Enforcement of the Securities and Exchange Commission (the SEC) conducted an informal investigation resulting from the self reporting by the Company of the internal investigation conducted in 2003 and 2004 by the audit committee of the Company s board of directors in connection with the previously filed restatement of the Company s financial results for periods prior to December 31, 2003. On July 18, 2007, without admitting or denying the nonjurisdictional findings by the SEC, the Company consented to an order to cease-and-desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act of 1933, Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Securities Exchange Act of 1934, and Rules 10b-5, 12b-20, 13a-1, 13a-11, and 13a-13 under the Securities Exchange Act. The SEC considered remedial acts promptly undertaken by the Company and cooperation afforded the SEC staff and did not assess the Company any financial penalties.

During 2005, the Company reversed a $5.5 million tax contingency accrual that was originally established in July 2003 upon the sale of the Company s Precious Metals Group (PMG) as the liability was no longer considered probable. Such amount had previously been included in Retained Liabilities of Businesses Sold. The contingency relates to a tax matter in Brazil for which the Company has indemnified the PMG buyer under terms of the PMG sale agreement. Although the contingency is no longer probable, the likelihood of an unfavorable outcome of this contingency is reasonably possible based on the length of time expected before the matter is closed and the inherent risk of changes in the political or legal situation in Brazil. If the ultimate outcome of this contingency is unfavorable, the loss, based on exchange rates at September 30, 2007, would be $6.2 million and would be recorded in discontinued operations.

During the first nine months of 2007, the Company became aware of two additional contingent liabilities related to the Company s former PMG operations in Brazil. The contingencies, which remain the responsibility of OMG to the extent the matters relate to the period from 2001-2003 during which the Company owned PMG, are potential assessments by Brazilian taxing authorities related to duty drawback tax for items sold by PMG during 2001-2003,

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 they are reasonably possible but not probable. If the ultimate outcome of these contingencies is unfavorable, the loss, based on exchange rates at September 30, 2007, would be up to $25.0 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 and the complexity of environmental regulations. Taking these factors into consideration, the Company has estimated the undiscounted costs of remediation, which will be incurred over several years. The Company accrues an amount consistent with the estimates of these costs when it is probable that a liability has been incurred. At September 30, 2007 and December 31, 2006 the Company had recorded environmental liabilities of $7.8 million and $8.0 million, respectively, primarily related to remediation and decommissioning at the Company s closed manufacturing sites in Newark, New Jersey and Vasset, France. The Unaudited Condensed Statement of Consolidated Income includes expense of $3.5 million and $4.6 million for the three and nine months ended September 30, 2007, respectively, for increases in the estimate to complete the remediation at the Newark, New Jersey site.

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 11 Share-Based Compensation

On May 8, 2007, the stockholders of the Company approved the 2007 Incentive Compensation Plan (the 2007 Plan). The 2007 Plan supersedes and replaces the 1998 Long-Term Incentive Compensation Plan and the 2002 Stock Incentive Plan. The 1998 Plan and 2002 Plan terminated upon stockholder approval of the 2007 Plan, such that no further grants may be made under either the 1998 Plan or the 2002 Plan. The terminations will not affect awards already outstanding under the 1998 Plan or the 2002 Plan, which consist of options and restricted stock awards. All options outstanding under each of the 1998 Plan and the 2002 Plan have 10-year terms and have an exercise price of not less than the per share fair market value, measured by the average of the high and low price of the Company s common stock on the NYSE, on the date of grant.

Under 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 that no option may have a term of more than ten years.

The Unaudited Condensed Statements of Consolidated Income include share-based compensation expense for option grants and restricted stock awards granted to employees as a component of selling, general and administrative expenses of $1.8 million and $1.3 million for the three months ended September 30, 2007 and 2006, respectively, and $5.2 million and $3.8 million for the nine months ended September 30, 2007 and 2006, respectively. In connection with the sale of the Nickel business, the Company entered into agreements with certain Nickel employees that provided for the acceleration of vesting for all unvested stock options and time-based and performance-based restricted stock previously granted to those employees. The Unaudited Condensed Statements of Consolidated Income include share-based compensation expense as a component of discontinued operations of $0.1 million for the three months ended September 30, 2006 and $0.7 million and $0.4 million for the nine months ended September 30, 2007 and 2006, respectively.

At September 30, 2007, there was $9.7 million of total unrecognized compensation expense related to nonvested share-based awards. That cost is expected to be recognized as follows: $1.6 million in the remaining three months of 2007, $5.1 million in 2008, $2.8 million in 2009 and $0.2 million in 2010. There is no unrecognized compensation expense related to the Nickel business. 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.

The Company adopted SFAS No. 123R on January 1, 2006. An adjustment to apply estimated forfeitures to previously recognized share-based compensation was accounted for as a cumulative effect of a change in accounting principle and increased net income by $0.3 million, or $.01 per basic and diluted share for the nine months ended September 30, 2006.

Table of Contents

The Company received cash payments of $10.5 million and $0.9 million in the first nine months of 2007 and 2006, respectively, in connection with the exercise of stock options. SFAS 123R requires that excess tax benefits be recognized as an increase to additional paid-in capital. The exercise of stock options during the first nine months of 2007 resulted in a $1.0 million increase in additional paid-in capital. The Company issues new shares to satisfy stock option exercises and restricted stock awards. The Company does not settle share-based payment obligations for cash.

Stock Options

Options granted generally vest in equal increments over a three-year period from the grant date. 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. During the first nine months of 2007, the Company granted stock options to purchase 184,750 shares of common stock. Upon any change in control of the Company, as defined in the applicable plan, the stock options become 100% vested and exercisable.

The fair value of options granted during the first nine months of 2007 was estimated at the date of grant using a Black-Scholes options pricing model with the following weighted-average assumptions:

Risk-free interest rate	**4.7%**
Dividend yield	
Volatility factor of Company common stock	**0.47**
Weighted-average expected option life (years)	**6.0**
Weighted-average grant-date fair value	**$26.24**

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 shortcut method allowed by Staff Accounting Bulletin (SAB) No. 107. 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, 2006	439,008	$ 11.60
Non-vested at September 30, 2007	454,923	$ 17.44
Granted during the first nine months of 2007	184,750	$ 26.24
Vested during the first nine months of 2007	168,833	$ 11.88
Forfeited during the first nine months of 2007		$

The total intrinsic value of options exercised during the first nine months of 2007 was $5.8 million. The intrinsic value of an option represents the amount by which the market value of the stock exceeds the exercise price of the option.

Table of Contents

A summary of the Company s stock option activity for the first nine months of 2007 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2007	**894,703**	**$ 32.40**		
Granted	**184,750**	**51.16**		
Exercised	**(285,600)**	**36.73**		
Expired unexercised	**(11,000)**	**54.76**		
Forfeited				
Outstanding at September 30, 2007	**782,853**	**$ 34.93**	**7.88**	**$ 14,179,397**
Vested or expected to vest at September 30, 2007	**763,385**	**$ 34.85**	**7.88**	**$ 13,898,946**
Exercisable at September 30, 2007	**327,930**	**$ 30.61**	**7.07**	**$ 7,464,204**

Restricted Stock Performance-Based Awards

During the first nine months of 2007, the Company awarded a total of 86,854 shares of performance-based restricted stock that vest subject to the Company s financial performance. The total 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. Of the 86,854 shares awarded during the first nine months of 2007, 80,600 shares 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, 2009. The remaining 6,254 shares will vest if the Company meets an established earnings target for the Specialties business segment 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 plan, the shares become 100% vested. 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.

In connection with the sale of the Nickel business, the Company entered into an agreement with a Nickel employee that provided for the acceleration of vesting at the target performance level for unvested performance-based restricted stock previously granted to that employee. As a result, during the first nine months of 2007, 3,825 shares of performance-based restricted stock vested and 3,825 shares of performance-based restricted shares were cancelled.

A summary of the Company s performance-based restricted stock awards for the first nine months of 2007 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2007	**95,900**	**$ 28.93**
Granted	**86,854**	**$ 42.13**
Vested	**(3,825)**	**$ 41.57**
Cancelled	**(3,825)**	**$ 28.80**
Non-vested at September 30, 2007	**175,104**	**$ 38.29**

Expected to vest at September 30, 2007	**124,914**

Table of Contents

Restricted Stock   Time-Based Awards

During the first nine months of 2007, the Company awarded 24,360 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. The value of the restricted stock awards, based upon the market price of an unrestricted share of the Company s common stock at the date of grant, was $1.2 million. Compensation expense is being recognized ratably over the vesting period. Upon any change in control of the Company, as defined in the plan, 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.

In connection with the sale of the Nickel business, the Company entered into an agreement with a Nickel employee that provided for the acceleration of vesting, during the first nine months of 2007, of 2,100 shares of unvested time-based restricted stock previously granted to that employee.

A summary of the Company s time-based restricted stock awards for the first nine months of 2007 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2006	**188,494**	**$ 25.39**
Granted	**24,360**	**$ 51.16**
Vested	**(2,100)**	**$ 41.57**
Nonvested at September 30, 2007	**210,754**	**$ 29.04**
Expected to vest at September 30, 2007	**209,741**	

Note 12   Reportable Segments

As a result of the sale of the Nickel business on March 1, 2007, the Company s Unaudited Condensed Consolidated Financial Statements, accompanying notes and other information provided in this Form 10-Q reflect the Nickel segment as a discontinued operation for all periods presented. 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.

After reclassifying the Nickel segment to discontinued operations, the Company has one remaining operating segment   Specialties. The Specialties segment includes products manufactured using cobalt and other metals such as copper, zinc, manganese, and calcium. In late 2005, the Company began a strategic transformation away from commodity-based businesses and markets to value-added, specialty businesses and markets. The sale of the Company s Nickel business, discussed above, was part of the transformation. Pursuant to the transformation, the Vice President and General Manager of the Specialties segment organized certain product lines around end markets, creating three business units that represent product line groupings around end markets: Advanced Organics, Inorganics and Electronic Chemicals. The Specialties segment also includes certain other operations, primarily the Democratic Republic of Congo (the DRC) smelter operations, which are not classified into one of these groupings. The Company s products are sold in various forms such as solutions, crystals and powders. The Company s products are essential components in numerous complex chemical and industrial processes and are used in many end markets.

Corporate is comprised of general and administrative expenses not allocated to Specialties.

While its primary manufacturing site is in Finland, the Company also has manufacturing and other facilities in the United States, Europe, Asia-Pacific and Canada, and the Company markets its products worldwide. Further, approximately 36% of the Company s investment in property, plant and equipment is located in the DRC, where the Company operates a smelter through a 55% owned joint venture.

Table of Contents

The following table reflects the results of the segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	**2007**	2006
Business Segment Information				
Net Sales				
Specialties	**$ 264,640**	$ 170,420	**$ 712,134**	$ 488,023
Operating profit				
Specialties	**$ 48,843**	$ 38,580	**$ 165,146**	$ 90,925
Corporate	**(7,379)**	(9,363)	**(24,363)**	(27,469)
	$ 41,464	$ 29,217	**$ 140,783**	$ 63,456
Interest expense	**$ (238)**	$ (9,712)	**$ (7,523)**	$ (29,331)
Loss on redemption of Notes			**(21,733)**	
Foreign exchange gain	**4,178**	772	**5,962**	3,033
Gain on sale of investment				12,223
Other income, net	**4,540**	1,843	**14,644**	5,250
	$ 8,480	$ (7,097)	**$ (8,650)**	$ (8,825)
Income from continuing operations before income taxes, minority interest and cumulative effect of change in accounting principle	**$ 49,944**	$ 22,120	**$ 132,133**	$ 54,631
Expenditures for property, plant & equipment				
Specialties	**$ 4,880**	$ 3,588	**$ 12,833**	$ 8,876
Depreciation and amortization				
Specialties	**$ 8,050**	$ 7,730	**$ 23,980**	$ 22,981
Corporate	**204**	240	**672**	725
	$ 8,254	$ 7,970	**$ 24,652**	$ 23,706

Total assets	**September 30, 2007**	December 31, 2006
Specialties	**$ 1,054,365**	$ 826,488
Corporate	**259,264**	194,054

Assets of discontinued operations		597,682
	$ 1,313,629	$ 1,618,224

Note 13 Recently Issued Accounting Standards

Accounting Standards adopted in 2007:

FIN No. 48: In July 2006, the Financial Accounting Standards Board (FASB) issued FIN No. 48. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN No. 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN No. 48 on January 1, 2007. The transition provisions require that the effect of applying the provisions of FIN No. 48 be reported as an adjustment to the opening balance of retained earnings in the year of adoption. The effect of adoption was a $0.5 million reduction to retained earnings at January 1, 2007.

Table of Contents

EITF No. 06-3: In June 2006, the FASB ratified the consensus of Emerging Issues Task Force (EITF) No. 06-03, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (that is, gross versus net presentation). EITF No. 06-03 indicates that the income statement presentation of taxes within the scope of the Issue on either a gross basis or a net basis is an accounting policy decision that should be disclosed pursuant to APB No. 22. The Company has historically accounted for such taxes on a net basis and therefore the adoption of EITF No. 06-03 in the first quarter of 2007 had no impact on the Company s results of operations and financial position.

Accounting Standards Not Yet Adopted

SFAS No. 157: In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company has not yet determined the effect, if any, the adoption of this statement will have on its results of operations or financial position.

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 is effective for fiscal years beginning after November 15, 2007. The Company has not determined the effect, if any, the adoption of this statement will have on its results of operations or financial position.

Note 14 Subsequent Events

On October 1, 2007, the Company acquired Borchers GmbH (Borchers), a European-based specialty coatings additive supplier, for 12.7 million (US$18.1 million) in cash, subject to a final working capital adjustment. Borchers, which had sales in 2006 of approximately 36 million (US$45.2 million), offers products to enhance the performance of coatings and ink systems from the production stage through customer end use. The products improve processing options, free-flowing properties, consistency and gloss, control surface drying and drying-out properties, enhance rheology and dispersency, optimize resistance to the most diverse range of stresses and shape the environmental compatibility of contemporary surface hardening. The Borchers operations will be included with OMG s existing Advanced Organics product line grouping.

On October 7, 2007, the Company entered into a Stock Purchase Agreement with Rockwood Specialties Group, Inc (Rockwood). OMG will acquire Rockwood s Electronics businesses, excluding its French entity, for approximately $265 million in cash. Rockwood s French electronic chemicals business is subject to a put option, at the discretion of Rockwood, for an additional purchase price of approximately $50 million. The Rockwood Electronics businesses, which had combined sales of $187 million in 2006, consist of its Printed Circuit Board business, Ultra-Pure Chemicals business, and its 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, employ approximately 700 people, and have locations in the United States, the United Kingdom, France, Taiwan, Singapore and China. The closing of the transaction is expected to occur in the fourth quarter of 2007 subject to approval by regulatory authorities and the satisfaction of other customary closing conditions.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Company is a leading, vertically integrated international producer and marketer of value-added, metal-based specialty chemicals and related materials. The Company applies proprietary technology to unrefined cobalt and other raw materials to market more than 775 different product offerings to approximately 1,900 customers in over 40 industries.

The Company s business is critically connected to both the price and availability of raw materials. The primary raw material used by the Company is unrefined cobalt. Cobalt raw materials include ore, concentrates, slag and scrap. The cost of the Company s raw materials fluctuates due to actual or perceived changes in supply and demand, changes in cobalt reference prices and changes in availability from suppliers. The Company attempts to mitigate changes in availability by maintaining adequate inventory levels and long-term supply relationships with a variety of producers. Fluctuations in the price of cobalt have been significant in the past and the Company believes that cobalt price fluctuations are likely to continue in the future. The Company attempts to pass through to its customers increases in raw material prices by increasing the prices of its products. The Company s profitability is largely dependent on the Company s ability to maintain the differential between its product prices and product costs. 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. Reductions in the price of raw materials or declines in the selling prices of the Company s finished goods could also result in the Company s inventory carrying value being written down to a lower market value.

The Company has manufacturing and other facilities in North America, Europe, Africa and Asia-Pacific, and markets its products worldwide. Although most 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.

On March 1, 2007, the Company completed the sale of its Nickel business, as discussed in Note 2 to the Unaudited Condensed Consolidated Financial Statements in this Form 10-Q. As a result, the Company s financial statements, accompanying notes and other information provided in this Form 10-Q reflect the Nickel business as a discontinued operation for all periods presented. 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.

After reclassifying the Nickel business to discontinued operations, the Company has one operating segment Specialties. The Specialties segment includes products manufactured using cobalt and other metals including copper, zinc, manganese, and calcium. In late 2005, the Company began a strategic transformation away from commodity-based businesses and markets to value-added, specialty businesses and markets. Pursuant to the transformation, the Vice President and General Manager of the Specialties segment organized certain product lines around end markets, thereby creating three business units that represent product line groupings around end markets: Advanced Organics, Inorganics and Electronic Chemicals. The Specialties segment also includes certain other operations, primarily the DRC smelter operations, which are not classified into one of these groupings. The Company s products are sold in various forms such as solutions, crystals and powders. The Company s products are essential components in numerous complex chemical and industrial processes, and are used in many end markets.

Table of Contents

The following table sets forth information regarding the Company s product line groupings:

Product Line Grouping	End Markets/Applications	Product Attributes
Advanced Organics	Tires	Promotes bonding of metal-to-rubber in radial tires
	Coatings and paints	Promotes faster drying in such products as house paints (exterior and interior) and industrial and marine coatings
	Printing Inks	Promotes faster drying in various printing inks
	Petrochemical Refining	Catalyzes reduction of sulfur dioxide and nitrogen emissions
	Polyester Resins	Accelerates the curing of polyester resins found in reinforced fiberglass boats, storage tanks, bathrooms, sports equipment, automobile and truck components
Inorganics	Rechargeable Batteries	Improves the electrical conduction of rechargeable batteries used in cellular phones, video cameras, portable computers, power tools and hybrid electric vehicles
	Ceramics and Glassware	Provides color for pigments, earthenware and glass and facilitates adhesion of porcelain to metal
	Catalysts	Reduces emissions from petrochemical refining and enables the production of cleaner-burning fuels
	Construction Equipment and Cutting Tools	Strengthens and adds durability to diamond and machine cutting tools and drilling equipment used in construction, oil and gas drilling, and quarrying
Electronic Chemicals	Memory Disks	Enhances information storage on disks for computers and consumer electronics
	General Metal Finishing	Impart corrosion protection and wear resistance to electrical connectors, microwave housings, valves and pump bodies, printer shafts and hard-drive computer components

Subsequent events Acquisitions

On October 1, 2007, the Company acquired Borchers, a European-based specialty coatings additive supplier, for 12.7 million (US$18.1 million) in cash, subject to a final working capital adjustment. Borchers offers products to enhance the performance of coatings and ink systems from the production stage through customer end use. The products improve processing options, free-flowing properties, consistency and gloss, control surface drying and drying-out properties, enhance rheology and dispersency, optimize resistance to the most diverse range of stresses and shape the environmental compatibility of contemporary surface hardening. The Borchers operations will be included

with OMG s existing Advanced Organics product line grouping.

On October 7, 2007, the Company entered into a Stock Purchase Agreement with Rockwood to acquire Rockwood s Electronics businesses, excluding its French entity, for approximately $265 million in cash. Rockwood s French electronic chemicals business is

Table of Contents

subject to a put option, at the discretion of Rockwood, for an additional purchase price of approximately $50 million. The Rockwood Electronics businesses consist of its Printed Circuit Board business, Ultra-Pure Chemicals business, and its 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, the United Kingdom, France, Taiwan, Singapore and China. The closing of the transaction is expected to occur in the fourth quarter of 2007 subject to approval by regulatory authorities and the satisfaction of other customary closing conditions.

Results of Operations

Third Quarter of 2007 Compared With Third Quarter of 2006

	Three Months Ended September 30,			
(thousands of dollars & percent of net sales)	**2007**		2006	
Net sales	**$ 264,640**		$ 170,420	
Cost of products sold	**191,502**		117,245	
Gross profit	**73,138**	**27.6%**	53,175	31.2%
Selling, general and administrative expenses	**31,674**	**12.0%**	23,958	14.1%
Operating profit	**41,464**	**15.7%**	29,217	17.1%
Other income (expense), net (including interest expense)	**8,480**		(7,097)	
Income tax expense	**(7,926)**		(5,452)	
Minority partners share of income	**(2,511)**		(2,838)	
Income from continuing operations	**39,507**		13,830	
Income (loss) from discontinued operations, net of tax	**(1,412)**		74,178	
Net income	**$ 38,095**		$ 88,008	

The following table reflects the sales for the product line groupings in the Specialties segment for the three months ended September 30,

(thousands of dollars)	**2007**	%	**2006**	%
Net Sales				
Inorganics	$ 192,654	73%	$ 110,922	65%
Advanced organics	44,578	17%	37,255	22%
Electronic chemicals	27,408	10%	22,243	13%
	$ 264,640		$ 170,420	

The following table reflects the volumes in the Specialties segment for the three months ended September 30,

	2007	**2006**
Volumes		
Inorganics sales volume metric tons *	**6,875**	7,742
Advanced organics sales volume metric tons	**6,797**	6,904
Electronic chemicals sales volume gallons (thousands)	**1,818**	1,753
Cobalt refining volume metric tons	**2,402**	2,333

*

Inorganics 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.

The following table summarizes the percentage of sales dollars by region for the three months ended September 30:

	2007	2006	Change
Americas	**22%**	21%	1%
Asia	**46%**	44%	2%
Europe	**32%**	35%	-3%

The following table summarizes the percentage of sales dollars by end market for the three months ended September 30:

	2007	2006	Change
Batteries	**29%**	25%	4%
Chemical	**16%**	15%	1%
Electronic Chemical	**11%**	13%	-2%
Tire	**7%**	8%	-1%
Powder Metallurgy	**8%**	8%	
Coatings	**5%**	7%	-2%
Other	**24%**	24%	

The following table summarizes the average quarterly reference price of low grade (formerly referred to as 99.3%) cobalt:

	2007	2006	2005
First Quarter	**$25.82**	$12.43	$17.26
Second Quarter	**$28.01**	$14.43	$15.03
Third Quarter	**$25.84**	$15.59	$13.41
Fourth Quarter	**n/a**	$18.66	$12.51
Full Year	**n/a**	$15.22	$14.55

Net sales increased to $264.6 million in the third quarter of 2007 from $170.4 million in the third quarter of 2006, primarily due to increased product selling prices across all product line groupings ($74.0 million). The increase in product selling prices was primarily caused by the higher average cobalt reference price in 2007 compared with 2006. The resale of cobalt metal resulted in a $29.2 million increase to net sales in the third quarter of 2007 compared with the third quarter of 2006. In the Inorganics product line grouping, increased sales volume, excluding cobalt metal resale, copper by-product and specialty nickel salts, favorably impacted net sales by $8.3 million. 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 $9.7 million decrease in net sales in the third quarter of 2007 compared with the third quarter of 2006. Net sales was also negatively impacted by a decrease in copper by-product sales ($6.5 million).

Gross profit was $73.1 million in the third quarter of 2007, compared with $53.2 million in the third quarter of 2006. The increase was primarily due to increased selling prices ($19.3 million) and volume ($6.3 million). The increase in selling prices was primarily due to the increase in the average cobalt reference price in the third quarter of 2007 compared to the third quarter of 2006. Increased volume was primarily related to the Inorganics product line grouping, as discussed in the net sales paragraph above. These factors were partially offset by the decrease in copper by-product sales ($6.1 million). Gross profit as a percentage of sales (27.6% in the third quarter of 2007, 31.2% in the third quarter of 2006) was negatively impacted by the low margins on the resale of cobalt metal.

Selling, general and administrative (SG&A) expenses were $31.7 million in the third quarter of 2007 compared with $24.0 million in the third quarter of 2006. The increase was primarily due to a $3.5 million charge to increase the estimated environmental remediation liability related to the Company s closed Newark, New Jersey site, a $2.4 million increase in selling expenses as a result of the increase in sales and $1.2 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 higher employee incentive compensation expense. Also included in SG&A are corporate expenses for the third quarter of 2007 of $7.4 million compared with $9.4 million in the third quarter of 2006. Corporate expenses consist of unallocated corporate

Table of Contents

overhead, including legal, finance, human resources, information technology, strategic development and corporate governance activities, as well as share-based compensation. The decrease in corporate expenses was primarily due to a $1.2 million decrease in corporate legal and other professional fees and a $0.6 million decrease in information technology expense, as a higher percentage of information technology costs were allocated to Specialties in 2007.

Operating profit for the third quarter of 2007 increased to $41.5 million from $29.2 million in the third quarter of 2006 due to the factors impacting gross profit and selling general and administrative expenses discussed above.

Other income (expense), net (including interest expense) increased to income of $8.5 million in the third quarter of 2007 compared with expense of $7.1 million in the third quarter of 2006. The following table summarizes the components of Other income (expense), net:

	Three Months Ended September 30,	
(In thousands)	**2007**	2006
Interest expense	**$ (238)**	$ (9,712)
Interest income	**5,041**	2,358
Foreign exchange gain	**4,178**	772
Other income, net	**(501)**	(515)
	$ 8,480	$ (7,097)

The $9.5 million decrease in interest expense in the third quarter of 2007 is due to the redemption on March 7, 2007 of the $400.0 million of 9.25% Senior Subordinated Notes due 2011(the Notes). The third quarter of 2007 was also favorably impacted by favorable foreign exchange gains primarily resulting from translating cash held in Euros to US dollars as the Euro strengthened during the quarter against the U.S. dollar, and a $2.7 million increase in interest income. Both the foreign exchange gain and the increase in interest income were impacted by the higher average cash balance in the third quarter of 2007 compared with the third quarter of 2006, which is discussed below under Liquidity and Capital Resources.

Income tax expense in the third quarter of 2007 was $7.9 million on pre-tax income of $49.9 million, or 15.9%, compared to 24.6% in the third quarter of 2006. The effective income tax rates are 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., a tax holiday in Malaysia and the recognition of tax benefits for domestic losses in 2007.

Minority partners share of income relates to the Company s 55%-owned smelter joint venture in the DRC. The decrease in the minority partner s income in the third quarter of 2007 compared with the third quarter of 2006 is primarily due to the timing of deliveries.

Income from continuing operations was $39.5 million in the third quarter of 2007 compared with $13.8 million in the third quarter of 2006 due primarily to the aforementioned factors.

Loss from discontinued operations of $1.4 million for the third quarter of 2007 is primarily due to $1.1 million of tax expense related to the Company s former Precious Metals Group upon finalization of the Company s 2006 U.S. Federal tax return. Income from discontinued operations of $74.2 million for the third quarter of 2006 primarily related to the operations of the Nickel business.

Net income was $38.1 million, or $1.26 per diluted share, in the third quarter of 2007 compared with net income of $88.0 million, or $2.97 per diluted share, in the third quarter of 2006, due primarily to the aforementioned factors.

Table of Contents

First Nine Months of 2007 Compared With First Nine Months of 2006

	Nine Months Ended September 30,			
(thousands of dollars & percent of net sales)	**2007**		2006	
Net sales	**$ 712,134**		$ 488,023	
Cost of products sold	**483,075**		350,159	
Gross profit	**229,059**	**32.2%**	137,864	28.2%
Selling, general and administrative expenses	**88,276**	**12.4%**	74,408	15.2%
Operating profit	**140,783**	**19.8%**	63,456	13.0%
Other expense, net (including interest expense)	**(8,650)**		(8,825)	
Income tax expense	**(57,715)**		(10,498)	
Minority partners share of income	**(9,320)**		(3,474)	
Income from continuing operations	**65,098**		40,659	
Discontinued operations				
Income from discontinued operations, net of tax	**61,511**		118,350	
Gain on sale of discontinued operations, net of tax	**72,270**			
Total income from discontinued operations, net of tax	**133,781**		118,350	
Income before cumulative effect of change in accounting principle	**198,879**		159,009	
Cumulative effect of change in accounting principle			287	
Net income	**$ 198,879**		$ 159,296	

The following table reflects the sales for the product line groupings in the Specialties segment for the nine months ended September 30:

(thousands of dollars)	**2007**	**%**	**2006**	**%**
Net Sales				
Inorganics	$ 495,433	69%	$ 309,295	63%
Advanced organics	134,221	19%	117,105	24%
Electronic chemicals	82,480	12%	61,623	13%
	$ 712,134		$ 488,023	

The following table reflects the volumes in the Specialties segment for the nine months ended September 30,

	2007	**2006**
Volumes		
Inorganics sales volume metric tons*	**18,944**	21,086
Advanced organics sales volume metric tons	**21,692**	21,341
Electronic chemicals sales volume gallons (thousands)	**5,369**	4,847
Cobalt refining volume metric tons	**6,659**	6,494

* Inorganics 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.

Table of Contents

The following table summarizes the percentage of sales dollars by region for the nine months ended September 30:

	2007	2006	Change
Americas	**20%**	23%	-3%
Asia	**48%**	42%	6%
Europe	**32%**	35%	-3%

The following table summarizes the percentage of sales dollars by end market for the nine months ended September 30:

	2007	2006	Change
Batteries	**30%**	24%	6%
Chemical	**9%**	9%	
Electronic Chemical	**12%**	13%	-1%
Tire	**7%**	8%	-1%
Powder Metallurgy	**5%**	8%	-3%
Coatings	**17%**	15%	2%
Other	**20%**	23%	-3%

The following table summarizes the average quarterly reference price of low grade cobalt:

	2007	**2006**	2005
First Nine Months	**$26.54**	**$14.15**	$15.24

Net sales increased to $712.1 million in the first nine months of 2007 from $488.0 million in the first nine months of 2006, primarily due to increased product selling prices ($211.7 million). The increase in product selling prices was primarily caused by the increase in the average cobalt reference price in the first nine months of 2007 compared with the first nine months of 2006. The resale of cobalt metal resulted in a $34.5 million increase to net sales in the first nine months of 2007 compared with the first nine months of 2006. These increases were partially offset by an unfavorable shift in product mix ($13.2 million) and an $11.4 million decrease due to the change with respect to sales of specialty nickel salts products as discussed above.

Gross profit increased to $229.1 million in the first nine months of 2007, compared with $137.9 million in the first nine months of 2006, and as a percentage of net sales increased to 32.2% from 28.2%. Gross profit in the first nine months of 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 ($95.2 million). Gross profit was also favorably impacted by improved volume ($8.8 million) across all three product line groupings (excluding copper by-product and specialty nickel salts in the Inorganics product line grouping). These increases to gross profit were partially offset by a decrease in copper by-product sales ($14.2 million). The increase in gross profit as a percentage of sales (32.2% in the first nine months of 2007, 28.2% in the first nine months of 2006) was primarily due to the higher cobalt metal reference price partially offset by the low margins on the resale of cobalt metal.

Selling, general and administrative expenses were $88.3 million in the first nine months of 2007 compared with $74.4 million in the first nine months of 2006. The increase was primarily due to a $5.7 million increase in selling expenses primarily as a result of the increase in sales, charges totaling $4.6 million to increase the estimated environmental remediation liability related to the Company s closed Newark, New Jersey site, and $3.2 million in legal fees incurred by Specialties for a lawsuit the Company filed related to the use by a third-party of proprietary information. In addition, the first nine months of 2007 included a full nine months of expense relating to Plaschem, which was acquired on March 21, 2006. SG&A expenses in the first nine months of 2006 included a $1.0 million charge to provide an allowance against the note receivable from our joint venture partner in the DRC. Included in SG&A are corporate expenses for the first nine months of 2007 of $24.4 million compared with $27.5 million in the first nine months of 2006. Corporate expenses, as described above, decreased primarily due to a $2.0 million decrease in information technology expense as a higher percentage of costs were allocated to Specialties in 2007, and a

$2.0 million decrease in corporate legal and other professional fees, partially offset by higher employee incentive compensation expense.

Operating profit for the first nine months of 2007 increased to $140.8 million from $63.5 million in the first nine months of 2006 due to the factors impacting gross profit and selling, general and administrative expenses discussed above.

Table of Contents

Other expense, net (including interest expense) for the first nine months of 2007 decreased to $8.7 million from $8.8 million in the first nine months of 2006. The following table summarizes the components of Other expense, net:

	Nine Months Ended September 30,	
(In thousands)	**2007**	2006
Interest expense	**$ (7,523)**	$ (29,331)
Interest income	**15,643**	5,412
Loss on redemption of Notes	**(21,733)**	
Foreign exchange gain	**5,962**	3,033
Gain on sale of investment		12,223
Other expense, net	**(999)**	(162)
	$ (8,650)	$ (8,825)

Included in Other expense, net in the first nine months of 2007 is the loss on redemption of the $400.0 million Notes. The Notes were redeemed 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 $21.8 million decrease in interest expense due to the redemption of the Notes. In addition, the first nine months of 2007 was also favorably impacted by a $10.2 million increase in interest income due to the higher average cash balance described below under Liquidity and Capital Resources and interest earned on the working capital adjustment related to the Norilsk transaction. The first nine months of 2006 included the $12.2 million gain related to the sale of the Company s investment in Weda Bay (See Note 5 to the Unaudited Condensed Consolidated Financial Statements).

Income tax expense for the first nine months of 2007 was $57.7 million on pre-tax income of $132.1 million, or 43.7%, compared to 19.2% in the 2006 period. The higher effective income tax rate in 2007 is due primarily to two discrete items. The Company recorded U.S. income tax expense of $38.8 million on the repatriation of foreign earnings in the first quarter of 2007. This expense was 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 17.2% in the first nine months of 2007 compared to 19.2% in the first nine months of 2006. These rates are 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., a tax holiday in Malaysia and the recognition of tax benefits for domestic losses in 2007.

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 the first nine months of 2007 compared with the first nine months of 2006 is primarily due to higher cobalt prices and increased production.

Income from continuing operations was $65.1 million in the first nine months of 2007 compared with $40.7 million in the first nine months of 2006 due primarily to the aforementioned factors.

Income from discontinued operations for the first nine months of 2007 and 2006 was primarily related to the Nickel business. Total income from discontinued operations for the first nine months of 2007 also included the $72.3 million gain on the sale of the Nickel business.

Net income was $198.9 million, or $6.58 per diluted share, in the first nine months of 2007 compared with net income of $159.3 million, or $5.40 per diluted share, in the first nine months of 2006, due primarily to the aforementioned factors.

Table of Contents

Liquidity and Capital Resources

The Company s cash flows from operating, investing and financing activities, as reflected in the Unaudited Condensed Statements of Consolidated Cash Flows, are summarized in the following table (in thousands):

Cash Flow Summary	Nine months ended September 30, 2007	2006	Change
Net cash provided by (used for):			
Operating activities	**$ 28,758**	$ 52,609	$ (23,851)
Investing activities	**479,969**	(9,572)	489,541
Financing activities	**(408,316)**	(16,353)	(391,963)
Effect of exchange rate changes on cash	**5,718**	3,287	2,431
Discontinued operations-operating activities	**48,575**	94,893	(46,318)
Discontinued operations-investing activities	**(1,540)**	(14,691)	13,151
Net change in cash and cash equivalents	**$ 153,164**	$ 110,173	$ 42,991

The $23.9 million decrease in net cash provided by operating activities was primarily due to a $98.0 million increase in inventories during the first nine months of 2007 compared with a $6.8 million increase in inventories during the first nine months of 2006 and a $45.5 million increase in accounts receivable during the first nine months of 2007 compared with a $15.7 million increase in accounts receivable during the first nine months of 2006. These items were partially offset by a $56.6 million increase in accounts payable during the first nine months of 2007 compared with a $23.5 million increase in the first nine months of 2006. The increase in inventories, accounts receivable and accounts payable in the first nine months of 2007 was primarily due to higher cobalt metal prices in the first nine months of 2007 compared to the first nine months of 2006. Also impacting net cash provided by operating activities was the positive cash flow impact of income from continuing operations of $65.1 million in the first nine months of 2007 compared with income from continuing operations of $40.7 million in the first nine months of 2006. In addition, the first nine months of 2007 included a $21.7 million charge related to the redemption of the Notes while the first nine months of 2006 included 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 $489.5 million in the first nine months of 2007 compared with the first nine months of 2006 primarily due to the $490.0 million of net proceeds related to the sale of the Nickel business and $7.6 million of proceeds from the repayment of a loan made to a former Nickel joint venture partner. The first nine months of 2006 included 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 $5.0 million loan to a former Nickel joint venture partner.

Net cash used in financing activities increased $392.0 million in the first nine months of 2007 compared with the first nine months of 2006 primarily due to the $418.5 million payment to redeem the Notes partially offset by a $9.6 million increase in proceeds from the exercise of stock options.

Debt and Other Financing Activities

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 Unaudited Condensed Statements of Consolidated Income.

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 provides for interest-only payments during its term, with principal due at maturity. The Company has the option to specify that interest be calculated based either on 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

Table of Contents

a certain debt to adjusted earnings ratio. The Revolver matures on December 20, 2010 and contains various affirmative and negative covenants. At September 30, 2007, there were no borrowings outstanding under the Revolver and the Company was in compliance with all covenants.

The Company has two term loans outstanding that expire in 2008 and 2019 and require monthly principal and interest payments. The balance of these term loans was $1.3 million at September 30, 2007 and $1.4 million at December 31, 2006. At September 30, 2007 and December 31, 2006, the Company also had a $0.3 million short-term note payable.

The Company believes that it will have sufficient cash provided by operations and available from its credit facility to provide for its working capital, debt service, acquisition and capital expenditure requirements during 2007.

Capital Expenditures

Capital expenditures in the first nine months of 2007 were $12.8 million, related primarily to ongoing projects to maintain current operating levels, and were funded through cash flows from operations. The Company expects to incur capital spending of approximately $6.8 million for the remainder of 2007 primarily for projects at the Kokkola refinery to expand capacity in selected product lines, maintain and improve throughput with outlays for sustaining operations, and for expenditures related to environmental, health & safety compliance, and also for other fixed asset additions at existing facilities.

During 2005, the Company initiated a multi-year Enterprise Resource Planning (ERP) project that is expected to be implemented worldwide to achieve increased efficiency and effectiveness in supply chain, financial processes and management reporting. The new ERP system will replace or complement existing legacy systems and standardize the global business processes across the enterprise. The system implementation began in the first quarter of 2007, and the Company will continue to implement the ERP system at additional locations in a phased approach.

Contractual Obligations

On March 1, 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 cobalt in the form of crude 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. In addition, the Company entered into two-year agency and distribution agreements for nickel salts.

Except as noted above, there have been no other significant changes in the total amount of contractual obligations or the timing of cash flows in accordance with those obligations, as reported in the Company s Form 10-K for the year ended December 31, 2006.

Critical Accounting Policies and Estimates

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 Unaudited Condensed Consolidated Financial Statements. In preparing these financial statements, management has made its best estimates and judgments of certain amounts, giving due consideration to materiality. The application of 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 and assumptions, which may impact the comparability of the Company s results of operations to their businesses. There have been no changes to our critical accounting policies as stated in our Annual Report on Form 10-K for the year ended December 31, 2006 other than the adoption of FIN No. 48, as discussed in Note 13 to the Unaudited Condensed Consolidated Financial Statements in this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

A discussion of market risk exposures is included in Part II, Item 7a, Quantitative and Qualitative Disclosure About Market Risk, of the Company s 2006 Annual Report on Form 10-K. There have been no material changes from December 31, 2006 to September 30, 2007.

Item 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Management of the Company, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of September 30, 2007. As defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act), disclosure controls and procedures are controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported on a timely basis, and that such information is accumulated and communicated to management, including the Company s Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Company s disclosure controls and procedures include components of the Company s internal control over financial reporting.

Based upon this evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were not effective as of September 30, 2007 solely because of the material weakness identified as of December 31, 2006 relating to accounting for income taxes, as summarized in the Form 10-K for the year ended December 31, 2006. In light of this material weakness, the Company performed additional analysis and post-closing procedures as deemed necessary to ensure that the accompanying Unaudited Condensed Consolidated Financial Statements were prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-Q. Accordingly, management believes that the Unaudited Condensed Consolidated Financial Statements included in this report present fairly, in all material respects, the Company s financial position as of September 30, 2007, the results of its operations for the three and nine months ended September 30, 2007 and its cash flows and changes in stockholders equity for the nine months ended September 30, 2007.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

As of December 31, 2006, management identified inadequate controls over the Company s accounting for income taxes. Management believes that the Company has made progress in addressing this material weakness by identifying additional enhancements to the related control procedures and by hiring a third-party service provider to review the Company s tax provision. However, the improvements in controls have not all been operating effectively for a period of time sufficient for the Company to fully evaluate their design and operating effectiveness. Additionally, certain internal controls over the accounting for income taxes are annual controls associated with the preparation of the Company s year-end financial statements and, therefore, cannot be evaluated as fully remediated until that time.

The Company completed the implementation of a new ERP system at its Manchester, England location and the human resource module at multiple locations during the third quarter of 2007, which resulted in certain changes to businesses processes and related internal controls. The implementation is part of a multi-year project that is expected to be implemented worldwide to achieve increased efficiency and effectiveness in supply chain and financial processes. As currently planned, the Company will continue to implement the ERP system in a phased approach. The Company is taking steps to monitor and maintain appropriate internal controls during the implementation. The Company performed additional procedures, including performing additional verifications and testing data integrity, to ensure the Unaudited Condensed Consolidated Financial Statements included in this report present fairly, in all material respects, the Company s financial position as of September 30, 2007, the results of its operations for the three and nine months ended September 30, 2007 and its cash flows and changes in stockholders equity for the nine months ended September 30, 2007.

The Company continues to review, revise and improve the effectiveness of its internal control over financial reporting including the controls over taxes discussed above. There were no other changes in the Company s internal control over financial reporting in connection with the Company s third quarter 2007 evaluation, or subsequent to such evaluation, that would materially affect, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2006 except as discussed below:

§ The risks associated with any failures or delays in satisfying closing conditions for the sale of the Company s Nickel business are no longer applicable, as the sale of the Nickel business was consummated on March 1, 2007.

§ The risks associated with the SEC s Division of Enforcement investigation are no longer applicable, as the Company consented to an order to cease-and-desist from committing or causing any violations and any future violations of various provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934, and various rules under the Securities Exchange Act. The SEC considered remedial acts promptly undertaken by the Company and cooperation afforded the SEC staff and did not assess the Company any financial penalties.

Item 6. Exhibits

Exhibits are as follow:

31.1	Certification by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification by Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act (18 U.S.C. Section 1350)

Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	OM GROUP, INC.
Dated November 2, 2007	By: /s/ Kenneth Haber
	Kenneth Haber Chief Financial Officer (Principal Financial and Accounting Officer and Duly Authorized Officer)

31