OM GROUP INC
Form 10-K
February 28, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2011 Commission file number 001-12515

OR

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

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

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

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

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

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

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

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

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

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

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of Act). Yes ¨ No x
The aggregate market value of Common Stock, par value $.01 per share, held by nonaffiliates (based upon the closing sale price on the NYSE) on June 30, 2011 was approximately $1,236.4 million.
As of January 31, 2012 there were 32,327,649 shares of Common Stock, par value $.01 per share, outstanding.
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Company’s Proxy Statement for the 2012 Annual Meeting of Stockholders to be held on May 8, 2012 are incorporated by reference into Part III of this Annual Report on Form 10-K.

OM Group, Inc.
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PART I

Item 1. Business

Important Information Regarding Forward-Looking Statements

Portions of this Form 10-K include “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. This includes, in particular, “Item 7- Management's Discussion and Analysis of Financial Condition and Results of Operations” of this Form 10-K as well as other portions of this Form 10-K. The words “believe,” “expect,” “anticipate,” “project,” and similar expressions, among others, generally identify “forward-looking statements,” which speak only as of the date the statements were made. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those projected, anticipated or implied in the forward-looking statements. The most significant of these risks, uncertainties and other factors are described in this Form 10-K (included in “Item 1A - Risk Factors”). Except to the limited extent required by applicable law, the Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Overview

OM Group, Inc. (the “Company”, “we”, “our”, “us”) is a diversified specialty chemicals and materials company serving attractive global markets, including mobile energy storage, electronic devices, renewable energy, and automotive systems. We develop, produce and distribute innovative, high-quality chemicals, materials, products and technologies that contribute to our customers' success by addressing their demanding applications and requirements. Our strategy is to grow through product innovation, new market and customer development, and acquisitions, and to optimize our results through operational excellence. Our objective is to deliver sustainable, profitable growth and create long-term shareholder value.

On August 2, 2011, the Company completed the acquisition of the outstanding equity interests in VAC Holding GmbH (“VAC”) for $812.2 million of total consideration. VAC employs approximately 4,500 people, holds over 700 patents, and has principal production facilities in Germany, Slovakia, Finland, China and Malaysia. As a result of the acquisition, the Company created a new segment named Magnetic Technologies, which consists of VAC.

The Company operates in four business platforms, each of which is a reported segment. In the third quarter of 2011, the Company combined VAC and its existing Advanced Materials segment into a new segment called Engineered Materials. Upon further consideration, during the fourth quarter of 2011, the Company determined that VAC and Advanced Materials would operate and be reported as separate segments. Financial information, including external sales and long-lived assets, and further discussion of these segments and their geographic areas are contained in Note 18 to the accompanying consolidated financial statements of this Annual Report on Form 10-K.

Magnetic Technologies segment

The Magnetic Technologies segment is engaged in the development, manufacturing and distribution of industrial-use magnetic products and systems for electronic equipment markets, including the renewable energy, automotive systems, construction and industrial sectors. We sell the majority of our products directly to original equipment manufacturers who incorporate them into their sub-assemblies and final assemblies. At December 31, 2011, backlog was $132.1 million, all of which is expected to be converted into sales during the next twelve months.

We believe we are a market leader for many of our applications within our primary geographic markets; however, the competitive landscape remains fragmented with many competitors, and no single competitor has significant market share.

Magnetic Technologies uses nickel, cobalt and rare earth materials, primarily dysprosium and neodymium, to produce its products. The supply of these rare earths is currently concentrated in China and was constrained in 2011, resulting in significant price increases. These prices recently moderated, and additional non-Chinese sources of supply are expected to develop in the coming years.

The segment is focused on developing and leveraging its substantial patent portfolio to enter new markets and increase market share.

Advanced Materials segment

The Advanced Materials segment manufactures inorganic products using unrefined cobalt and other metals, for the

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mobile energy storage, renewable energy, automotive systems, construction and mining, and industrial end markets; it also resells cobalt metal. The Company has a 55% interest in a joint venture (Groupement pour le Traitement du Terril de Lubumbashi Limited ("GTL")) that owns a smelter in the Democratic Republic of Congo (the “DRC”). The Company's partners in GTL are Groupe George Forrest (25% interest); and La Générale des Carrières et des Mines (“Gécamines”) (20% interest). GTL is consolidated in the Company's financial statements because the Company has a controlling interest in the joint venture. The GTL smelter is a primary source of the Company's cobalt raw material. The Company believes it is the global market leader providing engineered cobalt products directly to customers that produce rechargeable battery chemicals, manufacture industrial tooling, and produce various chemicals and ceramics. One customer, Nichia Chemical Corporation, represents 10-15% of the Company's consolidated sales in each of the past three years. The market price of cobalt can fluctuate based on dynamic global demand and supply factors. Customer orders are quickly filled, and backlog is not material in this segment.

Historically, Advanced Materials revenues during the third quarter have been lower than other quarters due to the summer holiday season in Europe. Furthermore, the Company historically has performed its annual maintenance shut-down at its refinery in Finland in the second quarter.

The segment is focused on maintaining its industry leadership in quality, reliability and security of supply.

Specialty Chemicals segment

The Specialty Chemicals segment develops, produces and supplies chemicals for electronic and industrial applications, and photomasks used by customers to produce semiconductors and related products. The majority of our sales are directly to customers. Orders are quickly filled, and backlog is not material in this segment.

On December 22, 2011, the segment acquired Rahu Catalytics Limited (“Rahu”), developer of an iron- and ligand-based chemistry used in environmentally-friendly coating, ink and composite applications. The Company previously had a license and supply agreement with Rahu.

We believe we are a leader in several of the markets we serve, such as memory disks and printed circuit board plating. Our customer base in this segment requires significant technical support and high-quality formulations and products that meet stringent requirements and quality specifications. New products and customers often require a long qualification process. We are focused on providing innovative products that meet specific customer requirements and expanding our geographical reach.

Battery Technologies segment

The Battery Technologies segment provides advanced batteries, battery management systems, battery-related research and energetic devices for defense, aerospace and medical markets. We sell these products directly to customers who incorporate them into sub-assemblies. At December 31, 2011, backlog was $122.9 million as compared with $134.9 million at December 31, 2010. At December 31, 2011, $26.2 million of the backlog is not expected to be converted into sales during the next twelve months.

We believe we are a market leader for defense and aerospace applications in the U.S due to our innovation and reliability. There are few competitors qualified to supply into our principal markets. The segment's top three customers account for over half of its sales.

The segment acts as a prime contractor or subcontractor for numerous U.S. Government programs, including U.S. Government customers. Please see "Risk Factors" for important information regarding U.S. government contracts and programs.

The segment is focused on developing new battery chemistries and expanding the markets it serves.

Raw Materials

The Company uses a variety of raw materials purchased from a broad supplier base. Multiple suppliers are generally available for each of these materials; however, some raw materials are sourced from a single supplier. Rare earth materials, principally neodymium and dysprosium, are critical to the production of certain Magnetic Technologies products and currently are available from a limited number of suppliers, primarily in China. Temporary shortages of raw materials may occasionally occur and cause short-term price increases. Historically, these shortages have not resulted in lack of availability of raw materials. The Company also uses certain raw materials that must be qualified

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before being used in production. For these raw materials, changes in suppliers may result in disruption of production, forward purchasing of contract requirements or re-qualification expenses.

Unrefined cobalt is the principal raw material used by Advanced Materials. The primary raw materials used by Magnetic Technologies are nickel, cobalt and certain rare earth materials, primarily dysprosium and neodymium. The Company attempts to mitigate increases in raw material prices by passing through such increases to its customers in the prices of its products and, when possible, by entering into sales contracts that contain variable pricing that adjusts based on changes in the price of certain raw materials. Fluctuations in the price of these metals have historically been significant and the Company believes that price fluctuations are likely to continue in the future. During periods of rapidly changing metal prices, there may be price lags that can positively or negatively impact the short-term profitability and cash flow from operations of the Company. Declines in the selling prices of the Company's finished goods, which can result from decreases in the market price of raw materials or other factors, can result in the Company's inventory carrying value being written down to a lower market value.

Foreign Operations

The Company has operations in North America, Europe, Africa and Asia-Pacific, with the majority of its operations located outside of the United States. The Company markets its products worldwide and purchases important raw materials from suppliers located outside of the United States. Although a significant portion of the Company's raw material purchases and product sales are based on the U.S. dollar, sales at certain locations, prices of certain raw materials, non-U.S. operating expenses and income taxes are denominated in local currencies. Accordingly, fluctuations in currency prices affect the Company's operating results. The primary currencies for which the Company has foreign currency rate exposure are the European Union Euro, Taiwanese Dollar, Malaysian Ringgit, Singapore Dollar, British Pound Sterling, Japanese Yen, Congolese Franc, Chinese Renminbi and the Canadian Dollar. Please see "Risk Factors" for additional information regarding our foreign operations.

Research and Development

The Company's research and development programs are part of its strategy to grow the business through new products, applications and markets. Research and development expenses were approximately $24.8 million in 2011, $11.8 million in 2010 and $9.2 million in 2009. The increase in 2011 is primarily due to the acquisition of VAC.

Patents and Other Intellectual Property

The Company holds patents, registered primarily in Europe and the United States, relating to the formulation, content, manufacturing, processing and use of certain products, materials and chemistries. The Company also possesses other intellectual property, including trademarks, tradenames, know-how, developed technology and trade secrets. Although the Company believes these intellectual property rights are important in the operations of its specific businesses, it does not consider any single patent, trademark, tradename, know-how, developed technology or trade secret to be material to its business as a whole.

Environmental Matters

The Company 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 and potential claims and legal proceedings involving environmental matters. A number of factors affect the cost of environmental remediation, including the determination of the extent of contamination, the length of time the remediation may require, the complexity of environmental regulations and the continuing improvements in remediation techniques. Taking these factors into consideration, the Company estimates the undiscounted costs of remediation, which will be incurred over several years, and accrues an amount consistent with the estimates of these costs when it is probable that a liability has been incurred. The Company continually evaluates the adequacy of its reserves and adjusts the reserves when determined to be appropriate. Ongoing environmental compliance costs, which are expensed as incurred, were approximately $13.2 million in 2011 and $11.1 million in 2010. The Company anticipates that it will continue to incur compliance costs for the foreseeable future; however, the amount and timing of future environmental expenditures could vary significantly. The Company believes that its ultimate aggregate cost of environmental remediation as well as liability under environmental protection laws will not materially adversely affect its financial condition or results of operations.

Employees

At December 31, 2011, the Company had 7,067 full-time employees, including 393 employees of the Company's consolidated joint venture. We believe we have good relations with our employees.

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

Item 1A. Risk Factors

The following discussion of “risk factors” identifies the most significant risks that our business faces. Our business, financial condition and results of operations could be materially adversely affected by any of these risks. There may be additional risks and uncertainties not presently known to us or that we currently deem to be immaterial. These risks should be read in conjunction with the other information in this Annual Report on Form 10-K.

We are subject to risks arising from uncertainty in worldwide economic conditions.
Overall demand for our products and our profitability may be adversely affected by changes in global economic conditions, including inflationary or deflationary pressures; interest rates; access to and functioning of capital markets; the impact of sovereign debt defaults by certain European countries; consumer and business spending rates; and higher commodity, raw material and fuel costs. There currently is uncertainty regarding global economic conditions, which could lead to reduced demand for our products, reduced profitability, and increased payment delays or defaults. We are limited in our ability to reduce costs to offset the results of a prolonged or severe economic downturn in light of certain fixed costs associated with our operations.

Deterioration in global economic conditions also may impact the valuation of certain long-lived or intangible assets that are subject to impairment testing, potentially resulting in impairment charges that may be material to our financial condition or results of operations. As of December 31, 2011, we have $544.5 million of goodwill and $433.3 million of intangible assets recorded on our balance sheet. We perform impairment tests of our goodwill and indefinite-lived intangible assets annually and more often if indicators of impairment exist.

Extended business interruption at our key facilities could have an adverse impact on operating results.
Our results of operations are dependent in large part upon our ability to produce and deliver products promptly upon receipt of orders. Our facilities in Finland, Germany, the United States and the GTL smelter in the DRC are critical to our business, and any damage to or other conditions significantly interfering with the operation of our facilities, such as an interruption of our supply lines, could have a material adverse effect on our business, financial condition and results of operations.

We are at risk from fluctuations in the price and uncertainties in the supply of cobalt, rare earth materials and other raw materials.
Unrefined cobalt is the principal raw material we use in manufacturing Advanced Materials products, and nickel, cobalt and certain rare earth materials, primarily dysprosium and neodymium, are the primary raw materials used by Magnetic Technologies. Fluctuations in the price of cobalt, rare earth materials and other raw materials have been significant in the past and we believe price fluctuations are likely to occur in the future. Our ability to pass increases in raw material costs through to our customers by increasing the selling prices of our products is an important factor in our business. We cannot guarantee that we will be able to maintain an appropriate differential at all times. If raw material costs increase, and if we are unable to pass along, or are delayed in passing along, those increases to our customers, we will experience reduced profitability. In addition, we may be required under U.S. GAAP accounting rules to write down the carrying value of our inventory when cobalt, rare earth and other raw material prices decrease. Decreases in the market price of raw materials or other factors can result in declines in the selling prices of our finished products, which can result in the Company's inventory carrying value being written down to a lower market

value, resulting in a charge against inventory.

There are a limited number of supply sources for unrefined cobalt, primarily the DRC, Finland and Russia. Rare earth materials are available from a limited number of suppliers, primarily in China. Political and civil instability and unexpected adverse changes in laws or regulatory requirements, including with respect to export duties, quotas or embargoes, may affect the market price and availability of raw materials, including cobalt and rare earth materials, particularly from the DRC and China, respectively. If a substantial interruption should occur in the supply of cobalt or rare earth materials, we may not be able to obtain other sources of supply in a timely fashion, at a reasonable price or as would be necessary to satisfy our requirements. A substantial increase in the price or an interruption in supply of cobalt or rare earth materials may cause our customers to look for substitute materials or processes which could lead to reduced demand for our

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products.

We intend to continue to seek additional acquisitions, but we may not be able to identify or complete transactions, which could adversely affect our strategy.
Our strategy anticipates growth through future acquisitions; however, our ability to identify and consummate any future acquisitions, on terms that are favorable to us, may be limited by the number of attractive acquisition targets, internal demands on our resources and our ability to obtain financing. Our success in integrating newly-acquired businesses will depend upon our ability to retain key personnel to avoid diversion of management's attention from operational matters. Integration of acquired operations may take longer, or be more costly or disruptive to our business, than originally anticipated, and it is also possible that expected synergies from future acquisitions may not materialize. We also may incur costs and divert management attention with regard to potential acquisitions that are never consummated. Acquisitions could result in the incurrence of additional debt, costs and contingent liabilities.

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

We are at risk as a result of current circumstances and developments regarding the DRC.
A substantial amount of our supply of cobalt is sourced from the DRC, a nation that has historically experienced outbreaks of political instability, changes in national and local leadership and financial crises. The global economic and financial market crisis along with volatility in metal prices may heighten the risk of changes in the national and local policy towards investors, which, in turn, could result in additional risks to our joint venture GTL. GTL has experienced an increase in claims by DRC national and local government agencies for additional taxes and customs duties and we cannot predict whether GTL will receive additional claims in the future.

Private equity groups or hedge funds have purchased distressed debt of the DRC and have taken legal actions to attempt to collect this debt from the DRC or entities historically affiliated with the DRC, such as Gécamines, which is one of our joint venture partners in GTL. If successful, these efforts and any similar efforts in the future could further damage the financial condition and undermine the stability of the DRC or affiliated entities and potentially threaten our supply of unrefined cobalt.

The restrictive covenants in our Senior Secured Credit Facility may affect our ability to operate our business successfully.
The terms of our Senior Secured Credit Facility contain various provisions that limit our ability to, among other things: (i) incur or guarantee additional indebtedness; (ii) pay distributions on, redeem or repurchase capital stock or redeem or repurchase subordinated debt; (iii) make investments; (iv) sell assets; (v) enter into agreements that restrict distributions or other payments from restricted subsidiaries to the Company; (vi) incur or suffer to exist liens securing indebtedness; (vii) consolidate, merge or transfer all or substantially all of our assets; and (viii) engage in transactions with affiliates. These covenants could adversely affect our ability to finance future operations or capital needs and pursue available business opportunities.

In addition, our Senior Secured Credit Facility requires us to maintain specified financial ratios and satisfy certain financial condition tests. Events beyond our control, including changes in general economic and business conditions, may affect our ability to meet those financial ratios and financial condition tests. We cannot assure that we will meet those tests or that the lenders will waive any failure to meet those tests. A breach of any of these covenants or any other restrictive covenants contained in our Senior Secured Credit Facility would result in an event of default. If an event of default under our Senior Secured Credit Facility occurs, the holders of the affected indebtedness could declare all amounts outstanding, together with accrued interest, to be immediately due and payable. If we were unable to pay such amounts, the lenders in our Senior Secured Credit Facility could proceed against the collateral pledged to them. We have pledged a substantial portion of our assets to the lenders under our Senior Secured Credit Facility.

Our indebtedness may impair our ability to operate our business successfully.
The terms of our indebtedness could have important consequences including restricting our ability to borrow additional amounts; using our cash flow from operations to fund operating, strategic and debt service requirements; placing us at a competitive disadvantage compared with those of our competitors that have less debt; and exposing us to risk of higher interest expense, in the event of increases in interest rates because some of our borrowings have variable interest rate provisions.

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In addition, we may not be able to generate sufficient cash flow from operations to repay our indebtedness when it becomes due and to meet other cash needs. If we are not able to pay our debts as they become due, we may be required to pursue one or more alternative strategies, such as selling assets, refinancing or restructuring our indebtedness or selling additional debt or equity securities. We may not be able to refinance our debt or sell additional debt or equity securities or our assets on favorable terms, if at all, and if we must sell assets, it may negatively affect our ability to generate sales.

Changes in effective tax rates or adverse outcomes resulting from examination of our income tax returns could adversely affect us.
We are subject to income taxes in the United States and numerous jurisdictions outside of the United States. Significant judgment is required in evaluating our worldwide provision for income taxes. During the ordinary course of business, there are many transactions for which the ultimate tax determination is uncertain. For example, our effective tax rates could be adversely affected by the mix of earnings in various tax jurisdictions with different tax rates, changes in the valuation of our deferred tax assets and liabilities, the timing and amounts of funds repatriated to the U.S., and changes in tax laws, regulations and accounting principles and interpretations.

We are subject to tax audits in various jurisdictions, and such jurisdictions may assess additional income tax against us. The final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals, resulting in a material reduction of net income.

The majority of our operations are outside the United States, which subjects us to risks that may adversely affect our operating results.
Our business is subject to risks related to the differing legal and regulatory requirements and the social, political and economic conditions of many jurisdictions. These risks include fluctuations in foreign exchange rates; political instability, civil unrest or labor difficulties, especially in the DRC and surrounding countries; inconsistent support of legal rights; difficulty collecting receivables and longer customer payment cycles; unexpected additional taxes, tariffs, restrictions on capital flows, and restrictions on trade; and unexpected adverse changes in foreign laws or regulatory requirements. Our overall success as a global business depends, in part, upon our ability to succeed in differing legal, regulatory, economic, social and political conditions. We cannot assure you that we will implement policies and strategies that will be effective in each location where we do business.

We engage in business in certain countries where the risk of public sector corruption and bribery is high. We have implemented policies and procedures and conducted employee training to assure that our operations are in compliance with anti-corruption laws. If our compliance actions fail, a violation of anti-corruption laws could result in serious penalties, including criminal and civil sanctions.

The level of returns on pension plan assets and changes in the actuarial assumptions used could adversely affect us.
Our operating results may be positively or negatively impacted by the amount of expense we record for our defined benefit pension plans. U.S. GAAP requires that we calculate pension expense using actuarial valuations, which are dependent upon our various assumptions including estimates of expected long-term rate of return on plan assets, discount rates for future payment obligations, and the expected rate of increase in future compensation levels. Our pension expense and funding requirements may also be affected by our actual return on plan assets, and by legislation and other government regulatory actions. Changes in assumptions, laws or regulations could lead to variability in operating results and could have a material adverse impact on liquidity.

Our financial condition could be negatively impacted if we fail to maintain sufficient cash in the United States.
The majority of our cash and cash equivalents are held outside the United States. If a substantial amount of cash were required in the United States for debt repayment, capital expenditures or other special initiatives including future

acquisitions, we may be required to repatriate funds to the United States or otherwise finance the desired activity. If funds are repatriated to the United States, they could be subject to additional taxation.

We maintain cash balances in U.S. and foreign financial institutions.
While we monitor the financial institutions with which we maintain accounts, we may not be able to recover our funds in the event that a financial institution fails. As a result, this could adversely affect our ability to fund normal operations or capital expenditures.

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We are exposed to fluctuations in foreign exchange rates.
In addition to the United States, we have operations in Africa, Canada, Europe and Asia-Pacific. Although a significant portion of our raw material purchases and product sales are transacted in U.S. dollars, liabilities for non-U.S. operating expenses and income taxes are denominated in local currencies. Many of our foreign operating subsidiaries use the local currency as their functional currency. These include, among others, the European Union Euro, Taiwanese Dollar, Malaysian Ringgit, Singapore Dollar, British Pound Sterling, Japanese Yen, Chinese Renminbi and the Canadian Dollar. In these circumstances, the financial condition and results of operations of our foreign operating subsidiaries are reported in the relevant functional currency and then translated to U.S. dollars at the applicable currency exchange rate for inclusion in our consolidated financial statements. Changes in exchange rates between these foreign currencies and the U.S. dollar may adversely affect the recorded levels of our assets and liabilities. In addition to currency translation risks, we incur currency transaction risk whenever we enter into either a purchase or sales transaction using a currency other than the functional currency of the transacting entity.

We are subject to stringent environmental regulation and may incur unanticipated costs or liabilities arising out of environmental matters.
We are subject to stringent laws and regulations relating to the storage, handling, disposal, emission and discharge of materials into the environment, and we have expended, and may be required to expend in the future, substantial funds for compliance with such laws and regulations. In addition, we may from time to time be subjected to claims for personal injury, property damages or natural resource damages made by third parties or regulators.

Given the many uncertainties involved in assessing liability for environmental claims, our current reserves may prove to be insufficient. In addition, our current reserves are based only on known sites and the known contamination on those sites. It is possible that additional remediation sites will be identified in the future or that unknown contamination at previously identified sites will be discovered. This could require us to make additional expenditures for environmental remediation or could result in exposure to claims in the future.

Changes in environmental, health and safety regulatory requirements could affect sales of our products.
New or revised governmental regulations relating to health, safety and the environment may affect demand for our products. For example, the European Union's REACH legislation, which has established a system to register and evaluate chemicals manufactured in, or imported to, the European Union and requires additional testing, documentation and risk assessments for the chemical industry, could affect our ability to sell certain products. Such new or revised regulations may result in heightened concerns about the chemicals involved and in additional requirements being placed on the production, handling, or labeling of these chemicals and may increase the cost of producing them and/or limit the use of such chemicals or products containing such chemicals, which could lead to a decrease in demand. As a result of these regulations, customers may avoid purchasing some products in favor of perceived environmentally sensitive, less hazardous or less costly alternatives which could adversely affect sales of our products. Additional new regulations may require us to incur significant additional compliance costs.

We may not be able to respond effectively to technological changes in our industry or in our customers' products.
Our future business success will depend in part upon our ability to maintain and enhance our technological capabilities, develop and market products and applications that meet changing customer needs and successfully anticipate or respond to technological changes on a cost-effective and timely basis. Moreover, technological and other changes in our customers' products or processes may render some of our products unnecessary, which would reduce the demand for those products. In addition, technical advances by competitors may lead to production of less expensive or more effective products could reduce future sales.

We may not be able to adequately protect or enforce our intellectual property rights.
We rely on patents and trade secrets to protect our intellectual property. We attempt to protect and restrict access to our trade secrets and proprietary information, but it may be possible for a third party to obtain our information and

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

Because we depend on several large customers for a significant portion of our revenues, our operating results could be adversely affected by any disruption of our relationship with these customers or any material adverse change in their businesses.

We depend on several large customers for a significant portion of our business. Sales to Nichia Chemical Corporation

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represented approximately 10-15% of consolidated net sales in 2009 through 2011. Sales to the top three customers in the Battery Technologies segment represented over half of Battery Technologies' net sales in 2011. Any disruption in our relationships with our major customers, including any adverse modification of our agreements with them or their unwillingness or inability to perform their obligations under the agreements, could adversely affect us. In addition, any material adverse change in the financial condition of any of our major customers could have similar adverse effects.

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

There has been a trend toward consolidation in our industries. We believe that industry consolidation among our peers may result in stronger competitors with greater financial and other resources that are better able to compete for customers.

The insurance that we maintain may not fully cover all potential exposures.
We maintain property, business interruption and casualty insurance but such insurance may not cover all risks associated with the hazards of our business and is subject to limitations, including deductibles and maximum liabilities covered. We may incur losses beyond the limits, or outside the coverage, of our insurance policies, including liabilities for environmental remediation. We are potentially at risk if one or more of our insurance carriers fail. Additionally, severe disruptions in the domestic and global financial markets could adversely impact the ratings and survival of some insurers. Future downgrades in the ratings of enough insurers could adversely impact both the availability of appropriate insurance coverage and its cost. In the future, we may not be able to obtain coverage at current levels, and our premiums may increase significantly on coverage that we maintain.

Our Battery Technologies segment does business with the United States Government and as a result is subject to certain government regulations.
U.S. Government contracts are subject to specific regulations. We must also comply with various other government regulations and requirements as well as various statutes related to employment practices, environmental protection, recordkeeping and accounting. These laws impact how we transact business with our governmental clients and, in some instances, impose significant costs on our business operations. If we fail to comply with any of these regulations, requirements or statutes, our existing government contracts could be terminated, and we could be temporarily suspended or even debarred from government contracting or subcontracting.

We may be impacted by government audits, investigations and proceedings. For example, government agencies such as the U.S. Defense Contract Audit Agency routinely review and audit government contractors for performance on contracts, pricing practices, cost structure and compliance with applicable laws, regulations and standards. Any costs found to be improperly allocated to a specific contract will not be reimbursed, while such costs already reimbursed must be refunded. Despite the fact that we take precautions to prevent and deter fraud, misconduct or other non-compliance, we face the risk that our employees, partners or subcontractors may engage in such activities. If any of these agencies determine that a rule or regulation has been violated, a variety of penalties can be imposed, including criminal and civil penalties, payments to us may be disallowed, our reputation with the government could be harmed, and we could be restricted from future government activities.

If one or more of our government contracts are terminated for any reason, including for convenience, if we are restricted from government contract work, or if payment for our costs is disallowed, we could suffer a significant reduction in sales.

Contracts with the U.S. Government are subject to uncertain levels of funding, modification due to changes in customer priorities and potential termination.
The funding of U.S. Government programs is subject to congressional budget authorization and appropriation processes. For certain programs, Congress appropriates funds on a fiscal year basis even though a program may extend over several fiscal years. Consequently, programs are often only partially funded initially and additional funds are committed only as Congress makes further appropriations. We cannot predict the extent to which funding will be

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included, increased or reduced as part of the budgets ultimately approved by Congress or included in the scope of separate supplemental appropriations. In the event that appropriations for one or more of our, or our customers', programs becomes unavailable, or is reduced or delayed, our contract or subcontract under such program may be terminated or adjusted by the U.S. Government, which could adversely affect future sales under such program.

We also cannot predict the impact of potential changes in priorities due to military transformation and planning and/or the nature of war-related activity on existing, follow-on or replacement programs. A shift of government priorities to programs in which we do not participate and/or reductions in funding for or the termination of programs in which we do participate, unless offset by other programs and opportunities, could adversely affect our sales.

In addition, the U.S. Government generally has the ability to terminate contracts, in whole or in part, without prior notice, for convenience or for default based on performance. In the event of termination for the government's convenience, contractors are entitled to reimbursement for allowable costs and profits on authorized work performed through the date of termination. Termination resulting from our default can expose us to liability and adversely affect our ability to compete for future contracts.

Failure to retain and recruit key personnel would harm our ability to meet key objectives.
Our key personnel are critical to the management and direction of our businesses. Our future success depends, in large part, on our ability to retain key personnel and other capable management personnel. It is particularly important that we retain our senior management group that is responsible for implementing our strategic transformation. If we were not able to attract and retain talented personnel and replace key personnel should the need arise, we may not successfully execute our strategy.

Our stock price may continue to be volatile.
Historically, our common stock has experienced substantial price volatility. In addition, the stock market has experienced and continues to experience significant price and volume volatility that has often been unrelated to our operating performance. These broad market fluctuations may adversely affect the market price of our common stock.

Item 1B. Unresolved Staff Comments
The Company has received no written comments regarding its periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days or more preceding the end of its 2011 fiscal year and that remain unresolved.

Item 2. Properties
The Company believes that its plants and facilities, which are of varying ages and of different construction types, have been satisfactorily maintained, are suitable for the Company’s operations and generally provide sufficient capacity to meet the Company’s production requirements.
The Company’s Kokkola, Finland production facility is situated on property owned by Boliden Kokkola Oy. The Company and Boliden Kokkola Oy share certain physical facilities, services and utilities under agreements with varying expiration dates.
The number, type, location and size of the Company's properties as of December 31, 2011, by segment, is set forth below:

	Number and Nature of Facilities			Square Footage (in thousands)	
Segment	Manufacturing	Warehouse	Sales/Service	Owned	Leased
Magnetic Technologies	6	6	15	1,443	359
Advanced Materials	2	2	2	804	2
Specialty Chemicals	16	16	15	778	354
Battery Technologies	8	9	9	408	143

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	Locations				Leased Facilities Expiration Dates (years)	
Segment	North America	Europe	Asia	Other	Minimum	Maximum
Magnetic Technologies	1	4	10	—	1	10
Advanced Materials	—	1	2	1	2	2
Specialty Chemicals	12	9	11	—	1	30
Battery Technologies	5	—	—	—	6	6

Item 3. Legal Proceedings
The Company is a party to various legal and administrative proceedings incidental to its business. The Company believes that disposition of all suits and claims related to its ordinary course of business should not in the aggregate have a material adverse effect on the Company's financial position or results of operations.

Item 4. Mine Safety Disclosures
Not applicable.
Executive Officers of the Registrant
The information under this item is being furnished pursuant to Instruction 3 to Item 401(b) of Regulation S-K and General Instruction G of Form 10-K. Set forth below is the name, age, positions and offices held by each of the Company's executive officers, as well as their business experience during the past five years. Dates indicate when the individual was named to or held the indicated position.

Joseph Scaminace - 58
Chairman and Chief Executive Officer (August 2005)

Christopher Hix - 49
Vice President and Chief Financial Officer (January 2012)
Vice President and Chief Financial Officer, Robbins & Myers, Inc. (August 2006 - December 2011)

Valerie Gentile Sachs - 56
Vice President, General Counsel and Secretary (September 2005)

Stephen D. Dunmead - 48
Vice President and General Manager, Specialties (January 2006)

Gregory J. Griffith - 56
Vice President, Strategic Planning, Development and Investor Relations (February 2007)
Vice President, Corporate Affairs and Investor Relations (October 2005 - February 2007)

Michael V. Johnson - 60
Vice President, Human Resources (November 2010)
Senior Vice President, Human Resources, FXI Foamex Innovations (January 2008 - October 2010)
Human Resources Consultant (September 2006 - January 2008)

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PART II

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

The Company’s common stock is traded on the New York Stock Exchange under the symbol “OMG”. As of December 31, 2011, the number of record holders of the Company’s common stock was 1,037.

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

	2011			2010		
	Sales Price		Cash	Sales Price		Cash
	High	Low	Dividend	High	Low	Dividend
First quarter	$39.85	$33.43	$—	$36.50	$29.83	$—
Second quarter	$40.67	$31.72	$—	$39.06	$23.72	$—
Third quarter	$41.88	$25.50	$—	$30.91	$21.97	$—
Fourth quarter	$30.39	$20.13	$—	$39.92	$29.50	$—

The Company intends to continue to retain earnings for use in the operation and expansion of the business and therefore does not anticipate paying cash dividends in 2012.

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Item 6. Selected Financial Data

	Year Ended December 31,				
	2011	2010	2009	2008	2007
(In millions, except per share data)					
Income Statement Data:					
Net sales	$1,514.5	$1,196.6	$871.7	$1,736.8	$1,021.5
Amounts attributable to OM Group, Inc. common stockholders:					
Income (loss) from continuing operations before cumulative effect of change in accounting principle, net of tax	$38.0	$82.6	$(19.4)	$134.9	$111.5
Income (loss) from discontinued operations, net of tax	(0.1)	0.7	1.5	0.1	135.4
Net income (loss)	$37.9	$83.4	$(17.9)	$135.0	$246.9
Net income (loss) per common share attributable to OM Group, Inc. common stockholders — diluted:					
Continuing operations	$1.21	$2.70	$(0.64)	$4.45	$3.68
Discontinued operations	—	0.03	0.05	—	4.47
Net income (loss)	$1.21	$2.73	$(0.59)	$4.45	$8.15
Balance Sheet Data:					
Cash and cash equivalents	$292.1	$400.6	$355.4	$244.8	$100.2
Total assets	$2,869.7	$1,772.7	$1,444.1	$1,434.4	$1,469.2
Long-term debt, excluding current portion(a)	$663.2	$90.0	$—	$26.1	$1.1
Cash Flow Data:					
Net cash provided by operating activities	$124.8	$126.6	$165.4	$172.1	$41.0

Results for 2011 include pre-tax acquisition-related charges recorded in Magnetic Technologies of $111.2 million, $15.4 million of acquisition fees recorded in Corporate expenses and a pre-tax gain of $9.7 million recognized on the sale of land. Magnetic Technologies 2011 acquisition-related charges include $106.6 million of charges as a result of purchase accounting related to acquired inventory, $2.4 million of acquisition-related fees and $2.2 million of severance charges. See Note 3 in our Consolidated Financial Statements included in Item 8 of this Form 10-K for further discussion of the purchase accounting charges related to inventory.

Results for 2010 include Battery Technology acquisition-related charges of $3.2 million pre-tax and Corporate acquisition-related fees of $2.2 million pre-tax.

Results for 2009 include a $37.5 million pre-tax goodwill impairment charge, a $12.7 million pre-tax restructuring charge and a $4.7 million pre-tax gain on termination of the retiree medical plan.

Results for 2008 include a $27.7 million pre-tax adjustment to reduce the carrying value of certain inventory to market value, an $8.8 million pre-tax goodwill impairment charge and a $46.6 million tax benefit related to an election to take foreign tax credits on prior year U.S. tax returns.

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

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

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

General

OM Group, Inc. (the "Company", "we", "our", "us") is a diversified specialty chemicals and materials company serving attractive global markets including mobile energy storage, electronic devices, renewable energy, and automotive systems. We develop, produce and distribute innovative, high-quality chemicals, materials, products and technologies that contribute to our customers' success by addressing their difficult applications and requirements. Our strategy is to grow through product innovation, new market and customer development, and acquisitions, and to optimize our results through operational excellence. Our objective is to deliver sustainable, profitable growth and create long-term shareholder value.

On August 2, 2011, the Company completed the acquisition of the outstanding equity interests in VAC Holding GmbH ("VAC") for $812.2 million of total consideration. VAC employs approximately 4,500 people, holds over 700 patents, and has principal production facilities in Germany, Slovakia, Finland, China and Malaysia. As a result of the acquisition, the Company created a new segment named Magnetic Technologies, which consists of VAC.

The Company operates in four business platforms, each of which is a reported segment. In the third quarter of 2011, the Company combined VAC and its existing Advanced Materials segment into a new segment called Engineered Materials. Upon further consideration, during the fourth quarter of 2011, the Company determined that VAC and Advanced Materials would operate and be reported as separate segments. Financial information, including external sales and long-lived assets, and further discussion of these segments and their geographic areas are contained in Note 18 to the accompanying consolidated financial statements of this Annual Report on Form 10-K.

Magnetic Technologies segment

The Magnetic Technologies segment is engaged in the development, manufacturing and distribution of industrial-use magnetic products and systems for electronic equipment markets, including the renewable energy, automotive systems, construction and industrial sectors.

Advanced Materials segment

The Advanced Materials segment manufactures inorganic products using unrefined cobalt and other metals, for the mobile energy storage, renewable energy, automotive systems, construction and mining, and industrial end markets; it also resells cobalt metal. The Company has a 55% interest in a joint venture (Groupement pour le Traitement du Terril de Lubumbashi Limited ("GTL")), that owns a smelter in the Democratic Republic of Congo (the "DRC"). The Company's partners in GTL are Groupe George Forrest (25% interest) and La Générale des Carrières et des Mines ("Gécamines") (20% interest). GTL is consolidated in the Company's financial statements because the Company has a controlling interest in the joint venture. The GTL smelter is a primary source of the Company's cobalt raw material.

Specialty Chemicals segment

The Specialty Chemicals segment develops, produces and supplies chemicals for electronic and industrial applications, and photomasks used by customers to produce semiconductors and related products.

Battery Technologies segment

The Battery Technologies segment provides advanced batteries, battery management systems, battery-related research and energetic devices for the defense, aerospace and medical markets.

Executive Overview

As discussed above, we completed the acquisition of VAC on August 2, 2011. From the date of acquisition, Magnetic Technologies contributed net sales of $276.1 million and adjusted operating profit of $44.3 million (see below for a reconciliation of U.S. GAAP operating loss to adjusted operating profit). In 2011, stronger global demand, share gains and favorable price for copper by-product enabled Advanced Materials to realize higher net sales; however, the benefit from higher sales volume was offset by a declining cobalt price and higher process-based material costs, resulting in lower operating profit. In Specialty Chemicals, adjusted operating profit decreased in 2011 compared to 2010 primarily due to an unfavorable shift in mix of products sold. The increase in sales and adjusted operating profit in Battery Technologies for 2011 was primarily due to higher volume, with adjusted operating profit also benefiting from favorable price/mix and income from sales of recycled material.

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Consolidated Operating Results for 2011, 2010 and 2009

Set forth below is a summary of the Statements of Consolidated Operations for the years ended December 31,

	2011		2010		2009	
(in thousands & percent of net sales)						
Net sales	$1,514,535		$1,196,646		$871,669	
Cost of goods sold	1,240,048		911,958		705,886	
Gross profit	274,487	18.1 %	284,688	23.8 %	165,783	19.0 %
Selling, general and administrative expenses	247,653	16.4 %	162,042	13.5 %	133,956	15.4 %
Goodwill impairment, net	—		—		37,504	
Gain on sale of land	(9,693)		—		—	
Gain on termination of retiree medical plan	—		—		(4,693)	
Operating profit (loss)	36,527	2.4 %	122,646	10.2 %	(984)	(0.1)%
Other expense, net	(11,693)		(15,331)		(74)	
Income tax (expense) benefit	17,796		(29,656)		(20,899)	
Income (loss) from continuing operations, net of tax	42,630		77,659		(21,957)	
Income (loss) from discontinued operations, net of tax	(59)		726		1,496	
Consolidated net income (loss)	42,571		78,385		(20,461)	
Net (income) loss attributable to noncontrolling interest	(4,669)		4,989		2,604	
Net income (loss) attributable to OM Group, Inc. common stockholders	$37,902		$83,374		$(17,857)	
Earnings per common share — basic:						
Income (loss) from continuing operations attributable to OM Group, Inc. common stockholders	$1.22		$2.72		$(0.64)	
Income from discontinued operations attributable to OM Group, Inc. common stockholders	—		0.02		0.05	
Net income (loss) attributable to OM Group, Inc. common stockholders	$1.22		$2.74		$(0.59)	
Earnings per common share — assuming dilution:						
Income (loss) from continuing operations attributable to OM Group, Inc. common stockholders	$1.21		$2.70		$(0.64)	
Income from discontinued operations attributable to OM Group, Inc. common stockholders	—		0.03		0.05	
Net income (loss) attributable to OM Group, Inc. common stockholders	$1.21		$2.73		$(0.59)	
Weighted average shares outstanding						
Basic	31,079		30,433		30,244	
Assuming dilution	31,244		30,565		30,244	
Amounts attributable to OM Group, Inc. common stockholders:						
Income (loss) from continuing operations, net of tax	$37,961		$82,648		$(19,353)	
Income from discontinued operations, net of tax	(59)		726		1,496	
Net income (loss)	$37,902		$83,374		$(17,857)	

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The Company is providing adjusted operating profit, a non-GAAP financial measure that the Company's management believes is an important metric in evaluating the performance of the Company's business. The table below presents a reconciliation of the Company's U.S. GAAP operating profit (loss) - as reported to adjusted operating profit. The Company believes that the non-GAAP financial measures presented in the table facilitate a comparative assessment of the Company's operating performance and enhance investors' understanding of the performance of the Company's operations. The non-GAAP financial information set forth in the table below should not be construed as an alternative to reported results determined in accordance with U.S. GAAP.

2011

(in thousands)	Magnetic Technologies	Advanced Materials	Specialty Chemicals	Battery Technologies	Corporate	Consolidated
Operating profit (loss) - as reported	$(66,914)	$81,186	$62,251	$12,125	$(52,121)	$36,527
Acquisition-related charges	111,200	—	—	—	15,400	126,600
Gain on sale of land	—	—	(9,693)	—	—	(9,693)
Adjusted operating profit	$44,286	$81,186	$52,558	$12,125	$(36,721)	$153,434

2010

(in thousands)	Magnetic Technologies	Advanced Materials	Specialty Chemicals	Battery Technologies	Corporate	Consolidated
Operating profit (loss) - as reported	$—	$95,633	$59,558	$5,061	$(37,606)	$122,646
Acquisition-related charges	—	—	—	3,198	2,200	5,398
Adjusted operating profit	$—	$95,633	$59,558	$8,259	$(35,406)	$128,044

2009

(in thousands)	Magnetic Technologies	Advanced Materials	Specialty Chemicals	Battery Technologies	Corporate	Consolidated
Operating profit (loss) - as reported	$—	$53,301	$(26,981)	$—	$(27,304)	$(984)
Goodwill impairment	—	—	37,504	—	—	37,504
Restructuring charges	—	—	12,708	—	—	12,708
Gain on termination of retiree medical plan	—	—	—	—	(4,693)	(4,693)
Acquisition-related charges	—	—	—	—	1,300	1,300
Adjusted operating profit	$—	$53,301	$23,231	$—	$(30,697)	$45,835

Magnetic Technologies 2011 acquisition-related charges include $106.6 million of charges as a result of purchase accounting related to acquired inventory, $2.4 million of acquisition-related fees and $2.2 million of severance charges. See Note 3 in our Consolidated Financial Statements included in Item 8 of this Form 10-K for further discussion of the purchase accounting charges related to inventory. Battery Technologies 2010 acquisition-related charges include a $2.4 million charge related to inventory and a $0.8 million reduction in revenue, both as a result of purchase accounting. Corporate acquisition-related charges relate to acquisition fees in each year.

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2011 Compared with 2010

The following table identifies, by segment, the components of change in net sales and operating profit in 2011 compared with 2010:

(In thousands)	Net sales	Operating profit - as reported	Adjusted operating profit
2010	$1,196,646	$122,646	$128,044
Increase in 2011 from:			
Magnetic Technologies	276,147	(66,914)	44,286
Advanced Materials	20,241	(14,447)	(14,447)
Specialty Chemicals	7,279	2,693	(7,000)
Battery Technologies	14,873	7,064	3,866
Corporate	—	(14,515)	(1,315)
Intersegment items	(651)	—	—
2011	$1,514,535	$36,527	$153,434

Net sales increased $317.9 million, or 26.6%, primarily due to the VAC acquisition. A full year of sales for Battery Technologies in the 2011 period compared to eleven months of sales in the 2010 period contributed $10.1 million to the increase in net sales.

Gross profit decreased to $274.5 million in 2011, compared with $284.7 million in 2010. The largest factors affecting the $10.2 million decrease in gross profit were: lower cobalt price and higher process-based material costs, partially offset by higher volume in Advanced Materials; an unfavorable shift in mix of products sold in Specialty Chemicals; and the negative gross profit of VAC, including the acquisition-related inventory charges; all partially offset by higher volumes, price/mix and income from sales of recycled material in Battery Technologies.

Selling, general and administrative expenses (“SG&A”) increased to $247.7 million in 2011 compared with $162.0 million in 2010. The increase was primarily due to $62.2 million of Magnetic Technologies SG&A expenses and $15.4 million in fees associated with acquisitions recorded in Corporate.

The following table summarizes the components of Other expense, net:

	Year Ended December 31,		
	2011	2010	Change
(In thousands)			
Interest expense	$(23,268)	$(5,255)	$(18,013)
Interest income	1,440	908	532
Foreign exchange gain (loss)	10,564	(10,679)	21,243
Other expense, net	(429)	(305)	(124)
	$(11,693)	$(15,331)	$3,638

The increase in interest expense is due to borrowings under the Senior Secured Credit Facility to finance the acquisition of VAC and repay existing indebtedness of the Company under its former revolving credit facility. The foreign exchange gain in 2011 is primarily related to movements in Euro/U.S. dollar exchange rates and the resulting impact on the revaluation of non-functional currency cash and debt balances. The foreign exchange loss in 2010 was primarily related to the revaluation of non-functional currency cash balances due to changes in exchange rates, primarily the Euro, the Malaysian Ringgit and the Taiwanese Dollar.

The Company recorded an income tax benefit of $17.8 million on pre-tax income of $24.8 million for 2011. The income tax benefit was due to the VAC acquisition and discrete items. Excluding the impact of the VAC acquisition and discrete items, the effective income tax rate for the year ended December 31, 2011 would have been 12%. This rate is lower than the U.S. statutory tax rate primarily due to income earned in tax jurisdictions with lower statutory rates than the U.S., a tax efficient financing structure and a tax holiday in Malaysia, partially offset by losses in certain jurisdictions (including the U.S.) with no corresponding tax benefit. The Malaysian tax holiday expired on December

31, 2011. The largest discrete item in 2011 was related to GTL. During 2011, GTL received notification from the DRC tax authorities that it would be able to offset more of its prepaid tax asset against future taxes payable than previously estimated. As a result, GTL recognized a $6.2 million discrete tax benefit (of which the Company's share is 55%, or $3.4 million) to reduce the $11.5 million allowance established in 2010 as discussed below.

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During 2010, the Company recorded income tax expense of $29.7 million on pre-tax income of $107.3 million, resulting in an effective income tax rate of 27.6%. Without discrete items, the effective income tax rate for 2010 would have been 22.6%. This rate is lower than the U.S. statutory tax rate primarily due to income earned in tax jurisdictions with lower statutory rates than the U.S., a tax holiday in Malaysia and a tax efficient financing structure, partially offset by losses in certain jurisdictions (including the U.S.) with no corresponding tax benefit. The Company recorded discrete tax items netting to expense of $5.4 million, including $10.1 million of discrete tax expense related to GTL (of which the Company's share is 55%, or $5.6 million). The GTL items are primarily comprised of an $11.5 million charge to reserve a portion of GTL's prepaid income tax balance, and a benefit of $2.6 million primarily related to a return to provision adjustment.

2010 Compared with 2009

The following table identifies, by segment, the components of change in net sales in 2010 compared with 2009:

(In thousands)	Net sales	Operating profit (loss) - as reported	Adjusted operating profit
2009	$871,700	$(1,000)	$45,835
Increase in 2010 from:			
Advanced Materials	148,200	42,300	42,332
Specialty Chemicals	60,900	86,500	36,327
Battery Technologies	113,900	5,100	8,259
Corporate	—	(10,300)	(4,709)
Intersegment items	1,900	—	—
2010	$1,196,600	$122,600	$128,044

Net sales increased $324.9 million, or 37.3%, primarily due to increased volume, the increase in the cobalt reference price and the EaglePicher acquisition.

During 2009, the Company commenced a restructuring plan within the Specialty Chemicals segment to better align the cost structure and asset base of its European carboxylate business to industry conditions. The restructuring plan included exiting the Manchester, England manufacturing facility and the elimination of approximately 100 employee positions across several of the segment's facilities. The restructuring plan did not involve the discontinuation of any material product lines or other functions. During 2010 and 2009, the Company recorded restructuring charges of $2.1 million and $12.7 million, respectively in the Statement of Consolidated Operations.

Gross profit increased to $284.7 million in 2010, compared with $165.8 million in 2009. The largest factor affecting the $118.9 million increase in gross profit was higher selling prices, favorable product mix and increased cobalt volume in Advanced Materials, partially offset by increased manufacturing and distribution expenses. In Specialty Chemicals, increased volume and a favorable price/mix contributed to the increase in gross profit. Battery Technologies contributed $18.1 million of gross profit in 2010, after a $3.2 million charge related to purchase accounting adjustments that will not recur, as discussed below.

SG&A increased to $162.0 million in 2010 compared with $134.0 million in 2009. The increase was primarily due to $13.1 million of Battery Technologies SG&A expenses and increased employee incentive compensation expense related to the 2010 annual bonus program.

In 2009, the Company recorded a non-cash charge totaling $37.5 million in the Specialty Chemicals segment for the impairment of goodwill related to the Advanced Organics, UPC and Photomasks businesses.

The Company recognized a $4.7 million gain in 2009 on the termination of its retiree medical plan. As a result of the termination, the accumulated postretirement benefit obligation was eliminated. The gain was recorded as a reduction of Corporate expenses.

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The following table summarizes the components of Other expense, net:

	Year Ended December 31,		
	2010	2009	Change
(In thousands)			
Interest expense	$(5,255)	$(689)	$(4,566)
Interest income	908	928	(20)
Foreign exchange gain (loss)	(10,679)	(21)	(10,658)
Other expense, net	(305)	(292)	(13)
	$(15,331)	$(74)	$(15,257)

The increase in interest expense is due to the increase in the average amount outstanding under the Revolver during 2010 compared with 2009. The increase in foreign exchange loss is primarily related to the revaluation of non-functional currency cash balances at foreign sites due to changes in exchange rates, primarily the Euro, Malaysian Ringgit and Taiwanese Dollar.

The Company recorded income tax expense of $29.7 million on income from continuing operations before income tax expense of $107.3 million for 2010, resulting in an effective income tax rate of 27.6%. The Company recorded net discrete tax items netting to expense of $5.4 million. This amount included an $11.5 million charge to reserve a portion of GTL’s prepaid income tax balance, of which the Company's share was $6.3 million.

During 2009, the Company recorded discrete tax expense items totaling $10.2 million, which included $9.2 million related to GTL of which the Company’s 55% share was $5.1 million. Also in 2009, the Company recorded goodwill and intangible asset impairment charges totaling $39.1 million, which are not deductible for tax purposes. Adjusting the pretax loss for the impairment charges and excluding discrete items, the Company’s effective income tax rate would have been 28.2% for 2009. This effective tax rate is lower than the U.S. statutory rate due primarily to income earned in foreign tax jurisdictions with lower statutory tax rates than the U.S. (primarily Finland) and a tax holiday in Malaysia, offset by income earned in foreign tax jurisdictions with higher statutory rates than the US, principally the DRC.

Segment Results and Corporate Expenses

Magnetic Technologies

On August 2, 2011, the Company completed the acquisition of VAC. As a result of the acquisition, the Company created a new segment named Magnetic Technologies, which consists of VAC. The results of operations set forth below are from the date of acquisition.

The primary raw materials used by Magnetic Technologies are nickel, cobalt and certain rare earth materials, primarily dysprosium and neodymium. During 2011, the supply of rare earth materials was constrained, resulting in significant increases in the price of rare earth materials. Rare earth materials are currently available from a limited number of suppliers, primarily in China. Supply of rare earth materials is expected to increase when additional sources outside of China become available.

The segment is focused on developing and leveraging its substantial patent portfolio to enter new markets and increase market share.

For the year ended December 31,

	2011	2010	2009
(Millions of dollars)			
Net sales	$276.1	n/a	n/a
Operating loss	$(66.9)	n/a	n/a
Acquisition-related charges	111.2	—	—
Adjusted operating profit	$44.3	n/a	n/a

Acquisition-related charges include $106.6 million of charges as a result of purchase accounting related to acquired

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inventory, $2.4 million of acquisition-related fees and $2.2 million of severance charges. The remaining net $56.4 million of inventory step-up is expected to be recognized in cost of goods sold as the related inventory is sold to customers in 2012. See Note 3 in our Consolidated Financial Statements included in Item 8 of this Form 10-K for further discussion of the purchase accounting charges related to inventory.

Advanced Materials

The primary raw material used by Advanced Materials is unrefined cobalt. The cost of Advanced Materials raw materials fluctuates due to changes in the cobalt reference price, actual or perceived changes in supply and demand of raw materials, and changes in availability from suppliers. The availability of unrefined cobalt is dependent on global market conditions, cobalt prices and the prices of copper and nickel. Also, political and civil instability in supplier countries, variability in supply and worldwide demand have affected and will likely continue to affect the supply and market price of raw materials. The Company attempts to mitigate changes in availability of raw materials by maintaining adequate inventory levels and long-term supply relationships with a variety of suppliers.

For the year ended December 31,			
	2011	2010	2009
(Millions of dollars)			
Net sales	$640.9	$620.6	$472.4
Operating profit	$81.2	$95.6	$53.3

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

	2011	2010	2009
First Quarter	$18.38	$20.11	$13.37
Second Quarter	$17.05	$19.36	$14.44
Third Quarter	$16.13	$18.10	$17.30
Fourth Quarter	$14.18	$17.41	$18.35
Full Year	$16.44	$18.74	$15.90

The following table summarizes the average quarterly London Metal Exchange ("LME") price per pound of copper:

	2011	2010	2009
First Quarter	$4.37	$3.29	$1.56
Second Quarter	$4.14	$3.18	$2.12
Third Quarter	$4.08	$3.28	$2.65
Fourth Quarter	$3.40	$3.91	$3.01
Full Year	$4.00	$3.42	$2.34

2011 Compared with 2010

Net Sales

The following table identifies the components of change in net sales:

(In millions)	
2010 Net Sales	$620.6
Increase (decrease) in 2011 from:	
Selling price/mix (including cobalt metal resale)	(62.5)
Cobalt volume (including cobalt metal resale)	52.8
By-product sales (price and volume)	35.8
Foreign currency	(4.3)
Other	(1.5)
2011 Net Sales	$640.9

The increase in cobalt volume was the result of increased demand across all Advanced Materials end markets in 2011

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compared to 2010; however, this benefit was largely offset by lower prices, which also affected cobalt metal resale revenues. Stronger global demand, share gains and favorable price for copper and other metals enabled the segment to realize higher by-product revenues.

Operating Profit

The following table identifies the components of change in operating profit:

(In millions)	
2010 Operating Profit	$95.6
Increase (decrease) in 2011 from:	
Price/Mix (including cobalt metal resale)	(34.1)
Cobalt volume (including cobalt metal resale)	24.9
Process-based material cost	(15.7)
By-product (price and volume)	11.6
Foreign currency	(1.4)
Operating expenses	3.1
Other	(2.8)
2011 Operating Profit	$81.2

Increased operating profit from higher sales volumes was more than offset by lower cobalt price/mix and higher process-based material costs, principally due to increases in caustic, propane and sulphuric acid. Lower operating costs included a reduced allowance against the GTL joint venture partner note receivable and the non-recurrence of a write-down in the value of a cost method investment.

2010 Compared with 2009

Net Sales

The following table identifies the components of change in net sales:

(In millions)	
2009 Net Sales	$472.4
Increase (decrease) in 2010 from:	
Selling price/mix (including cobalt metal resale)	97.6
Cobalt volume (including cobalt metal resale)	37.3
By-product sales (price and volume)	14.4
Other	(1.1)
2010 Net Sales	$620.6

The increase in selling price/mix was due primarily to cobalt reference prices, which also affected cobalt metal resale revenues. The increase in by-product sales in 2010 was due to higher average copper prices in 2010, partially offset by decreased volume.

Operating Profit

The following table identifies the components of change in operating profit:

(In millions)	
2009 Operating Profit	$53.3
Increase (decrease) in 2010 from:	
Price/Mix (including cobalt metal resale)	48.7
Cobalt volume (including cobalt metal resale)	19.3
Process-based material cost	(2.7)
By-product (price and volume)	0.2
Foreign currency	3.2
Operating expenses	(28.6)
Other	2.2
2010 Operating Profit	$95.6

Operating profit increased due to higher cobalt prices and volume partially offset by increased operating expenses.

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The increase in operating expenses was due to $5.7 million of expense associated with the maintenance shut-down of the GTL smelter, the increase in cobalt volume and a write-down in the value of a cost method investment. The decrease in operating profit associated with by-product sales was due to decreased volume primarily due to changes in the mix of feed partially offset by favorable copper price.

Specialty Chemicals

The December 2011 acquisition of Rahu, a developer of a unique iron and ligand-based chemistry, is expected to further strengthen Specialty Chemicals' global position in coating, composite and ink applications. During the third and fourth quarters of 2011, the Specialty Chemicals segment began to see a softening of demand due to customer concerns over the global economy and economic conditions in Europe. The fourth quarter of 2011 was also unfavorably impacted by the flooding in Thailand, causing the shutdown of many hard disk drive assembly and component manufacturing facilities, which has, and continues to have, a material impact on the overall supply chain.

For the year ended December 31,			
(Millions of dollars)	2011	2010	2009
Net sales	$470.0	$462.7	$401.8
Operating profit (loss)	$62.3	$59.6	$(27.0)
Gain on sale of land	(9.7)	—	—
Goodwill impairment, net	—	—	37.5
Restructuring changes	—	—	12.7
Adjusted operating profit	$52.6	$59.6	$23.2

2011 Compared with 2010

Net Sales

The following table identifies the components of change in net sales:

(In millions)	
2010 Net Sales	$462.7
Increase (decrease) in 2011 from:	
Volume	0.6
Selling price/mix	1.0
Foreign currency	8.8
Other	(3.1)
2011 Net Sales	$470.0

Operating Profit

The following table identifies the components of change in operating profit:

(In millions)	
2010 Operating Profit	$59.6
Increase (decrease) in 2011 from:	
Volume	(0.5)
Price/Mix	(8.9)
Gain on sale of land	9.7
Foreign currency	0.7
Other	1.7
2011 Operating Profit	$62.3

The operating profit increase in 2011 compared to 2010 was primarily due to the gain recognized on the sale of land at the former Manchester, England facility, mostly offset by an unfavorable shift in mix of products sold.

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2010 Compared with 2009

Net Sales

The following table identifies the components of change in net sales:

(In millions)	
2009 Net Sales	$401.8
Increase (decrease) in 2010 from:	
Volume	50.2
Selling price/mix	12.3
Foreign currency	(2.8)
Other	1.2
2010 Net Sales	$462.7

The $60.9 million increase in net sales in 2010 compared to 2009 was primarily due to increased volume and favorable selling price/mix during the recovery from the 2009 global recession.

Operating Profit (Loss)

The following table identifies the components of change in operating profit (loss):

(In millions)	
2009 Operating Loss	$(27.0)
2009 Goodwill impairment, net	37.5
2009 Intangible asset impairment, net	1.6
2009 Restructuring charge	12.7
Increase (decrease) in 2010 from:	
Volume	27.9
Price/Mix	11.4
2010 Restructuring charge	(2.1)
Foreign currency	(0.8)
Other	(1.6)
2010 Operating Profit	$59.6

Excluding the 2009 asset impairment and restructuring charges, the operating profit increase in 2010 compared to 2009 was primarily due to increased sales volumes, favorable product price/mix and lower operating costs following the closure of the Manchester, England facility in 2009 partially offset by increased employee incentive compensation.

Battery Technologies

The segment is focused on developing new battery chemistries and expanding the markets it serves and is reducing its cost structure in response to the uncertainty around government spending.

For the year ended December 31,	2011	2010	
(Millions of dollars)			
Net sales	$128.8	$113.9	(a)
Operating profit	$12.1	$5.1	(a)(b)
Acquisition-related charges	$—	$3.2	
Adjusted operating profit	$12.1	$8.3	

(a) Includes activity since the acquisition of EaglePicher on January 29, 2010.

(b) Includes purchase accounting adjustments which reduced operating profit in 2010 by $3.2 million for acquired inventories and deferred revenue. These acquisition-related charges will not recur in the future.

The Battery Technologies segment tracks backlog, which is equal to the value of unfulfilled orders for which funding is contractually obligated by the customer and for which revenue has not been recognized. At December 31, 2011,

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backlog was $122.9 million as compared with $134.9 million at December 31, 2010. Backlog was lower due to reduced U.S. defense orders in 2011. $26.2 million of the backlog at December 31, 2011 is not expected to be converted into sales during the next twelve months.

Net Sales

The following table identifies the components of change in net sales:

(In millions)		
2010 Net Sales	$113.9	
Increase (decrease) in 2011 from:		
January 2011 sales volume	10.1	
February - December sales volume	2.7	
Purchase accounting adjustment in 2010	0.8	
Other	1.3	
2011 Net Sales	$128.8	

Battery Technologies net sales increased in 2011 largely due to the full year of ownership in 2011 versus eleven months in 2010.

Operating Profit

The following table identifies the components of change in operating profit:

(In millions)		
2010 Operating profit	$5.1	
Increase (decrease) in 2011 from:		
Purchase accounting charges in 2010	3.2	
Volume	1.0	
Price/Mix	1.3	
Operating expenses	(0.9	)
Other	2.4	
2011 Operating Profit	$12.1	

Operating profit in 2011 benefited from higher volumes, prices and income from sales of recycled material. 2010 operating profit reflects acquisition-related adjustments of $3.2 million.

Corporate Expenses

Corporate expenses consist of corporate overhead supporting the operating segments but not specifically allocated to an operating segment, including certain legal, finance, human resources and strategic development activities, as well as all share-based compensation.

2011 Compared with 2010

Corporate expenses were $52.1 million in 2011 compared with $37.6 million in 2010. Corporate expenses in 2011 include $15.4 million in fees related to the VAC acquisition. 2010 corporate expenses include $2.2 million in fees related to the acquisition of EaglePicher.

2010 Compared with 2009

Corporate expenses were $37.6 million in 2010 compared with $27.3 million in 2009. Corporate expenses in 2010 include increased employee incentive compensation expense as there were no payouts under the 2009 annual incentive plan. 2009 also included a $4.7 million gain on the termination of the Company’s retiree medical plan that did not recur in 2010.

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Liquidity and Capital Resources

Cash Flow Summary

The Company’s cash flows from operating, investing and financing activities for 2011, 2010 and 2009, as reflected in the Statements of Consolidated Cash Flows, are summarized and discussed in the following tables (in millions) and related narrative:

	2011	2010	2009
Net cash provided by (used for):			
Operating activities	$124.8	$126.6	