

OM GROUP INC
Form 10-Q
November 06, 2008

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

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

For the quarterly period ended September 30, 2008

OR

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

Commission file number 001-12515

OM GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(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

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 No
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

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting
company)

Smaller reporting
company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of Act). Yes No
As of October 31, 2008 there were 30,470,674 shares of Common Stock, par value \$.01 per share, outstanding.

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

	September 30, 2008	December 31, 2007
<i>(In thousands, except share data)</i>		
ASSETS		
Current assets		
Cash and cash equivalents	\$ 144,566	\$ 100,187
Accounts receivable, less allowances	201,758	178,481
Inventories	453,353	413,434
Other current assets	70,559	60,655
Interest receivable from joint venture partner		3,776
Total current assets	870,236	756,533
Property, plant and equipment, net	258,053	288,834
Goodwill	303,936	322,172
Intangible assets	74,463	46,454
Notes receivable from joint venture partner , less allowance of \$5,200 in 2008 and 2007	19,665	24,179
Other non-current assets	31,986	31,038
Total assets	\$ 1,558,339	\$ 1,469,210
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Short-term debt	\$	\$ 347
Current portion of long-term debt	88	166
Accounts payable	149,357	214,244
Accrued income taxes	3,211	32,040
Accrued employee costs	30,224	34,707
Other current liabilities	30,453	25,435
Total current liabilities	213,333	306,939
Long-term debt	26,080	1,136
Deferred income taxes	27,725	29,645
Minority interests	58,524	52,314
Other non-current liabilities	49,606	50,790
Stockholders equity:		
Preferred stock, \$.01 par value:		
Authorized 2,000,000 shares, no shares issued or outstanding		
Common stock, \$.01 par value:	303	301

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Authorized 90,000,000 shares in 2008 and 60,000,000 shares in 2007; issued 30,314,343 shares in 2008 and 30,122,209 shares in 2007		
Capital in excess of par value	563,559	554,933
Retained earnings	635,251	467,726
Treasury stock (136,328 and 61,541 shares in 2008 and 2007, respectively, at cost)	(5,490)	(2,239)
Accumulated other comprehensive income (loss)	(10,552)	7,665
Total stockholders equity	1,183,071	1,028,386
Total liabilities and stockholders equity	\$ 1,558,339	\$ 1,469,210

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
<i>(In thousands, except per share data)</i>	2008	2007	2008	2007
Net sales	\$ 448,630	\$ 264,640	\$ 1,440,250	\$ 712,134
Cost of products sold	362,369	191,502	1,091,300	483,075
Gross profit	86,261	73,138	348,950	229,059
Selling, general and administrative expenses	40,902	31,674	125,378	88,276
Operating profit	45,359	41,464	223,572	140,783
Other income (expense):				
Interest expense	(385)	(238)	(1,292)	(7,523)
Interest income	535	5,041	1,409	15,643
Loss on redemption of Notes				(21,733)
Foreign exchange gain	121	4,178	869	5,962
Other expense, net	(371)	(501)	(565)	(999)
	(100)	8,480	421	(8,650)
Income from continuing operations before income tax (expense) benefit and minority partners share of income	45,259	49,944	223,993	132,133
Income tax (expense) benefit	14,533	(7,926)	(34,918)	(57,715)
Minority partners share of income, net of tax	(4,046)	(2,511)	(21,146)	(9,320)
Income from continuing operations	55,746	39,507	167,929	65,098
Discontinued operations:				
Income (loss) from discontinued operations, net of tax	520	(1,412)	(211)	61,511
Gain on sale of discontinued operations, net of tax				72,270
Total income (loss) from discontinued operations, net of tax	520	(1,412)	(211)	133,781
Net income	\$ 56,266	\$ 38,095	\$ 167,718	\$ 198,879
Net income (loss) per common share basic:				
Continuing operations	\$ 1.85	\$ 1.32	\$ 5.58	\$ 2.18
Discontinued operations	0.01	(0.05)	(0.01)	4.47
Net income	\$ 1.86	\$ 1.27	\$ 5.57	\$ 6.65
Net income (loss) per common share assuming dilution:				
Continuing operations	\$ 1.84	\$ 1.30	\$ 5.53	\$ 2.15

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Discontinued operations	0.01	(0.04)		4.43
Net income	\$ 1.85	\$ 1.26	\$ 5.53	\$ 6.58
Weighted average shares outstanding				
Basic	30,183	30,031	30,087	29,902
Assuming dilution	30,350	30,350	30,352	30,235

See accompanying notes to unaudited condensed consolidated financial statements.

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

<i>(In thousands)</i>	Nine Months Ended September 30,	
	2008	2007
Operating activities		
Net income	\$ 167,718	\$ 198,879
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss from discontinued operations	211	(61,511)
Gain on sale of discontinued operations		(72,270)
Loss on redemption of Notes		21,733
Depreciation and amortization	41,636	24,652
Share-based compensation expense	6,645	5,180
Excess tax benefit on share-based compensation	(1,111)	(1,045)
Foreign exchange gain	(869)	(5,962)
Minority partners' share of income	21,146	9,320
Gain on cobalt forward purchase contracts	(4,002)	
Interest income received from consolidated joint venture partner	3,776	
Other non-cash items	(6,473)	(7,500)
Changes in operating assets and liabilities		
Accounts receivable	(22,322)	(45,456)
Inventories	(42,631)	(98,019)
Accounts payable	(64,887)	56,611
Accrued income taxes	(28,829)	17,915
Other, net	(17,547)	(13,769)
Net cash provided by operating activities	52,461	28,758
Investing activities		
Expenditures for property, plant and equipment	(23,282)	(12,833)
Proceeds from sale of assets		461
Proceeds from loans to consolidated joint venture partner	4,514	
Proceeds from loans to non-consolidated joint ventures		7,568
Net proceeds from the sale of the Nickel business		490,036
Payments related to acquisitions made in prior periods	(5,288)	
Proceeds from settlement of cobalt forward purchase contracts	10,736	
Investments in and advances to non-consolidated joint ventures	(790)	(2,000)
Expenditures for software	(1,286)	(3,263)
Net cash provided by (used for) investing activities	(15,396)	479,969
Financing activities		
Payments of revolving line of credit and long-term debt	(45,485)	(400,000)
Borrowings from revolving line of credit	70,000	
Premium for redemption of Notes		(18,500)
Distributions to joint venture partners	(14,934)	(1,350)
Payment related to surrendered shares	(3,251)	

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Proceeds from exercise of stock options	872	10,489
Excess tax benefit on share-based compensation	1,111	1,045
Net cash provided by (used for) financing activities	8,313	(408,316)
Effect of exchange rate changes on cash	(999)	5,718
Cash and cash equivalents		
Increase from continuing operations	44,379	106,129
Discontinued operations net cash provided by operating activities		48,575
Discontinued operations net cash used for investing activities		(1,540)
Balance at the beginning of the period	100,187	282,288
Balance at the end of the period	\$ 144,566	\$ 435,452

See accompanying notes to unaudited condensed consolidated financial statements

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

	Nine Months Ended September 30,	
<i>(In thousands)</i>	2008	2007
Common Stock Shares Outstanding, net of Treasury Shares		
Beginning balance	30,061	29,740
Shares issued under share-based compensation plans	117	291
	30,178	30,031
Common Stock Dollars		
Beginning balance	\$ 301	\$ 297
Shares issued under share-based compensation plans	2	4
	303	301
Capital in Excess of Par Value		
Beginning balance	554,933	533,818
Shares issued under share-based compensation plans employees	870	10,485
Excess tax benefit on share-based compensation	1,111	1,045
Share-based compensation non-employee directors	274	
Share-based compensation employees	6,371	5,847
	563,559	551,195
Retained Earnings		
Beginning balance	467,726	221,310
Adoption of EITF No. 06-10 in 2008 and FIN No. 48 in 2007	(193)	(450)
Net income	167,718	198,879
	635,251	419,739
Treasury Stock		
Beginning balance	(2,239)	(2,239)
Value of surrendered shares	(3,251)	
	(5,490)	(2,239)
Accumulated Other Comprehensive Income		
Beginning balance	7,665	28,893
Foreign currency translation	(18,595)	(11,548)
Reclassification of hedging activities into earnings, net of tax benefit of \$185 and \$3,452 in 2008 and 2007, respectively	(526)	(9,824)
Unrealized gain on cash flow hedges, net of tax expense of \$318	904	
	(10,552)	7,521

Total Stockholders Equity	\$ 1,183,071	\$ 976,517
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See accompanying notes to unaudited condensed consolidated financial statements

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Notes to Unaudited Condensed Consolidated Financial Statements

OM Group, Inc. and Subsidiaries*(In thousands, except as noted and per share amounts)***Note 1 Basis of Presentation**

OM Group, Inc. (**OMG** or the **Company**) is a diversified global developer, producer and marketer of value-added specialty chemicals and advanced materials that are essential to complex chemical and industrial processes.

The consolidated financial statements include **OMG** and its subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. The **Company** has a 55% interest in a joint venture that has a smelter in the Democratic Republic of Congo (the **DRC**). The joint venture is consolidated because the **Company** has a controlling interest in the joint venture. Minority interest is recorded for the remaining 45% interest.

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, 2008 and the results of its operations, its cash flows and changes in stockholders' equity for the three and nine months ended September 30, 2008 and 2007, have been included. The balance sheet at December 31, 2007 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, 2007.

On October 1, 2007, the **Company** completed the acquisition of Borchers GmbH (**Borchers**). On December 31, 2007, the **Company** completed the acquisition of the Electronics businesses (**REM**) of Rockwood Specialties Group, Inc. The financial position, results of operations and cash flows of **Borchers** are included in the Unaudited Condensed Consolidated Financial Statements from the date of acquisition. The financial position of **REM** is included in the **Company**'s balance sheet at December 31, 2007. The results of operations and cash flows of **REM** are included in the Unaudited Condensed Consolidated Financial Statements from January 1, 2008.

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

Note 2 Recently Issued Accounting Standards*Accounting Standards adopted in 2008:*

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

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

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

Level 2 Inputs Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in

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markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

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

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

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

As of January 1, 2008, in accordance with FSP 157-2, the Company has adopted the provisions of SFAS No. 157 with respect to financial assets and liabilities that are measured at fair value within the financial statements. The adoption of SFAS No. 157 did not have a material impact on the Company's results of operations or financial position. The provisions of FAS 157 have not been applied to non-financial assets and non-financial liabilities. The Company is currently assessing the impact of SFAS No. 157 for non-financial assets and non-financial liabilities on its results of operations, financial position and related disclosures. See Note 8.

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

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

EITF No. 06-10: In November 2006, the FASB issued EITF Issue No. 06-10, Accounting for Deferred Compensation and Postretirement Benefits Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements. This Statement establishes that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, or Accounting Principles Board Opinion No. 12, Omnibus Opinion, if, based on the substantive agreement with the employee, the employer has agreed to maintain a life insurance policy during the postretirement period or provide a death benefit. The EITF also concluded that an employer should recognize and measure an associated asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The Company has one arrangement with a former executive under which the Company has agreed to fund a life insurance policy during the former executive's retirement. The insurance

policy is a collateral assignment split-dollar agreement owned by a trust established by the former executive. The collateral assignment provides the Company with an interest in the policy equal to its cumulative premium payments. The Company adopted EITF No. 06-10 on January 1, 2008. The effect of adoption was a \$0.2 million cumulative effect adjustment to decrease retained earnings at January 1, 2008.

Accounting Standards Not Yet Adopted

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SFAS No. 158: In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*—an amendment of FASB Statements No. 87, 88, 106 and 132(R). The Company adopted the requirement to recognize the funded status of a defined benefit postretirement plan as an asset or liability in its Consolidated Balance Sheet as of December 31, 2006. The additional requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end consolidated balance sheet is effective for fiscal years ending after December 15, 2008. The Company currently uses October 31 as the measurement date and will change to December 31st, the date of its fiscal year-end, during the fourth quarter of 2008.

SFAS No. 158 allows employers to choose one of two transition methods to adopt the measurement date requirement. The Company chose to adopt the measurement date requirement in 2008 using the 14-month approach. Under this approach, an additional two months of net periodic benefit cost, covering the period between the previous measurement date and the December 31st measurement date will be recognized as an adjustment to equity in the fourth quarter of 2008. The adoption of this measurement date requirement is not expected to have a material impact on the Company's results of operations, financial position or related disclosures.

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

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

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

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

not determined the effect, if any, the adoption of FSP No. 142-3 will have on its results of operations, financial position and related disclosures.

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On December 31, 2007, the Company completed the acquisition of REM. The REM businesses, which had combined sales of approximately \$200 million in 2007 and employ approximately 700 people worldwide, include the Printed Circuit Board (PCB) business, the Ultra-Pure Chemicals (UPC) business, and the Photomasks business. The acquired REM 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 acquisition of REM also provides new products and expanded distribution channels for the Company's Electronic Chemicals offerings. PCB produces specialty and proprietary chemicals used in the manufacture of printed circuit boards widely used in computers, communications, military/aerospace, automotive, industrial and consumer electronics applications. UPC develops and manufactures a wide range of ultra-pure chemicals used in the manufacture of electronic and computer components such as semiconductors, silicon chips, wafers and liquid crystal displays. Photomasks manufactures photo-imaging masks (high-purity quartz or glass plates containing precision, microscopic images of integrated circuits) and reticles for the semiconductor, optoelectronics and microelectronics industries under the Compugraphics brand name.

The total purchase price of \$321.0 million, net of cash acquired and including \$4.9 million of transaction fees, was funded with existing cash.

Under SFAS No. 141, Business Combinations, the cost of the acquired business is allocated to the assets acquired and liabilities assumed. In connection with this allocation, the Company recorded a step-up to fair value related to acquired inventories of \$1.7 million to reflect manufacturing profit in inventory at the date of the acquisition. This amount was charged to cost of products sold in the first quarter of 2008 as the acquired inventory was sold in the normal course of business.

The excess of the total purchase price over the estimated fair value of the net assets acquired has been allocated to goodwill and is estimated to be approximately \$179.3 million, as of September 30, 2008. The allocation of the purchase price to the assets acquired and liabilities assumed is preliminary and reflects adjustments from the original allocation reported in the Company's Form 10-K for the year ended December 31, 2007. The adjustments, which are preliminary, are based on management's current estimates and assumptions. When the Company completes its evaluation of the fair value of assets acquired and liabilities assumed, including the valuation of specifically identifiable intangible assets, the allocation will be adjusted accordingly. Goodwill is not deductible for tax purposes. The preliminary allocation at September 30, 2008 is summarized below:

Accounts receivable	\$ 45,973
Inventory	20,409
Other current assets	23,612
Property, plant and equipment	67,509
Other intangibles	62,913
Other assets	269
Goodwill	179,310
Total assets acquired	399,995
Accounts payable	24,446
Other current liabilities	12,017
Other liabilities	26,747
Total liabilities assumed	63,210
Net assets acquired	336,785

Cash acquired	15,754
Purchase price, net of cash acquired	\$ 321,031

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On October 1, 2007, the Company completed the acquisition of Borchers, a European-based specialty coatings additive supplier with locations in France and Germany, for approximately \$20.7 million, net of cash acquired. The Company incurred fees of approximately \$1.2 million associated with this transaction.

Note 4 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 Interest income on the Unaudited Condensed Statements of Consolidated Income.

In the nine months ended September 30, 2007, the Company recognized a pretax and after-tax gain on the sale of the Nickel business of \$77.0 million and \$72.3 million, respectively.

Discontinued operations includes share-based incentive compensation expense related to Nickel management that previously had been included in corporate expenses. No interest expense has been allocated to discontinued operations.

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

	2008	2007
Income (loss) from discontinued operations before income taxes	\$ 520	\$ (319)
Income tax expense		(1,093)
Income (loss) from discontinued operations, net of tax	\$ 520	\$ (1,412)

The income from discontinued operations before income taxes in the three months ended September 30, 2008 is primarily due to remeasuring Euro-denominated liabilities to U.S. dollars.

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

	2008	2007
Net sales	\$	\$ 193,091
Income (loss) from discontinued operations before income taxes	\$ (211)	\$ 83,289
Income tax expense		(21,778)
Income (loss) from discontinued operations, net of tax	(211)	61,511
Gain on sale of discontinued operations, net of tax		72,270

Total income (loss) from discontinued operations	\$ (211)	\$ 133,781
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The loss from discontinued operations before income taxes in the nine months ended September 30, 2008 is primarily due to an

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additional contingency accrual for non-income taxes related to the Company's former Precious Metals Group (PMG), partially offset by remeasuring Euro-denominated liabilities to U.S. dollars.

Note 5 Inventories

Inventories consist of the following:

	September 30, 2008	December 31, 2007
Raw materials and supplies	\$ 218,342	\$ 199,901
Work-in-process	40,082	32,565
Finished goods	194,929	180,968
	\$ 453,353	\$ 413,434

Note 6 Debt

The Company has a Revolving Credit Agreement (the Revolver) with availability of up to \$100.0 million, including up to the equivalent of \$25.0 million in Euros or other foreign currencies. The Revolver includes an accordion feature under which the Company may increase the availability by \$50.0 million, to a maximum of \$150.0 million, subject to certain conditions. Obligations under the Revolver are guaranteed by each of the Company's U.S. subsidiaries and are secured by a lien on the assets of the Company and such subsidiaries. The Company has the option to specify that interest be calculated based either on LIBOR plus a calculated margin amount or a base rate. The margin for the LIBOR rate ranges from 0.50% to 1.00%. The Revolver also requires the payment of a fee of 0.125% to 0.25% per annum on the unused commitment. The margin and unused commitment fees are subject to quarterly adjustment based on a certain debt to adjusted earnings ratio. During the first nine months of 2008, the Company borrowed under the Revolver, and the outstanding Revolver balance was \$25.0 million at September 30, 2008 at an interest rate of 3.3%. The Revolver provides for interest-only payments during its term, with principal due at maturity on December 20, 2010.

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 \$1.2 million and \$1.3 million, at September 30, 2008 and December 31, 2007, respectively. The Company also had a \$0.3 million short-term note payable at December 31, 2007 which was repaid during the second quarter of 2008.

Debt consists of the following:

	September 30, 2008	December 31, 2007
Revolving credit agreement	\$ 25,000	\$
Notes payable - bank	1,168	1,649
	26,168	1,649
Less: Short-term debt		347
Less: Current portion of long-term debt	88	166
Total long-term debt	\$ 26,080	\$ 1,136

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.

Note 7 Financial Instruments

Cash Flow Hedges

The Company has certain copper forward sales contracts that are designated as cash flow hedges. The Company must assess, both at inception of the hedge transaction and on an ongoing basis, whether the hedge is highly effective in offsetting change in the cash flow of the hedged item. The effective portion of the gain or loss from the financial instrument is initially reported as a component of Accumulated other comprehensive income in stockholders' equity and subsequently reclassified to earnings when the hedged item

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affects income. For the three and nine months ended September 30, 2008, derivative gains of \$0.6 million and derivative losses of \$0.1 million, respectively, were recognized in net sales. These gains and losses were offset by gains and losses on the transactions being hedged. Any ineffective portions of such cash flow hedges are recognized immediately in earnings. In the first nine months of 2008 and 2007, there was no impact on earnings resulting from hedge ineffectiveness. The estimated fair value of open contracts at September 30, 2008, generated an unrealized gain of approximately \$0.4 million (net of \$0.1 million deferred tax liability), which is included in Accumulated other comprehensive income. At September 30, 2008, the notional quantity of open contracts designated as cash flow hedges under SFAS No. 133 was 0.7 million pounds of copper. The Company had no cash flow hedges at December 31, 2007. At September 30, 2008, the related receivable is recorded in Other current assets in the Unaudited Condensed Consolidated Balance Sheet. All open contracts at September 30, 2008 mature no later than the fourth quarter of 2008.

Fair Value Hedges

Beginning in 2008, the Company entered into certain cobalt forward purchase contracts designated as fair value hedges. For fair value hedges, changes in the fair value of the derivative instrument are offset against the change in fair value of the hedged item through earnings. Any ineffective portions of such fair value hedges are recognized immediately in earnings. In the first nine months of 2008 and 2007, there was no impact on earnings resulting from hedge ineffectiveness. For the three and nine months ended September 30, 2008, derivative losses of \$3.7 million and \$6.7 million, respectively, were recognized in cost of products sold. These losses were offset by gains on the transactions being hedged. The Company had no fair value hedges at September 30, 2008 or December 31, 2007.

Other Forward Contracts

During 2007, the Company entered into cobalt forward purchase contracts to establish a fixed margin and mitigate the risk of price volatility related to the sales during the second quarter of 2008 of cobalt-containing finished products that were priced based on a formula which included a fixed cobalt price component. These forward purchase contracts were not designated as hedging instruments under SFAS No. 133. Accordingly, these contracts were adjusted to fair value as of the end of each reporting period, with the gain or loss recorded in cost of products sold. The Company recorded a \$6.7 million gain in the fourth quarter of 2007, a \$5.8 million gain in the first quarter of 2008 and a \$1.8 million loss in the second quarter of 2008, resulting in a cumulative gain of \$10.7 million related to these contracts. These contracts matured in the second quarter of 2008. The Company received cash related to these contracts of \$10.7 million during the first nine months of 2008. The gain on the forward purchase contracts has been partially offset by the sales in the second quarter of 2008 of cobalt-containing finished products with a fixed cobalt price component.

Note 8 Fair Value Disclosures

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

Description	September 30, 2008	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Assets	\$ 511	\$	\$ 511	\$

Total \$ **511** \$ \$ **511** \$

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

Cobalt forward purchase contracts are classified as Level 3, as their valuation is based on the expected future cash flows discounted to present value. Future cash flows are estimated using a theoretical forward price as quoted forward prices are not available. The following table provides a reconciliation of derivatives measured at fair value on a recurring basis which used Level 3 or significant unobservable inputs for the period of July 1, 2008 to September 30, 2008:

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	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Derivatives
July 1, 2008	\$ (2,988)
Total realized or unrealized gains (losses):	
Included in earnings	(3,708)
Included in other comprehensive income	
Purchases, issuances, and settlements	6,696
Transfers in and/or out of Level 3	
September 30, 2008	\$

The following table provides a reconciliation of derivatives measured at fair value on a recurring basis which used Level 3 or significant unobservable inputs for the period of January 1, 2008 to September 30, 2008:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Derivatives
January 1, 2008	\$ 6,734
Total realized or unrealized gains (losses):	
Included in earnings	(2,694)
Included in other comprehensive income	
Purchases, issuances, and settlements	(4,040)
Transfers in and/or out of Level 3	
September 30, 2008	\$

Note 9 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 January 1, 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 income from continuing operations before income taxes and minority interest. 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 (loss) from continuing operations before income tax expense and minority partners' share of income consists of the following:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
United States	\$ (11,899)	\$ (9,855)	\$ (14,916)	\$ (48,484)
Outside the United States	57,158	59,799	238,909	180,617
	\$ 45,259	\$ 49,944	\$ 223,993	\$ 132,133

The Company's effective income tax rates are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Effective income tax rate	-32.1%	15.9%	15.6%	43.7%

During the third quarter of 2008, the Company completed an initial analysis of foreign tax credit positions and recorded a \$25.1 million tax benefit related to an election to take foreign tax credits on prior year U.S. tax returns. As originally filed, such returns claimed these amounts as deductions rather than foreign tax credits because the Company was in a net operating loss carryover position in the U.S. during those years. However, due to income taxes paid in the U.S. in connection with the 2007 repatriation of foreign earnings, the Company is able to utilize these foreign tax credits previously taken as deductions. The benefit related to the foreign tax credits was \$0.83 per diluted share in the three and nine months ended September 30, 2008. The \$25.1 million tax benefit is net of a valuation allowance of \$3.5 million on deferred tax assets as to which the Company believes it is more likely than not it will be unable to realize as a result of its election to claim the foreign tax credits. Excluding the tax benefit related to the foreign tax credits, the Company's effective income tax rate would have been 23.3% and 26.8% for the three and nine months ended September 30, 2008, respectively.

During the fourth quarter of 2007, the Company was informed by the DRC taxing authority that its tax holiday had expired. As a result, the first nine months of 2008 included income tax expense related to income earned at the Company's joint venture in the DRC. No income tax expense was recorded by the joint venture in the first nine months of 2007.

Excluding the tax benefit related to the foreign tax credits, the effective income tax rates for the three and nine months ended September 30, 2008 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. (primarily Finland), a tax holiday in Malaysia, and the recognition of tax benefits for domestic losses. In the three and nine months ended September 30, 2008, these factors were partially offset by tax expense related to planned foreign earnings repatriation during 2008.

The effective income tax rate for the first nine months of 2007 included discrete items related to the repatriation of foreign earnings and the redemption of the Notes. Specifically, the Company recorded U.S. income tax expense of \$38.8 million on the repatriation of foreign earnings and proceeds from the sale of the Nickel business. This expense was partially offset by a \$7.6 million income tax benefit related to the \$21.7 million cost to redeem the Notes. Excluding these discrete items, the Company's effective income tax rate would have been 17.2% for the first nine months of 2007.

The Malaysian tax holiday, which results from an investment incentive arrangement and expires on December 31, 2011, reduced consolidated income tax expense as computed on an interim basis by \$0.3 million and \$4.3 million in the three and nine months ended September 30, 2008, respectively, and \$1.3 million and \$4.9 million in the three and nine months ended September 30, 2007, respectively. The benefit of the tax holiday on net income per diluted share was approximately \$0.01 and \$0.14 in the three and nine months ended September 30, 2008, respectively, and approximately \$0.04 and \$0.16 in the three and nine months ended September 30, 2007, 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 \$10.4 million of uncertain tax positions, of which \$2.4 million would affect the Company's effective income tax rate if recognized, and are included as a component of other non-current liabilities. There were no material changes to the liability for uncertain tax positions in the three and nine months ended September 30, 2008.

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The Company accrues interest related to uncertain tax positions and penalties as a component of income tax expense. The Company had \$0.8 million and \$0.6 million accrued at September 30, 2008 and December 31, 2007, respectively, for the payment of interest and penalties.

There were no uncertain tax positions at September 30, 2008 for which it is reasonably possible that the liability will decrease within the next 12 months.

Note 10 Pension and Other Postretirement Benefit Plans

The Company sponsors a defined contribution plan covering substantially all U.S. employees. Under this plan, the Company contributes 3.5% of employee compensation unconditionally and matches 100% of participants contributions up to the first three percent of contributions, and 50% on the next 2% of participants contributions. Contributions are directed by the employee into various investment options. The Company maintains additional defined contribution plans in certain locations outside the United States. The Company also sponsors an unfunded non-contributory, nonqualified 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. Certain non-U.S. employees are covered under defined benefit plans. These non-U.S. plans are not significant and relate to liabilities of the acquired Borchers entities and one REM location. 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 currently uses October 31 as the measurement date and will change to December 31st, the date of its fiscal year-end, during the fourth quarter of 2008.

Set forth below is the detail of the net periodic expense for the pension and other postretirement defined benefit plans:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Pension Benefits				
Interest cost	\$ 360	\$ 334	\$ 1,081	\$ 1,002
Service cost	28		85	
Amortization of unrecognized net loss	70	75	210	227
Expected return on plan assets	(225)	(197)	(674)	(592)
Total expense	\$ 233	\$ 212	\$ 702	\$ 637
Other Postretirement Benefits				
Service cost	\$ 28	\$ 21	\$ 84	\$ 62
Interest cost	81	66	243	198
Amortization of unrecognized net loss	11		34	
Amortization of unrecognized prior service cost	10	10	30	30
Total expense	\$ 130	\$ 97	\$ 391	\$ 290

Table of Contents**Note 11 Earnings Per Share**

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

	Three Months Ended September 30, 2008		Nine Months Ended September 30, 2008	
	2008	2007	2008	2007
Income from continuing operations	\$ 55,746	\$ 39,507	\$ 167,929	\$ 65,098
Weighted average shares outstanding	30,183	30,031	30,087	29,902
Dilutive effect of stock options and restricted stock	167	319	265	333
Weighted average shares outstanding assuming dilution	30,350	30,350	30,352	30,235
Income per common share from continuing operations basic	\$ 1.85	\$ 1.32	\$ 5.58	\$ 2.18
Income per common share from continuing operations assuming dilution	\$ 1.84	\$ 1.30	\$ 5.53	\$ 2.15

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

	Three Months Ended September 30, 2008		Nine Months Ended September 30, 2008	
	2008	2007	2008	2007
Net income	\$ 56,266	\$ 38,095	\$ 167,718	\$ 198,879
Weighted average shares outstanding	30,183	30,031	30,087	29,902
Dilutive effect of stock options and restricted stock	167	319	265	333
Weighted average shares outstanding assuming dilution	30,350	30,350	30,352	30,235
Net income per common share basic	\$ 1.86	\$ 1.27	\$ 5.57	\$ 6.65
Net income per common share assuming dilution	\$ 1.85	\$ 1.26	\$ 5.53	\$ 6.58

Note 12 Accumulated Other Comprehensive Income

The following table sets forth the change in Accumulated other comprehensive income for the three months ended September 30, 2008:

Unrealized**Accumulated**

	Foreign Currency Translation	Gain (loss), Net on Cash Flow Hedging Derivatives	Pension and Post-Retirement Obligation	Other Comprehensive Income
Balance at June 30, 2008	\$ 27,144	\$ (279)	\$ (10,415)	\$ 16,450
Current period credit (charge)	(27,659)	657		(27,002)
Balance at September 30, 2008	\$ (515)	\$ 378	\$ (10,415)	\$ (10,552)

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The following table sets forth the change in Accumulated other comprehensive income for the nine months ended September 30, 2008:

	Foreign Currency Translation	Unrealized Gain, Net on Cash Flow Hedging Derivatives	Pension and Post-Retirement Obligation	Accumulated Other Comprehensive Income
Balance at December 31, 2007	\$ 18,080	\$	\$ (10,415)	\$ 7,665
Current period credit (charge)	(18,595)	378		(18,217)
Balance at September 30, 2008	\$ (515)	\$ 378	\$ (10,415)	\$ (10,552)

Comprehensive income, net of related tax effects, for the three months ended September 30, 2008 and 2007 was \$29.3 million and \$40.0 million, respectively. Comprehensive income, net of related tax effects, for the nine months ended September 30, 2008 and 2007 was \$149.5 million and \$177.5 million, respectively.

Note 13 Commitments and Contingencies

The Company's joint venture in the DRC received a letter dated February 11, 2008 from the Ministry of Mines of the DRC. The letter contained the results of an inter-ministerial review of the joint venture's contracts, which review was undertaken as part of a broader examination of mining contracts in the DRC to determine whether any such contracts needed to be revisited and whether any adjustments were recommended to be made. The joint venture has been engaged in ongoing communications with the DRC government, the most recent of which occurred on October 6, 2008, when the joint venture partners commenced discussions regarding revisitation of the joint venture's contracts. While the discussions have not concluded as of November 6, 2008, the Company continues to believe, based on current facts and conditions, that any potential adjustments are not reasonably likely to have a material adverse affect on its financial condition, results of operations or cash flows.

During 2007, the Company became aware of two 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 2001-2003 period, during which the Company owned PMG, are potential assessments by Brazilian taxing authorities related to duty drawback tax for items sold by PMG and certain VAT and/or Service Tax assessments. The Company has assessed the current likelihood of an unfavorable outcome of these contingencies and concluded that it is reasonably possible but not probable. If the ultimate outcome of these contingencies is unfavorable, the loss, based on exchange rates at September 30, 2008, would be up to \$23.5 million and would be recorded in discontinued operations.

The Company is a party to various other legal proceedings incidental to its business and is subject to a variety of environmental and pollution control laws and regulations in the jurisdictions in which it operates. As is the case with other companies in similar industries, the Company faces exposure from actual or potential claims and legal proceedings involving environmental matters. A number of factors affect the cost of environmental remediation, including the determination of the extent of contamination, the length of time the remediation may require, the complexity of environmental regulations, and the continuing improvements in remediation techniques. Taking these factors into consideration, the Company 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 and an amount can be reasonably estimated. At September 30, 2008 and December 31, 2007, the Company has recorded environmental liabilities of \$3.6 million and \$4.9 million, respectively, primarily related to remediation and decommissioning at the Company's closed manufacturing sites in Newark, New Jersey and Vasset, France.

Although it is difficult to quantify the potential impact of compliance with, or liability under, environmental protection laws, the Company believes that any amount it may be required to pay in connection with environmental

matters, as well as other legal proceedings arising out of operations in the normal course of business, is not reasonably likely to exceed amounts accrued by an amount that would have a material adverse effect upon its financial condition, results of operations or cash flows.

Note 14 Share-Based Compensation

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On May 8, 2007, the stockholders of the Company approved the 2007 Incentive Compensation Plan (the 2007 Plan). The 2007 Plan superseded and replaced the 1998 Long-Term Incentive Compensation Plan (the 1998 Plan) and the 2002 Stock Incentive Plan (the 2002 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 did 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 \$1.9 million and \$6.4 million for the three and nine months ended September 30, 2008, respectively, and \$1.8 million and \$5.2 million for the three and nine months ended September 30, 2007, 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 of 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 \$0.7 million for the nine months ended September 30, 2007.

At September 30, 2008, there was \$10.1 million of total unrecognized compensation expense related to nonvested share-based awards. That cost is expected to be recognized as follows: \$1.8 million in the remaining three months of 2008, \$5.6 million in 2009, \$2.4 million in 2010 and \$0.3 million in 2011. 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 received cash payments of \$0.9 million and \$10.5 million in the nine months ended September 30, 2008 and 2007, respectively, in connection with the exercise of stock options. 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.

Beginning in the third quarter of 2007, non-employee directors of the Company are paid a portion of their annual retainer in unrestricted shares of common stock. For purposes of determining the number of shares of common stock to be issued, the 2007 Plan provides that shares are to be valued at the average of the high and low sale price of the Company's common stock on the NYSE on the last trading day of the quarter. The Company issued 1,506 and 4,256 shares to non-employee directors during the three and nine months ended September 30, 2008, respectively.

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. The Company granted stock options to purchase 166,675 and 184,750 shares of common stock during the first nine months of 2008 and 2007, respectively. 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 2008 and 2007 was estimated at the date of grant using a Black-Scholes options pricing model with the following weighted-average assumptions:

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Risk-free interest rate	2008 2.6%	2007 4.7%
Dividend yield		
Volatility factor of Company common stock	0.47	0.47
Weighted-average expected option life (years)	6.0	6.0
Weighted-average grant-date fair value	\$27.90	\$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 simplified method allowed by Staff Accounting Bulletin (SAB) No. 110 as historical data was not sufficient to provide a reasonable estimate. Under this approach, the expected term is presumed to be the mid-point between the vesting date and the end of the contractual term.

The following table sets forth the number and weighted-average grant-date fair value (in thousands except weighted average fair value at grant date):

	Shares	Weighted Average Fair Value at Grant Date
Non-vested at December 31, 2007	364	\$ 18.46
Granted during the first nine months of 2008	167	\$ 27.90
Granted during the first nine months of 2007	185	\$ 26.24
Vested during the first nine months of 2008	206	\$ 15.81
Vested during the first nine months of 2007	169	\$ 11.88
Non-vested at September 30, 2008	320	\$ 24.99
Non-vested at September 30, 2007	455	\$ 17.44

The total intrinsic value of options exercised was \$0.4 million and \$5.8 million during the first nine months of 2008 and 2007, respectively. The intrinsic value of an option represents the amount by which the market value of the stock exceeds the exercise price of the option.

A summary of the Company's stock option activity for the first nine months of 2008 is as follows (in thousands except weighted average exercise price):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2008	756	\$34.88		
Granted	167	\$58.04		
Exercised	(22)	\$40.12		
Expired unexercised	(2)	\$45.49		
Forfeited	(6)	\$48.04		
Outstanding at September 30, 2008	893	\$38.97	7.43	\$366
Vested or expected to vest at September 30, 2008	885	\$38.84	7.41	\$366

Exercisable at September 30, 2008	573	\$32.59	6.69	\$280
Restricted Stock				
Performance-Based Awards				

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During the first nine months of 2008, the Company awarded a total of 57,550 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. The shares awarded during the first nine months of 2008 will vest upon the satisfaction of established performance criteria based on consolidated operating profit and average return on net assets over a three-year performance period ending December 31, 2010.

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. Of such shares, 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 during any one of the years in the three-year period ending December 31, 2009.

The value of the performance-based restricted stock awards was based upon the market price of an unrestricted share of the Company's common stock at the date of grant. The Company recognizes expense related to performance-based restricted stock ratably over the requisite service period based upon the number of shares that are anticipated to vest. The number of shares anticipated to vest is evaluated quarterly and compensation expense is adjusted accordingly. Upon any change in control of the Company, as defined in the applicable plan, 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.

A summary of the Company's performance-based restricted stock awards for the first nine months of 2008 is as follows (in thousands except weighted average grant date fair value):

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