

OM GROUP INC
Form 10-K
August 22, 2005

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2004

OR

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

For the transition period from _____ to _____

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

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 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 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 if the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐

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

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, 2005 and June 30, 2004 was approximately \$704 million and \$940 million, respectively.

As of June 30, 2005 there were 28,581,041 shares of Common Stock, par value \$.01 per share, outstanding.

Table of Contents

<u>PART I</u>		
<u>Item 1.</u>	<u>Business</u>	2
<u>Item 2.</u>	<u>Properties</u>	7
<u>Item 3.</u>	<u>Legal Proceedings</u>	8
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	9
<u>PART II</u>		
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	10
<u>Item 6.</u>	<u>Selected Financial Data</u>	10
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	22
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	25
	<u>Report of Independent Registered Public Accounting Firm</u>	25
	<u>Consolidated Balance Sheets as of December 31, 2004 and 2003</u>	28
	<u>Statements of Consolidated Operations for the years ended December 31, 2004, 2003 and 2002</u>	29
	<u>Statements of Consolidated Cash Flows for the years ended December 31, 2004, 2003 and 2002</u>	30
	<u>Statements of Consolidated Stockholders' Equity for the years ended December 31, 2004, 2003 and 2002</u>	31
	<u>Notes to Consolidated Financial Statements</u>	33
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	67
<u>Item 9A.</u>	<u>Controls and Procedures</u>	67
<u>Item 9B.</u>	<u>Other Information</u>	69
<u>PART III</u>		
<u>Item 10.</u>	<u>Directors and Executive Officers of the Registrant</u>	70
<u>Item 11.</u>	<u>Executive Compensation</u>	72
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	75
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions</u>	76
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	77
<u>PART IV</u>		
<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules and Signatures</u>	78

PART I

Item 1. Business

General

The Company is a leading, vertically integrated international producer and marketer of value-added, metal-based specialty chemicals and related materials, primarily from cobalt and nickel. The Company applies proprietary technology to unrefined cobalt and nickel raw materials to market more than 1,500 different product offerings to approximately 3,300 customers in over 30 industries. The Company operates in two business segments – Cobalt and Nickel.

The Cobalt segment includes products manufactured using cobalt and other metals including copper, zinc, manganese and calcium. The Nickel segment includes nickel-based products. The Company's products are essential components in numerous complex chemical and industrial processes, and are used in many end markets, such as rechargeable batteries, coatings, custom catalysts, liquid detergents, lubricants and fuel additives, plastic stabilizers, polyester promoters, adhesion promoters for rubber tires, colorants, petroleum additives, magnetic media, metal finishing agents, cemented carbides for mining and machine tools, diamond tools used in construction, stainless steel, alloy and plating applications. The Company's products are sold in various forms such as solutions, crystals, powders, cathodes and briquettes.

The Company's business is critically connected to both the price and availability of raw materials. The primary raw materials used by the Company are cobalt and nickel, and the cost of these raw materials fluctuates due to actual or perceived changes in supply and demand, changes in cobalt and nickel reference prices and changes in availability from suppliers. Fluctuations in the prices of cobalt and nickel have been significant in the past and the Company believes that cobalt and nickel price fluctuations are likely to continue in the future. The Company attempts to mitigate changes in prices and availability by maintaining adequate inventory levels and long-term supply relationships with a variety of producers. Generally, the Company is able to pass through to its customers increases and decreases in raw material prices by increasing or decreasing, respectively, the prices of its products. The degree of profitability of the Company principally depends on the Company's ability to maintain the differential between its product prices and product costs. During periods of rapidly changing metal prices, however, there may be price lags that can impact the short-term profitability of the Company both positively and negatively. Reductions in the price of raw materials or declines in the selling prices of the Company's finished goods could also result in the Company's inventory carrying value being written down to a lower market value, or result in a reduction in its gross profit from historical levels.

In addition to the United States, the Company has manufacturing and other facilities in Africa, Canada, Europe and Asia-Pacific, and markets its products worldwide. Although most of the Company's raw material purchases and product sales are based on the U.S. dollar, prices of certain raw materials, non-U.S. operating expenses and income taxes are denominated in local currencies. As such, in periods when certain currencies (particularly the euro) strengthen against the U.S. dollar, the Company's results of operations are negatively impacted. In addition, fluctuations in exchange rates may affect product demand and may adversely affect the profitability in U.S. dollars of products provided by the Company in foreign markets where payments for its products are made in local currency. Accordingly, fluctuations in currency prices may affect the Company's operating results.

Recent Developments

New President and Chief Executive Officer On June 13, 2005, Joseph M. Scaminace became President and Chief Executive Officer of the Company. Mr. Scaminace comes to the Company from The Sherwin-Williams Company, where he served for 22 years in a variety of positions of increasing responsibility, culminating in the role of president, chief operating officer, and board member. Mr. Scaminace replaced Frank E. Butler, who previously was the non-executive chairman of the board and became the Company's interim chief executive officer in January 2005. On January 11, 2005, James P. Mooney's employment with the Company was terminated and he ceased to be Chief Executive Officer.

Agreements to Settle Class Action and Derivative Lawsuits The Company has reached an agreement to settle the shareholder class action lawsuits filed in November 2002 relating to the decline in the Company's stock price after the third quarter 2002 earnings announcement. The Company and lead plaintiff of these lawsuits have entered into a Stipulation and Agreement of Settlement dated June 6, 2005, which Agreement was preliminary approved on June 24, 2005 by the U.S. District Court hearing the case. The settlement is to be payable \$74 million in cash and \$8.5 million in common stock of the Company.

On June 15, 2005, the Company reached an agreement in principle to settle the shareholder derivative lawsuits filed in November 2002 against the Company's directors and certain of its then executives, which lawsuits also were related to the decline in the Company's stock price after the third quarter 2002 earnings announcement. The general terms of the proposed settlement are subject to the satisfaction of various conditions and execution of a definitive agreement by the interested parties, including the individual defendants. The proposed settlement provides for the Company to issue 380,000 shares of its common stock in payment of attorneys' fees and costs incurred by plaintiffs' counsel with respect to this litigation, and also requires the Company to implement various corporate governance changes.

Products

The Company develops, processes, manufactures and markets specialty chemicals, powders and related products from various base metals, primarily cobalt and nickel. The Company's products leverage the Company's production capabilities and bring value to its customers through superior product performance. Typically, the Company's products represent a small portion of the customer's total cost of manufacturing or processing, but are critical to the customer's product performance. The products frequently are essential components in chemical and industrial processes where they facilitate a chemical or physical reaction and/or enhance the physical properties of end-products. These products are sold in various forms such as solutions, crystals, powders, cathodes and briquettes.

The following table sets forth key applications for the Company's products:

Applications	Metals Used	Product Attributes
Stainless Steel	Nickel	Improves rust resistance in demanding applications; improves corrosion resistance in aggressive high temperatures or corrosive environments
Rechargeable Batteries	Cobalt, Nickel	Improves the electrical conduction of rechargeable batteries used in cellular phones, video cameras, portable computers, power tools and hybrid electric vehicles
Coatings and paints	Cobalt, Manganese, Calcium, Zirconium, Aluminum	Promotes faster drying in such products as house paints (exterior and interior) and industrial and marine coatings
Printing Inks	Cobalt, Manganese	Promotes faster drying in various printing inks
Tires	Cobalt	Promotes bonding of metal-to-rubber in radial tires
Construction Equipment and Cutting Tools	Cobalt	Strengthens and adds durability to diamond and machine cutting tools and drilling equipment used in construction, oil and gas drilling, and quarrying
Petrochemical Refining	Cobalt, Nickel	Reduces sulfur dioxide and nitrogen emissions
Ceramics and Glassware	Cobalt, Nickel	Provides color for pigments, earthenware and glass and facilitates adhesion of porcelain to metal
Polyester Resins	Cobalt, Copper, Zinc	Accelerates the curing of polyester resins found in reinforced fiberglass boats, storage tanks, bathrooms, sports equipment, automobile and truck components
Memory Disks	Nickel	Enhances information storage on disks for computers

Financial information, including reportable segment and geographic data, is contained in Note S to the consolidated financial statements contained in Item 8 of this Annual Report.

Competition

The Company encounters a variety of competitors in each of its product lines, and no single company competes with the Company across all of its existing product lines. The Company believes that its focus on metal-based specialty chemicals and related materials as a core business and backward raw material integration is an important competitive advantage. For 2004, the Company believes that it was the largest refiner of cobalt and producer of cobalt-based specialty products in the world and was the sixth largest refiner of primary nickel and the largest producer of electroless nickel plating chemistry. Competition in these markets is based primarily on product quality, supply reliability, price, service and technical support capabilities. The markets in which the Company participates have historically been competitive and this environment is expected to continue.

Customers

The Company serves approximately 3,300 customers. During 2004, approximately 48% of the Company's net sales were in Europe, 22% in the Americas and 30% in Asia-Pacific. Sales to one customer in the Nickel segment were approximately 10% of Nickel's net sales in 2004. Sales to a battery customer in the Cobalt segment were approximately 20% of Cobalt's net sales in 2004. In 2003 and 2002, Glencore AG represented approximately 13% and 12%, respectively, of the Company's net sales.

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

Raw Materials

The primary raw materials used by the Company in manufacturing its products are unrefined cobalt and nickel. Cobalt raw materials include ore, concentrate, slag and scrap. Nickel raw materials include concentrates, ore, intermediate, secondaries, scrap and matte. The cost of the Company's raw materials fluctuates due to actual or perceived changes in supply and demand of raw materials, changes in cobalt and nickel reference prices and changes in availability from suppliers.

The Company's supply of cobalt historically has been sourced from the Democratic Republic of Congo (DRC), Australia and Finland. During 2004, cobalt reference prices ranged from approximately \$25-\$27 per pound in the first quarter, and trended downward to approximately \$17-\$22 per pound in the fourth quarter. From November 1, 2003 to December 31, 2003, the reference price of cobalt increased 105%, from \$10.00 to \$20.50 per pound. This dramatic increase was due primarily to higher demand in the Japanese battery markets, higher demand in the aerospace industry, and actual or perceived tightening of worldwide supplies. Earlier in 2003 and in 2002, the market price of cobalt remained at unusually low levels of \$6.00-\$7.00 per pound as compared to historical prices of \$10.00-\$30.00 per pound, due primarily to declining demand for cobalt metal attributable to weak business conditions worldwide, especially in the aerospace sector post-September 11, 2001.

Nickel historically has been sourced from Australia, Finland and Brazil. In December 2001, the Company purchased an intermediate nickel refining facility and associated mine deposits in Australia, which provide the Company with direct access to approximately 8,000 tons of nickel per year. During 2004, nickel market prices ranged from approximately \$6-\$7 per pound, except for a brief drop to approximately \$5 per pound in May 2004. From November 1, 2003 to December 31, 2003, the market price of nickel increased 40%, from \$5.40 to \$7.54 per pound. This dramatic increase was due primarily to increased demand in the worldwide stainless steel industry, strong demand in China, and perceived supply constraints.

Although the Company has never experienced a significant shortage of raw material, production problems and political and civil instability in certain supplier countries may in the future affect the supply and market price of raw material. The Company attempts to mitigate changes in prices and availability by entering into long-term supply contracts with a variety of producers. Currently, the Company has supply arrangements for approximately 86% of its projected nickel raw material requirements for 2005. The Company does not anticipate any substantial interruption in its raw materials supply that would have a material adverse effect on the Company's results of operations or financial condition; however, a significant long-term nickel raw material contract expired in May 2005, and there is no assurance that the Company will be able to obtain as much nickel from other sources as would be necessary to satisfy the Company's requirements or at prices comparable to its current arrangements. Currently, the Company has supply arrangements for approximately 82% of its projected nickel raw material requirements for 2006. Beyond 2006, the Company's existing nickel supply arrangements represent approximately 60% of its projected nickel raw material requirements. However, the Company is actively pursuing a variety of feed sources to ensure that the Company does not experience any material shortage of nickel over the next several years.

The Company's joint venture in the DRC shut down its smelter as scheduled during January of 2005 for approximately four months for regular maintenance and production improvements. The smelter was re-opened in May of 2005.

A graph of the monthly 99.3% reference price of cobalt (as published in the Metal Bulletin magazine) per pound for 1999 through 2004 is as follows:

A graph of the monthly London Metal Exchange (LME) market price of nickel per pound for 1999 through 2004 is as follows:

Research and Development

The Company's research and new product development program is an integral part of its business. Research and development focuses on adapting proprietary technologies to develop new products and working with customers to meet their specific requirements, including joint development arrangements with customers that involve innovative products. New products include new chemical formulations, metal-containing compounds, and concentrations of various components and product forms. Research and development also focuses on improving refining competency, processes, yield and throughput in each location. Research and development, applied technology and technical service expenses were approximately \$14.0 million for 2004, \$10.0 million for 2003 and \$13.6 million for 2002.

The Company's research staff of approximately 100 full-time persons conducts research and development in laboratories located in Westlake, Ohio; Newark, New Jersey; Kuching, Malaysia; Manchester, England; Kokkola, Finland and Harjavalta, Finland. The Company's Kokkola facility also maintains a research agreement with Outokumpu Research Oy.

Patents and Trademarks

The Company holds 236 patents and has 67 pending patent applications relating to the manufacturing, processing and use of metal-organic and metal-based compounds. Specifically, the majority of these patents cover proprietary technology for base metal refining, metal and metal oxide powders, catalysts, metal-organic compounds and inorganic salts. The Company does not consider any single patent or group of patents to be material to its business as a whole.

Environmental Matters

The Company is subject to a wide variety of environmental laws and regulations in the United States and in foreign countries as a result of its operations and use of certain substances that are, or have been, used, produced or discharged by its plants. In addition, soil and/or groundwater contamination presently exists and may in the future be discovered at levels that require remediation under environmental laws at properties now or previously owned, operated or used by the Company. At December 31, 2004 and 2003, the Company has environmental reserves of \$9.5 million and \$14.2 million, respectively.

Environmental compliance costs were approximately \$7.0 million in 2004 and \$6.0 million in 2003. Ongoing expenses include costs relating to waste water analysis, treatment, and disposal; hazardous and non-hazardous solid waste analysis and disposal; air emissions control; groundwater monitoring and related staff costs. The Company anticipates that it will continue to incur compliance costs at moderately increasing levels for the foreseeable future as environmental laws and regulations are becoming increasingly stringent.

The Company also incurred capital expenditures of approximately \$3.9 million in 2004 and \$1.5 million in 2003 in connection with environmental compliance. The Company anticipates that capital expenditure levels for these purposes will increase to approximately \$7.9 million in 2005, as it continues to modify certain processes that may have an environmental impact and undertakes new pollution prevention and waste reduction projects.

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

Employees

At December 31, 2004, the Company had 1,426 full-time employees, of which 233 were located in the North America, 657 in Europe, 350 in Africa and 186 in Asia-Pacific. Employees at the Company's production facilities in Franklin, Pennsylvania; Kuching, Malaysia; and Kalgoorlie, Australia are non-unionized. Employees at the Company's facilities in Harjavalta and Kokkola, Finland are members of several national workers' unions under

various union agreements. Generally, these union agreements have two-year terms. Employees at the Company's facility in Manchester, England are members of various trade unions under a recognition agreement. This recognition agreement has an indefinite term. Employees at the Belleville, Canada facility are members of the Communications, Energy and Paperworkers Union of Canada. The current Belleville union agreement has a term of two years expiring in December 2005. Employees in the Democratic Republic of Congo are members of various trade unions. The union agreements have a term of three years expiring in April 2008. The Company believes that relations with its employees are good.

SEC Reports

The Company makes available free of charge through its website (www.omgi.com) its reports on Forms 10-K, 10-Q and 8-K as soon as reasonably practicable after the reports are electronically filed with the Securities and Exchange Commission.

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 land on which the production facilities in Kalgoorlie, Australia are located; the land on which the Harjavalta, Finland (HNO) production facilities are located (except for the land on which the HNO chemical plant is located); and the land on which the Kokkola, Finland (KCO) production facilities are located is leased under agreements with varying expiration dates. The depreciation lives do not exceed the lives of the land leases. Otherwise, the land associated with the Company's remaining manufacturing facilities is owned by the Company.

The Company's KCO production facility is situated on property owned by Boliden Kokkola Oy. KCO and Boliden Kokkola Oy share certain physical facilities, services and utilities under agreements with varying expiration dates. The Company's HNO production facility is situated on land owned by Boliden Harjavalta Oy. The HNO facility also shares certain physical facilities and has contracts in place for toll smelting, waste disposal, utilities, laboratory services and raw material supply with Boliden Harjavalta Oy with varying expiration dates.

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

Location	Segment	Facility Function*	Approximate Square Feet	Leased/Owned
Africa:				
Lubumbashi, DRC	Cobalt	M	116,000	joint venture (55%)
North America:				
Cleveland, Ohio	Corporate	A	24,500	leased
Westlake, Ohio	Cobalt	A, R	35,200	owned
Belleville, Ontario	Cobalt	M	38,000	owned
Franklin, Pennsylvania	Cobalt	M	331,500	owned
Newark, New Jersey	Nickel	A,R	32,000	owned
Asia-Pacific:				
Kalgoorlie, Australia	Nickel	M	294,400	leased
Kuching, Malaysia	Nickel	M, A, R	25,000	owned
Tokyo, Japan	Cobalt	A	2,300	leased
Taipei, Taiwan	Cobalt	A	4,000	leased
Singapore	Nickel	W,A	4,700	leased

Location	Segment	Facility Function*	Approximate Square Feet	Leased/Owned
Europe:				
Manchester, England	Cobalt	M, A, R	73,300	owned
Espoo, Finland	Nickel	A	3,000	leased
Harjavalta, Finland	Nickel	M, A,R	591,000	owned
Kokkola, Finland	Cobalt	M, A,R	470,000	owned

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

Item 3. Legal Proceedings

In November 2002, the Company received notice that shareholder class action lawsuits were filed in the U.S. District Court for the Northern District of Ohio related to the decline in the Company's stock price after the third quarter 2002 earnings announcement. The lawsuits allege virtually identical claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 against the Company, certain executive officers and the members of the Board of Directors. Plaintiffs seek damages in an unspecified amount to compensate persons who purchased the Company's stock between November 2001 and October 2002 at allegedly inflated market prices. In July 2004, these lawsuits were amended to include the entire restatement period back to and including 1999, and to add the Company's independent auditors, Ernst & Young LLP, as a defendant. The Company and the lead plaintiff of the shareholder class action lawsuits have entered into a Stipulation and Agreement of Settlement (Agreement) dated June 6, 2005, which Agreement was preliminarily approved on June 24, 2005 by the U.S. District Court hearing the cases. The Company recorded a charge to administrative expense of \$82.5 million during 2003 related to these lawsuits. Of this amount, \$8.5 million is anticipated to be paid by the issuance of common stock and the remainder in cash.

In November 2002, the Company also received notice that shareholder derivative lawsuits had been filed in the U.S. District Court for the Northern District of Ohio against the members of the Company's Board of Directors and certain of its then executives. Derivative plaintiffs allege the directors and executives breached their fiduciary duties to the Company in connection with a decline in the Company's stock price after its third quarter 2002 earnings announcement by failing to institute sufficient financial controls to ensure that the Company and its employees complied with generally accepted accounting principles by writing down the value of the Company's cobalt inventory on or before December 31, 2001. Derivative plaintiffs seek a number of changes to the Company's accounting, financial and management structures and unspecified damages from the directors and executives to compensate the Company for costs incurred in, among other things, defending the aforementioned securities lawsuits. In July 2004, the derivative plaintiffs amended these lawsuits to include conduct allegedly related to the Company's decision to restate its earnings back to and including 1999. The Company has entered into an agreement in principle with the lead plaintiffs of the shareholder derivative lawsuits that outlines the general terms of the proposed settlement of these lawsuits subject to the satisfaction of various conditions and execution of a definitive agreement by the interested parties, including the individual defendants. The proposed settlement provides for the Company to issue 380,000 shares of its common stock in payment of attorneys' fees and costs incurred by plaintiffs' counsel with respect to this litigation, and also requires the Company to implement various corporate governance changes. The Company recorded a charge to administrative expense of \$2.0 million during the fourth quarter of 2003 and an additional charge to administrative expense of \$7.5 million during the first quarter of 2004 related to these lawsuits.

At December 31, 2004 and 2003, the Company had an accrual of \$92.0 million and \$84.5 million, respectively, for the shareholder class action and shareholder derivative lawsuits in the aggregate. The settlements are anticipated to be paid \$74.0 million in cash and \$18.0 million in common stock. In April 2005, the Company paid \$74.0 million into an escrow account in connection with settlement of the shareholder class action lawsuits. Insurance proceeds are expected to be available for contribution to the resolution of the cases but the Company does not expect these lawsuits

to be resolved within the limits of applicable insurance. As of June 30, 2005,

8

insurance proceeds of approximately \$25 million have been received, representing both reimbursement of legal expenses in 2003, 2004 and 2005 related to the lawsuits (approximately \$17 million total), as well as reimbursement of a portion of the settlement amount paid by the Company during 2005 (approximately \$8 million). Potential remaining insurance proceeds of up to approximately \$19 million are expected to be available and will be recognized when received.

In addition, the Company is a party to various other legal and administrative proceedings incidental to its business. In the opinion of the Company, disposition of all suits and claims related to its ordinary course of business (not including the shareholder litigation described above) should not in the aggregate have a material adverse effect on the Company's financial position or results of operations.

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

No matters were submitted to a vote of security holders during the fourth quarter of the Company's 2004 fiscal year.

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

The information relating to the recent price and dividend history of the Company's Common Stock is contained in Note U to the consolidated financial statements contained in Item 8 of this Annual Report. Information relating to restrictions on dividends is contained in Note G to the consolidated financial statements contained in Item 8 of this Annual Report. The Company's common stock is traded on the New York Stock Exchange under the symbol "OMG". As of December 31, 2004, the Company had 1,685 shareholders.

Item 6. Selected Financial Data**Year Ended December 31,**

	2004	2003	2002	2001	2000
<i>(In millions, except per share data)</i>					
Income Statement Data:					
Net sales	\$ 1,347.3	\$ 912.1	\$ 738.9	\$ 681.6	\$ 764.4
Cost of products sold	1,016.9	732.1	690.8	578.0	630.8
Gross profit	330.4	180.0	48.1	103.6	133.6
Selling, general and administrative expenses	129.1	197.0	136.0	81.3	70.7
Income (loss) from operations	201.3	(17.0)	(87.9)	22.3	62.9
Other expense net	(39.1)	(25.6)	(44.6)	(36.5)	(36.6)
Income (loss) from continuing operations	125.7	(56.3)	(110.7)	(13.1)	1.0
Income (loss) of discontinued operations	2.9	140.0	(98.1)	(22.1)	(13.9)
Net income (loss)	\$ 128.6	\$ 83.7	\$ (208.8)	\$ (35.2)	\$ (12.9)
Basic earnings per common share:					
Continuing operations	\$ 4.42	\$ (1.99)	\$ (3.95)	\$ (0.55)	\$ 0.04
Discontinued operations	0.10	4.94	(3.50)	(0.91)	(0.58)
Net income (loss)	\$ 4.52	\$ 2.95	\$ (7.45)	\$ (1.46)	\$ (0.54)
Diluted earnings per common share:					
Continuing operations	\$ 4.39	\$ (1.99)	\$ (3.95)	\$ (0.55)	\$ 0.04
Discontinued operations	0.10	4.94	(3.50)	(0.91)	(0.58)
Net income (loss)	\$ 4.49	\$ 2.95	\$ (7.45)	\$ (1.46)	\$ (0.54)
Dividends declared and paid per common share			\$ 0.42	\$ 0.52	\$ 0.44
Ratio of earnings to fixed charges(a)	5.0x				1.5x
Balance Sheet Data:					
Total assets	\$ 1,333.6	\$ 1,211.4	\$ 2,105.3	\$ 2,074.0	\$ 1,055.1
Long-term debt, excluding current portion(b)	24.7	430.5	1,195.6	1,299.7	551.1

(a)

Earnings were inadequate to cover fixed charges by \$42.9 million, \$134.5 million, and \$18.5 million in 2003, 2002 and 2001, respectively.

(b) Amount in 2004 excludes \$400 million of long-term debt in default which is classified as current.

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

Results for 2003 include the sale of the Company's Precious Metals Group (PMG) for cash proceeds of approximately \$814 million, which resulted in a gain on sale of \$145.9 million (\$131.7 million after tax). Results for PMG are included in discontinued operations for all periods.

In 2003, cost of products sold includes restructuring charges of \$5.8 million. Selling, general and administrative expenses include restructuring charges of \$14.2 million and the shareholder class action and derivative lawsuit charge of \$84.5 million. In addition, discontinued operations include \$5.6 million of restructuring charges.

In 2002, cost of products sold includes restructuring charges of \$37.8 million. Selling, general and administrative expenses include restructuring charges of \$44.7 million. Also, in connection with its restructuring program, the

Company recorded charges of \$73.5 million in discontinued operations primarily associated with the planned disposal of such operations.

Net income for 2001 and 2000 includes goodwill amortization expense of approximately \$6 million per year, in selling, general and administrative expenses. Goodwill amortization ceased in 2002 in connection with the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*.

In August, 2001 the Company acquired dmc2 Degussa Metals Catalysts Cerdec for a purchase price of approximately \$1.1 billion. In September, 2001 the Company disposed of the electronic materials, performance pigments, glass systems and Cerdec ceramics divisions of dmc2 for \$525.5 million. The remaining portion became the Company's PMG businesses.

On April 4, 2000 the Company acquired Outokumpu Nickel Oy (ONO) in Harjavalta, Finland for a cash purchase price of \$206.0 million, which included contingent payments in 2004 and 2003 of \$6.7 million and \$11.2 million, respectively, to the seller under a contingent consideration arrangement (See Note E to the consolidated financial statements included in Item 8 of this Annual Report). There will be no further contingent consideration payments subsequent to 2004.

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.

Overview

The Company is a leading, vertically integrated international producer and marketer of value-added, metal-based specialty chemicals and related materials, primarily from cobalt and nickel. The Company applies proprietary technology to unrefined cobalt and nickel raw materials to market more than 1,500 different product offerings to approximately 3,300 customers in over 30 industries. The Company operates in two business segments—Cobalt and Nickel.

The Company's business is critically connected to both the price and availability of raw materials. The primary raw materials used by the Company are cobalt and nickel, and the cost of these raw materials fluctuates due to actual or perceived changes in supply and demand, changes in cobalt and nickel reference prices and changes in availability from suppliers. Fluctuations in the prices of cobalt and nickel have been significant in the past and the Company believes that cobalt and nickel price fluctuations are likely to continue in the future. The Company attempts to mitigate changes in prices and availability by maintaining adequate inventory levels and long-term supply relationships with a variety of producers. Generally, the Company is able to pass through to its customers increases and decreases in raw material prices by increasing or decreasing, respectively, the prices of its products. The degree of profitability of the Company principally depends on the Company's ability to maintain the differential between its product prices and product costs. During periods of rapidly changing metal prices, however, there may be price lags that can impact the short-term profitability of the Company both positively and negatively. Reductions in the price of raw materials or declines in the selling price of the Company's finished goods could also result in the Company's inventory carrying value being written down to a lower market value, or result in a reduction in its gross profit from historical levels.

The Company has manufacturing and other facilities in North America, Africa, Europe and Asia-Pacific, and markets its products worldwide. Although most of the Company's raw material purchases and product sales are based on the U.S. dollar, prices of certain raw materials, liabilities for non-U.S. operating expenses and income taxes are denominated in local currencies. As such, in periods when certain currencies (particularly the euro) strengthen against the U.S. dollar, the Company's results of operations are negatively impacted. In addition, fluctuations in exchange rates may affect product demand and may adversely affect the profitability in U.S. dollars

of products provided by the Company in foreign markets where payments for its products are made in local currency. Accordingly, fluctuations in currency prices affect the Company's operating results.

Dispositions and Restructuring

On July 31, 2003, the Company completed the sale of its Precious Metals Group (PMG) for approximately \$814 million in cash. The Company recorded a gain of \$145.9 million (\$131.7 million after-tax) on the sale of this business. This business was comprised of the Company's former Precious Metal Chemistry and Metal Management reportable segments, which were acquired in August 2001. The PMG business first qualified as a discontinued operation in the second quarter of 2003; all prior periods have been reclassified to reflect this business as a discontinued operation. The net proceeds from the sale of the PMG business were used to repay the remaining indebtedness outstanding under the then-existing senior credit facilities.

On April 1, 2003, the Company completed the sale of its copper powders business, SCM Metal Products, Inc. (SCM), for \$63.7 million. The net proceeds were used to repay a portion of the Company's indebtedness outstanding under its credit facilities. There was no gain or loss recorded on the sale as this business was written-down by \$2.6 million to its fair value in 2002. This business has been presented as a discontinued operation for all periods presented.

During 2003, the Company recorded restructuring charges of \$20.0 million related to its continuing operations, and an additional \$5.6 million related to its discontinued operations, to complete its restructuring program that commenced in the fourth quarter of 2002. The primary objectives of the restructuring plan were to de-leverage the balance sheet, focus on cash generation and restore profitability in certain of the Company's core businesses that were impacted by the weak economy as well as a sustained decline in the market price of cobalt through the third quarter of 2003. Specific actions taken in 2003 to accomplish these objectives included closure of the manufacturing facility in Thailand, closure of an administrative office in the United States, relocation of the corporate headquarters, disposal of a corporate aircraft, additional headcount reductions, and certain additional asset write-offs.

During the fourth quarter of 2002, the Company recorded restructuring and other charges related to its continuing operations of \$82.5 million and an additional \$73.5 million related to its discontinued operations. Specific actions taken in 2002 included development of plans to sell certain non-core businesses; closure of certain non-core facilities; headcount reductions; review and renegotiation of certain raw material and other contracts to reduce costs in light of changing metal prices and business conditions; liquidation of certain inventories; reduction of base metal inventory levels and production; a decision to discontinue funding a nickel venture in Indonesia; and a re-alignment of the management team.

Overall operating results for 2004, 2003 and 2002

Set forth below is a summary of the statements of consolidated operations for the years ended December 31,

	2004		2003		2002		
<i>(Millions of dollars & percent of net sales)</i>							
Net sales	\$	1,347.3		\$ 912.1		\$ 738.9	
Cost of products sold		1,016.9		732.1		690.8	
Gross profit		330.4	24.5%	180.0	19.7%	48.1	6.5%
Selling, general and administrative expenses		129.1	9.6%	197.0	21.6%	136.0	18.4%
Income (loss) from operations		201.3	14.9%	(17.0)			