

OM GROUP INC
Form 10-Q
May 07, 2009

Table of Contents

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

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

For the quarterly period ended March 31, 2009

OR

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

Commission file number 001-12515

OM GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ 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 ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of Act). Yes ☐ No ☒
As of April 30, 2009 there were 30,564,834 shares of Common Stock, par value \$.01 per share, outstanding.

OM Group, Inc.
TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

<u>Item 1. Unaudited Financial Statements</u>	2
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	35
<u>Item 4. Controls and Procedures</u>	36

PART II OTHER INFORMATION

<u>Item 1A. Risk Factors</u>	36
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
<u>Item 6. Exhibits</u>	37
Exhibit 31.1	
Exhibit 31.2	
Exhibit 32	
<u>Signatures</u>	38
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32</u>	

Table of Contents**Part I FINANCIAL INFORMATION****Item 1. Unaudited Financial Statements**

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

	March 31, 2009	December 31, 2008
<i>(In thousands, except share data)</i>		
ASSETS:		
Current assets		
Cash and cash equivalents	\$ 272,372	\$ 244,785
Accounts receivable, less allowances	105,557	130,217
Inventories	276,066	306,128
Refundable and prepaid income taxes	47,906	55,059
Other current assets	41,525	59,227
Total current assets	743,426	795,416
Property, plant and equipment, net	238,560	245,202
Goodwill	262,214	268,677
Intangible assets	84,745	84,824
Notes receivable from joint venture partner, less allowance	13,915	13,915
Other non-current assets	26,106	26,393
Total assets	\$ 1,368,966	\$ 1,434,427
LIABILITIES:		
Current liabilities		
Current portion of long-term debt	\$ 75	\$ 80
Accounts payable	61,530	89,470
Accrued income taxes	11,795	17,677
Accrued employee costs	19,663	31,168
Other current liabilities	20,709	21,074
Total current liabilities	113,772	159,469
Long-term debt	25,983	26,064
Deferred income taxes	28,337	26,764
Other non-current liabilities	43,868	44,052
Total liabilities	211,960	256,349
EQUITY:		
OM Group, Inc. stockholders equity:		
Preferred stock, \$.01 par value:		
Authorized 2,000,000 shares, no shares issued or outstanding		
Common stock, \$.01 par value:		

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Authorized 90,000,000 shares; 30,407,253 shares issued in 2009 and 30,317,403 shares issued 2008	304	303
Capital in excess of par value	564,734	563,454
Retained earnings	594,088	602,365
Treasury stock (160,982 in 2009 and 136,328 shares in 2008, at cost)	(5,862)	(5,490)
Accumulated other comprehensive loss	(40,137)	(29,983)
Total OM Group, Inc. stockholders equity	1,113,127	1,130,649
Noncontrolling interest	43,879	47,429
Total equity	1,157,006	1,178,078
Total liabilities and equity	\$ 1,368,966	\$ 1,434,427

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

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

Weighted average shares outstanding

Basic	30,187	30,074
Assuming dilution	30,187	30,460

Amounts attributable to OM Group, Inc. common shareholders:

Income (loss) from continuing operations, net of tax	\$ (8,541)	\$ 55,589
Income (loss) from discontinued operations, net of tax	264	(369)
Net income (loss)	\$ (8,277)	\$ 55,220

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

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

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

See accompanying notes to unaudited condensed consolidated financial statements

5

Table of Contents

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

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

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

See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents

Notes to Unaudited Condensed Consolidated Financial Statements

OM Group, Inc. and Subsidiaries

(In thousands, except as noted and share and per share amounts)

Note 1 Basis of Presentation

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

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

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

Note 2 Recently Issued Accounting Standards

Accounting Standards adopted in 2009:

SFAS No. 157: In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements. SFAS No. 157 clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements but does not require any new fair value measurements. SFAS No. 157 only applies to accounting pronouncements that already require or permit fair value measures, except for standards that relate to share-based payments (SFAS No. 123R "Share Based Payment"). As of January 1, 2008, in accordance with FSP 157-2, the Company has adopted the provisions of SFAS No. 157 with respect to financial assets and liabilities that are measured at fair value within the financial statements. As of January 1, 2009, the Company adopted SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities measured at fair value on a non-recurring basis. Examples of nonfinancial assets include goodwill, intangibles, and other long-lived assets. The adoption did not have a material impact on the Company's results of operations or financial position but did change the disclosures related to nonfinancial assets and nonfinancial liabilities measured at fair value on a non-recurring basis. See Note 6.

SFAS No. 160: In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51. SFAS No. 160 requires (i) that noncontrolling (minority) interests be reported as a component of shareholders' equity, (ii) that net income attributable to the parent and to the noncontrolling interest be separately identified in the consolidated statement of operations, (iii) that changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, (iv) that any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value, and (v) that sufficient disclosures are provided that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. The Company adopted SFAS No. 160 on January 1, 2009. The adoption did not have any impact on the Company's results of operations or financial position but did change the financial statement presentation related to noncontrolling (minority) interests. The financial statement presentation requirement has been applied retrospectively for all periods presented. Certain

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

7

Table of Contents

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

SFAS No. 141R: In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*. SFAS No. 141R changes how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R requires restructuring and acquisition-related costs to be recognized separately from the acquisition and establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. The Company adopted SFAS No. 141R on January 1, 2009. SFAS No. 141R will be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

SFAS No. 161: On March 19, 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an Amendment of FASB Statement 133. SFAS No. 161 enhances required disclosures regarding derivatives and hedging activities, including how: (i) an entity uses derivative instruments, (ii) derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and (iii) derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The Company adopted SFAS No. 161 on January 1, 2009. The adoption did not have any impact on the Company's results of operations or financial position but did change the disclosures related to derivative instruments held by the Company. See Note 5.

FSP No. 142-3: In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. FSP No. 142-3 allows the Company to use its historical experience in renewing or extending the useful life of intangible assets. The Company adopted FSP No. 142-3 on January 1, 2009. The Company will apply SFAS No. 142-3 prospectively to intangible assets acquired after January 1, 2009. The adoption did not have any impact on the Company's results of operations, financial position or related disclosures.

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

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

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

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

Accounting Standards Not Yet Adopted

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

Table of Contents

Benefits, effective for fiscal years ending after December 15, 2009. The Company will adopt FSP FAS No. 132(R)-1 in the fourth quarter of 2009. FSP FAS No. 132(R)-1 requires an employer to disclose investment policies and strategies, categories, fair value measurements, and significant concentration of risk among its pension or other postretirement benefit plan assets. The adoption of FSP FAS No. 132(R)-1 will change the disclosures related to pension assets but is not expected to have a material effect on the Company's consolidated financial statements.

FSP FAS No. 107-1 and APB No. 28-1: In April 2009, the FASB issued FSP FAS No. 107-1 and APB No. 28-1,

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

Note 3 Inventories

Inventories consist of the following:

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

The December 31, 2008 amount includes the effect of a \$27.7 million charge to reduce the carrying value of certain inventories to market value, which was lower than cost at December 31, 2008, due primarily to the declining price of cobalt in the second half of 2008. Reductions in carrying value at December 31 are deemed to establish a new cost basis. Inventory is not written up if estimates of market value subsequently improve. The March 31, 2009 balance includes the effect of a \$6.6 million charge to reduce the carrying value of certain inventories to market value, which was lower than cost at March 31, 2009, due primarily to a reduction in selling prices of certain products in the first quarter of 2009.

Note 4 Goodwill

Goodwill is tested for impairment on an annual basis and more often if indicators of impairment exist. The goodwill impairment test is a two-step process. During the first step, the Company estimates the fair value of the reporting unit and compares that amount to the carrying value of that reporting unit. If the estimated fair value of the reporting unit is less than its carrying value, SFAS No. 142 requires a second step to determine the implied fair value of goodwill of the reporting unit, and to compare it to the carrying value of the goodwill of the reporting unit. This second step includes valuing all of the tangible and intangible assets and liabilities of the reporting unit as if it had been acquired in a business combination.

Under SFAS No. 142, reporting units are defined as an operating segment or one level below an operating segment (i.e. component level). The Company tests goodwill at the component level. The Company's reporting units are Advanced Materials, Electronic Chemicals, Advanced Organics, Ultra Pure Chemicals (UPC) and Photomasks. To test goodwill for impairment, the Company is required to estimate the fair value of each of its reporting units. Since quoted market prices in an active market are not available for the Company's reporting units, the Company uses other valuation techniques. The Company has developed a model to estimate the fair value of the reporting units utilizing a discounted cash flow valuation technique (DCF model). The Company selected the DCF model as it believes it is comparable to what would be used by market participants to estimate its fair value. The impairment test incorporates the Company's estimates of future cash flows; allocations of certain assets, liabilities and cash flows among reporting units; future growth rates; terminal value amounts; and the applicable weighted-average cost of

capital (the WACC) used to discount those estimated cash flows. These estimates are based on management's judgment. The estimates and projections used in the estimate of fair value are consistent with the Company's current budget and long-range plans. Due to the general downturn in the economy and resulting increased uncertainty in forecasted future cash flows, the Company increased the Company-specific risk factor component in the WACC calculation in the March 31, 2009 and December 31, 2008 impairment tests.

Table of Contents

The Company conducts its annual goodwill impairment test as of October 1. The results of the testing as of October 1, 2008 confirmed the fair value of each of the reporting units exceeded its carrying value and therefore no impairment loss was required to be recognized. However, during the fourth quarter of 2008, indicators of potential impairment caused the Company to conduct an additional impairment test as of December 31, 2008. Those indicators included the fact that the Company's stock has been trading below net book value per share since the end of the second quarter of 2008, the incurrence of operating losses in the fourth quarter of 2008 and revisions made to the 2009 plan, and significant deterioration in the capital markets in the fourth quarter of 2008 that resulted in an increase to the respective WACC calculations.

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

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

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

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

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