

OM GROUP INC  
Form 10-Q  
August 01, 2014

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

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FORM 10-Q

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

For the quarterly period ended June 30, 2014

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

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OM GROUP, INC.  
(Exact name of Registrant as specified in its charter)

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|                                                                |                                      |
|----------------------------------------------------------------|--------------------------------------|
| Delaware                                                       | 52-1736882                           |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

|                                                    |            |
|----------------------------------------------------|------------|
| 950 Main Avenue,<br>Suite 1300,<br>Cleveland, Ohio | 44113-7210 |
| (Address of principal executive offices)           | (Zip Code) |

(Address of principal executive offices)

216-781-0083

Registrant's telephone number, including area code

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(Former name, former address and former fiscal year, if changed since last report)

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.:

|                                                                                              |                                                    |
|----------------------------------------------------------------------------------------------|----------------------------------------------------|
| Large accelerated filer <input checked="" type="checkbox"/>                                  | Accelerated filer <input type="checkbox"/>         |
| Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/> |

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

As of July 31, 2014 the registrant had 31,780,433 shares of Common Stock, par value \$.01 per share, outstanding.



OM Group, Inc.

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## PART I - FINANCIAL INFORMATION

## Item 1. Unaudited Financial Statements

OM Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Balance Sheets

|                                                                        | June 30, 2014 | December 31, 2013 |
|------------------------------------------------------------------------|---------------|-------------------|
| (In millions, except share and per share data)                         |               |                   |
| <b>ASSETS</b>                                                          |               |                   |
| Current assets                                                         |               |                   |
| Cash and cash equivalents                                              | \$ 114.3      | \$ 118.4          |
| Accounts receivable, less allowance of \$2.4 in 2014 and \$3.9 in 2013 | 170.5         | 150.7             |
| Inventories                                                            | 243.8         | 240.9             |
| Other current assets                                                   | 19.4          | 32.3              |
| Total current assets                                                   | 548.0         | 542.3             |
| Property, plant and equipment, net                                     | 328.6         | 345.6             |
| Goodwill                                                               | 431.6         | 432.7             |
| Intangible assets, net                                                 | 388.6         | 403.0             |
| Other non-current assets                                               | 58.5          | 59.5              |
| Total assets                                                           | \$ 1,755.3    | \$ 1,783.1        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                            |               |                   |
| Current liabilities                                                    |               |                   |
| Accounts payable                                                       | 87.3          | 93.6              |
| Accrued employee costs                                                 | 35.4          | 36.2              |
| Purchase price of VAC payable to seller                                | 52.6          | 52.5              |
| Other current liabilities                                              | 54.3          | 63.4              |
| Total current liabilities                                              | 229.6         | 245.7             |
| Deferred income taxes                                                  | 101.3         | 102.5             |
| Pension liabilities                                                    | 218.4         | 220.5             |
| Purchase price of VAC payable to seller                                | 11.3          | 11.3              |
| Other non-current liabilities                                          | 38.7          | 43.3              |
| Stockholders' equity:                                                  |               |                   |
| Preferred stock, \$.01 par value:                                      |               |                   |
| Authorized 2,000,000 shares, no shares issued or outstanding           | —             | —                 |
| Common stock, \$.01 par value:                                         |               |                   |
|                                                                        | 0.3           | 0.3               |

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Authorized 90,000,000 shares; 32,960,027 shares issued in 2014 and  
32,304,490 shares issued in 2013

|                                                                               |           |           |   |
|-------------------------------------------------------------------------------|-----------|-----------|---|
| Capital in excess of par value                                                | 644.2     | 639.8     |   |
| Retained earnings                                                             | 592.5     | 587.2     |   |
| Treasury stock (1,175,984 shares in 2014 and 825,956 shares in 2013, at cost) | (33.0)    | ) (22.3   | ) |
| Accumulated other comprehensive loss                                          | (48.0)    | ) (45.2   | ) |
| Total equity                                                                  | 1,156.0   | 1,159.8   |   |
| Total liabilities and equity                                                  | \$1,755.3 | \$1,783.1 |   |

See accompanying notes to unaudited condensed consolidated financial statements.

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

|                                                                                             | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |          |
|---------------------------------------------------------------------------------------------|--------------------------------|---------|------------------------------|----------|
|                                                                                             | 2014                           | 2013    | 2014                         | 2013     |
| (In millions, except per share data)                                                        |                                |         |                              |          |
| Net sales                                                                                   | \$297.5                        | \$279.4 | \$559.2                      | \$621.1  |
| Cost of goods sold                                                                          | 234.4                          | 215.6   | 434.2                        | 483.1    |
| Gross profit                                                                                | 63.1                           | 63.8    | 125.0                        | 138.0    |
| Selling, general and administrative expenses                                                | 53.2                           | 54.6    | 106.6                        | 114.7    |
| Operating profit                                                                            | 9.9                            | 9.2     | 18.4                         | 23.3     |
| Other expense:                                                                              |                                |         |                              |          |
| Interest expense                                                                            | (0.6                           | ) (1.8  | ) (1.3                       | ) (9.5   |
| Foreign exchange (loss) gain                                                                | (0.9                           | ) 2.8   | (1.2                         | ) 0.2    |
| Loss on divestiture of Advanced Materials business                                          | (0.8                           | ) (0.5  | ) (1.0                       | ) (112.1 |
| Other, net                                                                                  | (0.7                           | ) 0.3   | (1.4                         | ) (0.3   |
| Income (loss) from continuing operations before income tax expense                          | 6.9                            | 10.0    | 13.5                         | (98.4    |
| Income tax expense                                                                          | 1.8                            | 1.9     | 3.1                          | 4.5      |
| Income (loss) from continuing operations, net of tax                                        | 5.1                            | 8.1     | 10.4                         | (102.9   |
| Loss from discontinued operations, net of tax                                               | (0.3                           | ) (11.4 | ) (0.3                       | ) (11.9  |
| Consolidated net income (loss)                                                              | 4.8                            | (3.3    | ) 10.1                       | (114.8   |
| Net loss attributable to noncontrolling interests                                           | —                              | —       | —                            | 1.7      |
| Net income (loss) attributable to OM Group, Inc. common stockholders                        | \$4.8                          | \$(3.3  | ) \$10.1                     | \$(113.1 |
| Earnings (loss) per common share — basic:                                                   |                                |         |                              |          |
| Income (loss) from continuing operations attributable to OM Group, Inc. common stockholders | \$0.16                         | \$0.26  | \$0.33                       | \$(3.19  |
| Loss from discontinued operations attributable to OM Group, Inc. common stockholders        | (0.01                          | ) (0.37 | ) (0.01                      | ) (0.38  |
| Net income (loss) attributable to OM Group, Inc. common stockholders                        | \$0.15                         | \$(0.11 | ) \$0.32                     | \$(3.57  |
| Earnings (loss) per common share — assuming dilution:                                       |                                |         |                              |          |
| Income (loss) from continuing operations attributable to OM Group, Inc. common stockholders | \$0.16                         | \$0.26  | \$0.33                       | \$(3.19  |
| Loss from discontinued operations attributable to OM Group, Inc. common stockholders        | (0.01                          | ) (0.37 | ) (0.02                      | ) (0.38  |
| Net income (loss) attributable to OM Group, Inc. common stockholders                        | \$0.15                         | \$(0.11 | ) \$0.31                     | \$(3.57  |
| Weighted average shares outstanding                                                         |                                |         |                              |          |
| Basic                                                                                       | 31.5                           | 31.5    | 31.5                         | 31.7     |
| Assuming dilution                                                                           | 31.8                           | 31.6    | 31.9                         | 31.7     |
| Dividends declared per common share                                                         | \$0.075                        | \$—     | \$0.15                       | \$—      |
| Amounts attributable to OM Group, Inc. common stockholders:                                 |                                |         |                              |          |
| Income (loss) from continuing operations, net of tax                                        | \$5.1                          | \$8.1   | \$10.4                       | \$(101.2 |

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|                                               |       |   |        |   |        |   |          |   |
|-----------------------------------------------|-------|---|--------|---|--------|---|----------|---|
| Loss from discontinued operations, net of tax | (0.3  | ) | (11.4  | ) | (0.3   | ) | (11.9    | ) |
| Net income (loss)                             | \$4.8 |   | \$(3.3 | ) | \$10.1 |   | \$(113.1 | ) |

See accompanying notes to unaudited condensed consolidated financial statements.

## OM Group, Inc. and Subsidiaries

## Unaudited Statements of Consolidated Comprehensive Income (Loss)

|                                                                                                                     | Three Months Ended<br>June 30 |          | Six Months Ended June<br>30 |            |
|---------------------------------------------------------------------------------------------------------------------|-------------------------------|----------|-----------------------------|------------|
|                                                                                                                     | 2014                          | 2013     | 2014                        | 2013       |
| (In millions)                                                                                                       |                               |          |                             |            |
| Consolidated net income (loss)                                                                                      | \$4.8                         | \$(3.3 ) | \$10.1                      | \$(114.8 ) |
| Foreign currency translation adjustments                                                                            | (1.3 )                        | 9.1      | (3.2 )                      | (16.3 )    |
| Reclassification of foreign currency translation adjustment<br>related to the discontinued operations into earnings | —                             | 8.8      | —                           | 8.8        |
| Reclassification of hedging activities into earnings, net of tax                                                    | 0.1                           | —        | 0.2                         | —          |
| Unrealized loss on cash flow hedges, net of tax                                                                     | —                             | (0.1 )   | —                           | (0.1 )     |
| Pension adjustment                                                                                                  | 0.1                           | 0.5      | 0.2                         | 0.6        |
| Net change in accumulated other comprehensive income                                                                | (1.1 )                        | 18.3     | (2.8 )                      | (7.0 )     |
| Comprehensive income (loss)                                                                                         | 3.7                           | 15.0     | 7.3                         | (121.8 )   |
| Comprehensive loss attributable to noncontrolling interests                                                         | —                             | —        | —                           | 1.7        |
| Comprehensive income (loss) attributable to OM Group, Inc.                                                          | \$3.7                         | \$15.0   | \$7.3                       | \$(120.1 ) |

See accompanying notes to unaudited condensed consolidated financial statements.

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

|                                                                                                    | Six Months Ended June 30, |           |
|----------------------------------------------------------------------------------------------------|---------------------------|-----------|
|                                                                                                    | 2014                      | 2013      |
| (In millions)                                                                                      |                           |           |
| Operating activities                                                                               |                           |           |
| Consolidated net income (loss)                                                                     | \$10.1                    | \$(114.8) |
| Adjustments to reconcile consolidated net income (loss) to net cash used for operating activities: |                           |           |
| Loss from discontinued operations                                                                  | 0.3                       | 11.9      |
| Depreciation and amortization                                                                      | 36.4                      | 38.1      |
| Amortization of deferred financing fees                                                            | 0.5                       | 2.0       |
| Share-based compensation expense                                                                   | 4.4                       | 3.2       |
| Foreign exchange loss (gain)                                                                       | 1.2                       | (0.2)     |
| Loss on divestiture of Advanced Materials business                                                 | 1.0                       | 112.1     |
| Other non-cash items                                                                               | 1.2                       | 5.8       |
| Changes in operating assets and liabilities, excluding the effect of divestitures:                 |                           |           |
| Accounts receivable                                                                                | (20.3)                    | (34.7)    |
| Inventories                                                                                        | (4.5)                     | 16.8      |
| Accounts payable                                                                                   | (6.1)                     | 1.6       |
| Accrued tax                                                                                        | (2.6)                     | (23.9)    |
| Other, net                                                                                         | 0.2                       | (24.7)    |
| Net cash provided by (used for) operating activities                                               | 21.8                      | (6.8)     |
| Investing activities                                                                               |                           |           |
| Expenditures for property, plant and equipment                                                     | (10.8)                    | (21.3)    |
| Proceeds from divestiture of Advanced Materials business                                           | —                         | 302.1     |
| Proceeds from divestiture of UPC business                                                          | —                         | 63.3      |
| Proceeds from sale of property                                                                     | 1.0                       | —         |
| Net cash (used for) provided by investing activities                                               | (9.8)                     | 344.1     |
| Financing activities                                                                               |                           |           |
| Payments of long-term debt                                                                         | —                         | (466.5)   |
| Dividends paid                                                                                     | (4.8)                     | —         |
| Proceeds from exercise of stock options                                                            | 0.5                       | 1.0       |
| Debt issuance costs                                                                                | (0.1)                     | —         |
| Payment related to surrendered shares                                                              | (0.7)                     | (0.6)     |
| Share repurchases                                                                                  | (10.0)                    | (14.1)    |
| Net cash used for financing activities                                                             | (15.1)                    | (480.2)   |
| Effect of exchange rate changes on cash                                                            | (0.2)                     | (1.4)     |
| Cash and cash equivalents                                                                          |                           |           |
| Decrease from continuing operations                                                                | (3.3)                     | (144.3)   |
| Discontinued operations - net cash used by operating activities                                    | (0.8)                     | (0.3)     |
| Discontinued operations - net cash used for investing activities                                   | —                         | (2.4)     |
| Balance at the beginning of the period                                                             | 118.4                     | 227.6     |
| Balance at the end of the period                                                                   | \$114.3                   | \$80.6    |
| See accompanying notes to unaudited condensed consolidated financial statements.                   |                           |           |



Notes to Unaudited Consolidated Financial Statements

OM Group, Inc. and Subsidiaries

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

Note 1 — Basis of Presentation

OM Group, Inc. ("OM Group", the "Company", "we", "our", "us") is a technology-based industrial growth company serving attractive global markets, including automotive systems, electronic devices, aerospace, industrial and renewable energy. We use innovative technologies to address customers' complex applications and demanding requirements. Our strategy is to grow organically through product innovation and new market and customer development; to grow strategically through synergistic acquisitions; and to maximize total stockholder return through a combination of business growth, financial discipline, optimal deployment of capital and continued operational excellence. Our objective is to deliver sustainable, profitable growth and create long-term stockholder value. The consolidated financial statements include the accounts of OM Group and its consolidated subsidiaries. We were formed in 1991 as a Delaware Corporation. Intercompany accounts and transactions have been eliminated in consolidation.

Certain financial data may have been rounded. As a result of such rounding, the totals of data presented in this document may vary slightly from the actual arithmetical totals of such data.

On May 31, 2013 we completed the sale of our Ultra Pure Chemicals business. The results of our Ultra Pure Chemicals business are reported as discontinued operations in the accompanying unaudited condensed consolidated financial statements for all periods presented. See note 4 - Acquisitions and Divestitures.

On March 29, 2013, we completed the divestiture of our cobalt-based business. The transaction comprised the sale of the downstream portion of the business (including its cobalt refinery assets in Kokkola, Finland) and the transfer of our 55% equity interests in the DRC-based joint venture known as GTL to the joint venture partners, subject to a security interest in favor of OM Group with respect to the joint venture's performance related to certain supply agreements. Until March 29, 2013, we consolidated the GTL joint venture because we had a controlling interest. Noncontrolling interest was recorded for the remaining 45% interest. See note 4 - Acquisitions and Divestitures.

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 our financial position at June 30, 2014 and the results of our income (loss), comprehensive income (loss) and cash flows for the six months ended June 30, 2014 and 2013 have been included. The balance sheet at December 31, 2013 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 our Annual Report on Form 10-K for the year ended December 31, 2013.

Note 2 — Recently Issued Accounting Guidance

Accounting Guidance adopted in 2014

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). The update amends the guidance for revenue recognition to replace numerous, industry-specific

requirements and converges areas under this topic with those of the International Financial Reporting Standards. The amendments are effective for reporting periods beginning after December 15, 2016, and early adoption is prohibited. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. We are currently assessing the impact the adoption of ASU 2014-09 may have on our results of operations or financial position.

In July 2013, the FASB issued ASU 2013-11 Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward exists. The update requires companies to offset a

liability recorded for an unrecognized tax benefit against a related deferred tax asset of a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We adopted this guidance as of March 31, 2014 and reclassified a portion of our uncertain tax position accrual to net against the related deferred tax assets. Such adoption did not have an effect on our results of operations or financial position.

### Note 3 — Inventories

Inventories consist of the following:

|                            | June 30,<br>2014 | December 31,<br>2013 |
|----------------------------|------------------|----------------------|
| Raw materials and supplies | \$88.1           | \$83.3               |
| Work-in-process            | 115.1            | 122.2                |
| Finished goods             | 40.6             | 35.4                 |
|                            | \$243.8          | \$240.9              |

### Note 4 — Acquisitions and Divestitures

#### (a) Acquisitions

##### VAC

Our Magnetic Technologies segment consists of VAC Holding GmbH ("VAC"), which we acquired in 2011. The total purchase price of \$812.2 million included cash consideration of \$686.2 million, withheld consideration of \$86.3 million, and the issuance of Company shares valued at \$39.7 million. The withheld consideration relates to potential indemnification claims made by OM Group within two years of the closing date of the acquisition with certain exceptions related to tax matters. In August 2013, we remitted a payment of \$23.0 million to the seller of VAC. We remain in discussions with the seller regarding the remainder of the withheld consideration which covers unresolved claims.

#### (b) Divestitures

##### Advanced Materials

On March 29, 2013, we completed the divestiture of our cobalt-based business. The transaction comprised the sale of the downstream portion of the business (including its cobalt refinery assets in Kokkola, Finland), and the transfer of equity interests in the DRC-based joint venture known as GTL to the joint venture partners, subject to a security interest in favor of OM Group with respect to the joint venture's performance related to certain supply arrangements. In connection with this transaction we received cash proceeds of \$329 million. We received \$302 million of net proceeds at closing and additional proceeds of \$27 million as an adjustment to the purchase price based on a post-closing analysis of the closing balance sheet in July 2013. Including the adjustment to the purchase price, a loss of \$112 million was recorded on the divestiture, which included a \$10 million write-off of deferred financing fees related to the required debt pre-payment, a reserve for a note receivable from joint venture partner of \$16 million and transaction expenses of \$9 million. In the second quarter 2014, we incurred legal costs related to a post-close legal matter and recorded an additional loss of \$0.8 million.

The sale agreement for the downstream portion of the business also provides for potential future additional cash consideration of up to \$110 million based on the business achieving certain revenue targets over a period of three

years. Using our projected trends of cobalt prices and volumes at the time of the sale, no value was assigned to the potential future cash consideration while calculating the loss on the divestiture. Based on our projected trends of cobalt prices and volumes, we do not believe it is probable that the business will meet the revenue targets.

Following the sale, to assist in the transition of the downstream business, we entered into two agreements with the

buyer pursuant to which: (1) we act as intermediary in a supply agreement between GTL and the buyer, in back-to-back arrangements for a period of at least two years, subject to delivery of 7,000 MT of cobalt feed and extendable for up to an additional six months in order to deliver 7,000 MT of cobalt feed; and, (2) we served as the U.S. distributor for refined cobalt products in primarily back-to-back arrangements until December 31, 2013. These agreements have minimal effect on our results of operations or cash flow and will be reported in the Advanced Materials segment until both agreements expire or are terminated.

#### Ultra Pure Chemicals

On May 31, 2013, we completed the sale of our Ultra Pure Chemicals (UPC) business. In connection with this transaction we received cash proceeds of \$63 million, which included an estimated \$3 million working capital adjustment. A loss, net of tax, of \$9.8 million was recorded on the divestiture at the time of sale, which included a gain of \$1.5 million on the sale of net assets offset by the realization of a loss in accumulated other comprehensive income of \$8.8 million, a \$1.5 million write-off of deferred financing fees related to the required debt pre-payment and transaction expenses of \$1.0 million. In the second quarter 2014, we settled the outstanding working capital items and recorded an additional loss of \$0.2 million.

The results of our UPC business are reported in discontinued operations in the accompanying unaudited condensed consolidated financial statements for all periods prior to the UPC sale. As required, annual interest expense of \$1.0 million for the period ending December 31, 2013, related to the debt repaid with the proceeds from the sale of the business was allocated to discontinued operations for all periods prior to the UPC sale.

A summary of our discontinued operations activity is as follows:

|                                                           | Three Months Ended<br>June 30 |          | Six Months Ended June<br>30 |          |
|-----------------------------------------------------------|-------------------------------|----------|-----------------------------|----------|
|                                                           | 2014                          | 2013     | 2014                        | 2013     |
| Net Sales                                                 | \$—                           | \$16.0   | \$—                         | \$38.5   |
| Loss from operations of divested business (net of tax)    | \$(0.1)                       | \$(1.6)  | \$(0.1)                     | \$(2.1)  |
| Loss on disposal of business (net of tax)                 | (0.2)                         | (9.8)    | (0.2)                       | (9.8)    |
| Loss from discontinued operations (net of tax)            | \$(0.3)                       | \$(11.4) | \$(0.3)                     | \$(11.9) |
| Loss per share from discontinued operations (net of tax): |                               |          |                             |          |
| Basic                                                     | \$(0.01)                      | \$(0.37) | \$(0.01)                    | \$(0.38) |
| Diluted                                                   | \$(0.01)                      | \$(0.37) | \$(0.01)                    | \$(0.38) |

#### Note 5 — Debt

On September 4, 2013 we entered into a five-year Senior Secured Revolving Credit Facility (“the Facility”), and terminated our previous credit facility dated August 2, 2011 that was scheduled to expire in August 2016. The Facility provides for \$350 million of revolving borrowing capacity and includes an expansion option of up to an additional \$150 million, subject to certain conditions. The borrowers under the agreement are the Company, Harko C.V. (“Harko”), a limited partnership organized under the laws of the Netherlands, and VAC Germany GmbH (“VAC”), a limited liability company under the laws of Germany. Harko and VAC are wholly-owned subsidiaries of the Company. The Facility matures on September 4, 2018.

The obligations of the Company under the Facility are guaranteed by certain of the Company's material U.S. subsidiaries. The obligations of Harko and VAC under the Facility are guaranteed by the Company and certain of the Company's material subsidiaries, subject to certain exceptions including financial assistance limitations in certain foreign jurisdictions. In addition, the obligations of the Company under the Facility are secured by a first priority security interest in substantially all of the existing and future personal property of the Company and certain of the Company's material U.S. subsidiaries, including 65% of the voting capital stock of certain of the Company's direct foreign subsidiaries. The obligations of Harko and VAC under the Facility are secured by a first priority security interest in certain of the existing and future personal property of Harko, VAC and certain of the Company's subsidiaries and a

100% pledge of the voting capital stock of certain of the Company's subsidiaries, subject to certain exceptions, including financial assistance limitations in certain foreign jurisdictions.

The interest rates applicable to loans under the Facility will be at our option and equal to either a base rate or a LIBOR rate, in each case plus an applicable margin percentage. The base rate will be the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate or (iii) the LIBOR rate with a maturity of one month plus 1.00%. The applicable margin percentage is based on the leverage ratio of the Company. The range of the applicable margin percentage is 1.125% to 2.000% in the case of LIBOR advances and 0.125% to 1.000% in the case of base rate advances.

The Facility contains customary representations and warranties and certain covenants that limit the ability of the Company and its restricted subsidiaries to, among other things: (i) incur or guarantee additional indebtedness; (ii) redeem, repurchase or pay distributions on capital stock or redeem or repurchase subordinated debt; (iii) make investments; (iv) sell assets; (v) enter into agreements that restrict distributions or other payments from restricted subsidiaries to the Company; (vi) incur or suffer to exist liens securing indebtedness; (vii) consolidate, merge or transfer all or substantially all of their assets; and (viii) engage in transactions with affiliates. In addition, the Facility contains financial covenants that limit capital expenditures in any fiscal year and that measure (i) the ratio of the Company's total funded indebtedness net of certain cash to the amount of the Company's consolidated EBITDA and (ii) the ratio of the amount of the Company's consolidated EBITDA to the Company's cash interest expense, as defined in the agreement.

As of June 30, 2014, we have no obligations outstanding under the Facility, and we are in compliance with all of the covenants.

#### Note 6 — Derivative Instruments

##### Interest Rate Risk

From time to time we have utilized interest rate swap agreements to partially reduce risks related to variable rate financing agreements that are subject to changes in the market rate of interest.

We had interest rate swaps with notional values that totaled \$114.5 million at March 31, 2013. Following the full repayment of the Term B facility at the end of March 2013, we elected in April 2013 to terminate all the remaining interest swap contracts. The AOCI at the time of the termination represented an immaterial cumulative loss related to these contracts, which was reclassified to earnings in the second quarter 2013. There was no hedge ineffectiveness in the six months ended June 30, 2013 for these hedges.

##### Commodity Price Risk

In May 2013, we entered into nickel forward derivative contracts to establish a fixed margin and mitigate the risk of price volatility related to certain sales expected in 2013 and 2014 of nickel-containing finished products that were priced on a formula that included a fixed nickel price component. These forward derivative contracts were designated as cash flow hedges for accounting purposes and were settled during the second quarter 2014. There was no hedge ineffectiveness in the six months ended June 30, 2014 for these hedges.

#### Note 7 — Fair Value Disclosures

The following table shows our assets and liabilities accounted for at fair value on a recurring basis:

Fair Value Measurements at Reporting Date Using

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| Description                      | June 30, 2014 | Quoted Prices<br>in<br>Active Markets<br>for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|----------------------------------|---------------|-------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| Liabilities:                     |               |                                                                               |                                                           |                                                    |
| Contingent consideration payable | 1.5           | —                                                                             | —                                                         | 1.5                                                |



Our valuation techniques and Level 3 inputs used to estimate the fair value of the contingent consideration payable in connection with our acquisition of Rahu Catalytics Limited ("Rahu") are described below. There were no transfers into or out of Levels 1, 2 or 3 in 2013 or 2014.

The following table summarizes changes in Level 3 liabilities measured at fair value on a recurring basis:

|                   |                   | Contingent Consideration |
|-------------------|-------------------|--------------------------|
| Fair Value at     | December 31, 2013 | \$1.4                    |
| Accretion expense |                   | 0.1                      |
| Foreign exchange  |                   | —                        |
| Fair Value at     | June 30, 2014     | \$1.5                    |

We acquired Rahu on December 22, 2011. The purchase price included contingent consideration of up to an additional €20.0 million (\$27.3 million at June 30, 2014) based on achieving certain volume targets over a fifteen year period ending on December 31, 2026. We estimated the fair value of the contingent consideration using probability-weighted expected future cash flows and applied a discount rate that appropriately captures a market participant's view of the risk associated with the contingent consideration. Contingent consideration is included in Other non-current liabilities in the Unaudited Condensed Consolidated Balance Sheet. The valuation of the contingent consideration is classified utilizing Level 3 inputs consistent with assumptions which would be made by other market participants. There are many factors that could impact the likelihood that we will pay the contingent consideration and therefore its value, including overall economic conditions and our ability to drive sales volumes as planned. A change in a market participant view of risks could also impact the value of the contingent consideration.

We also hold financial instruments consisting of cash, accounts receivable, and accounts payable. The carrying amounts of cash, accounts receivable, and accounts payable approximate fair value due to the short-term maturities of these instruments. Long-term debt outstanding at any time during 2013 had a fair value based on quoted market prices in previous periods, which are Level 1 inputs. There was no long-term debt outstanding as of June 30, 2014. Outstanding derivative instruments were recorded at fair value as indicated above. There were no outstanding derivative instruments as of June 30, 2014.

#### Note 8 — Income Taxes

We file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. Our major tax jurisdictions include the U.S. and Germany. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2006. Finnish tax authorities completed the examination of our Finnish tax returns for the years 2007-2011. VAC's German tax returns have been audited through 2005. We are indemnified, subject to certain limitations, for any pre-acquisition income tax liabilities of VAC. German tax authorities are currently examining VAC's income tax returns for the years 2006-2011.

As required under ASC 740, our interim income tax provision is based on the application of an estimated annual effective income tax rate applied to year-to-date ordinary income from continuing operations before income tax expense. In determining the estimated annual effective income tax rate, we analyze various factors, including forecasts of projected annual earnings (including specific subsidiaries projected to have pretax income and pretax losses), taxing jurisdictions in which the earnings will be generated, our ability to use tax credits and net operating loss carryforwards, and available tax planning alternatives. We evaluate the estimated annual effective income tax rate on a quarterly basis based on current and forecasted earnings by tax jurisdiction, including changes in the Company's structure. The estimated annual effective income tax rate may be significantly impacted by changes to the mix of forecasted earnings by tax jurisdiction. The tax effects of adjustments to the estimated annual effective income tax rate are recorded in the period such estimates are revised. 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 consists of the following:

|                                                                    | Three Months Ended June 30 |        | Six Months Ended June 30 |           |
|--------------------------------------------------------------------|----------------------------|--------|--------------------------|-----------|
|                                                                    | 2014                       | 2013   | 2014                     | 2013      |
| United States                                                      | \$0.6                      | \$0.2  | \$(2.3 )                 | \$(3.7 )  |
| Outside the United States                                          | 6.3                        | 9.8    | 15.8                     | (94.7 )   |
| Income (loss) from continuing operations before income tax expense | \$6.9                      | \$10.0 | \$13.5                   | \$(98.4 ) |
| Effective Income Tax Rate                                          | 25.8                       | % 18.7 | % 23.3                   | % (4.5 )% |

The effective income tax rates for the three months ended June 30, 2014 and June 30, 2013 are lower than the U.S. statutory tax rate primarily due to income earned in tax jurisdictions with lower statutory rates than the U.S. (primarily Germany, Finland, Malaysia and Taiwan) and our financing structure, partially offset by losses in certain jurisdictions (including the U.S.) with no corresponding tax benefit, which were higher in the three months ended June 30, 2014 than the three months ended June 30, 2013.

As of June 30, 2014, we have provided a valuation allowance against certain jurisdictions' deferred tax assets. Realization of deferred tax assets is dependent on generating sufficient taxable income within the carryback or carry forward period under the relevant tax laws.

#### Note 9 — Defined Benefit Plans

At June 30, 2014 and December 31, 2013, we had pension liabilities of \$227.9 million and \$230.0 million, respectively, the majority of which were assumed in the 2011 VAC acquisition and the 2010 EaglePicher Technologies acquisition.

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

|                                       | Three Months Ended June 30 |          | Six Months Ended June 30 |        |
|---------------------------------------|----------------------------|----------|--------------------------|--------|
|                                       | 2014                       | 2013     | 2014                     | 2013   |
| Service cost                          | \$0.3                      | \$0.3    | \$0.6                    | \$0.6  |
| Interest cost                         | 2.3                        | 2.1      | 4.7                      | 4.2    |
| Amortization of unrecognized net loss | 0.1                        | 0.2      | 0.2                      | 0.4    |
| Expected return on plan assets        | (2.6 )                     | (2.7 )   | (5.1 )                   | (5.2 ) |
| Total expense                         | \$0.1                      | \$(0.1 ) | \$0.4                    | \$—    |

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

|                                       | Three Months Ended June 30 |       | Six Months Ended June 30 |       |
|---------------------------------------|----------------------------|-------|--------------------------|-------|
|                                       | 2014                       | 2013  | 2014                     | 2013  |
| Service cost                          | \$1.7                      | \$1.2 | \$3.4                    | \$2.4 |
| Interest cost                         | 1.5                        | 1.5   | 3.1                      | 2.9   |
| Amortization of unrecognized net loss | 0.3                        | 0.3   | 0.5                      | 0.5   |
| Total expense                         | \$3.5                      | \$3.0 | \$7.0                    | \$5.8 |

## Note 10 — Dividends Issued

On February 11, 2014, our Board of Directors approved a dividend of \$0.075 per share to the holders of record of all issued and outstanding shares of our Common Stock as of the close of business on February 24, 2014. The \$2.4 million of dividends were paid to stockholders of record on March 7, 2014.

On May 13, 2014, our Board of Directors approved a dividend of \$0.075 per share to the holders of record of all issued and outstanding shares of our Common Stock as of the close of business on May 23, 2014. The \$2.4 million of dividends were paid to stockholders of record on June 6, 2014.

## Note 11 — Share Repurchase Program

On January 21, 2013, we announced that our Board of Directors had authorized the repurchase of up to \$50 million of the Company's outstanding common shares through open market repurchases, negotiated block transactions or open market solicitation for shares. In 2013 we repurchased 0.6 million of our common shares for consideration of \$14.1 million. We purchased an additional 0.3 million shares during the three months ended June 30, 2014 for consideration of \$10.0 million. These shares are accounted for as treasury shares and the purchases were funded from our available cash balances.

## Note 12 — Accumulated Other Comprehensive Income (Loss)

## (a) Changes in Accumulated Comprehensive Income (Loss) by Component

|                                                                         | Foreign<br>Currency<br>Translation<br>Loss | Unrealized<br>Gains and<br>Losses on Cash<br>Flow Hedging<br>Derivatives | Pension and<br>Post-Retirement<br>Obligation | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|-------------------------------------------------------------------------|--------------------------------------------|--------------------------------------------------------------------------|----------------------------------------------|--------------------------------------------------------|
| Beginning Balance at January 1, 2014                                    | \$4.1                                      | (0.2                                                                     | ) (49.1                                      | ) (45.2                                                |
| Other comprehensive income (loss) before reclassifications              | (3.2                                       | ) —                                                                      | 0.2                                          | (3.0                                                   |
| Amounts reclassified from accumulated other comprehensive (income) loss | —                                          | 0.2                                                                      | —                                            | 0.2                                                    |
| Net current-period other comprehensive income (loss)                    | (3.2                                       | ) 0.2                                                                    | 0.2                                          | (2.8                                                   |
| Ending balance at June 30, 2014                                         | \$0.9                                      | \$—                                                                      | \$(48.9                                      | ) \$(48.0                                              |

## (b) Reclassifications out of Accumulated Other Comprehensive Income (Loss)

| Details about Accumulated Other Comprehensive Income (Loss) Components | Amount Reclassified from Accumulated Other Comprehensive Income (Loss) | Affected Line Item in the Statement Where Net Income is Presented |
|------------------------------------------------------------------------|------------------------------------------------------------------------|-------------------------------------------------------------------|
| Unrealized gains and losses on cash flow hedging derivatives           | 0.2                                                                    | Interest expense                                                  |



## Note 13 — Earnings (Loss) Per Share

The following table sets forth the computation of basic and dilutive income (loss) per common share from continuing operations attributable to OM Group, Inc. common stockholders:

|                                                             | Three Months Ended June 30 |        | Six Months Ended June 30 |            |
|-------------------------------------------------------------|----------------------------|--------|--------------------------|------------|
|                                                             | 2014                       | 2013   | 2014                     | 2013       |
| Amounts attributable to OM Group, Inc. common stockholders: |                            |        |                          |            |
| Income (loss) from continuing operations, net of tax        | \$5.1                      | \$8.1  | \$10.4                   | \$(101.2 ) |
| Earnings (loss) per common share - basic:                   |                            |        |                          |            |
| Income (loss) from continuing operations                    | \$0.16                     | \$0.26 | \$0.33                   | \$(3.19 )  |
| Earnings (loss) per common share - assuming dilution:       |                            |        |                          |            |
| Income (loss) from continuing operations                    | \$0.16                     | \$0.26 | \$0.33                   | \$(3.19 )  |
| Weighted average shares outstanding — basic                 | 31.5                       | 31.5   | 31.5                     | 31.7       |
| Dilutive effect of stock options and restricted stock       | 0.3                        | 0.1    | 0.4                      | —          |
| Weighted average shares outstanding — assuming dilution     | 31.8                       | 31.6   | 31.9                     | 31.7       |

The following table sets forth the computation of basic and diluted net income (loss) per common share attributable to OM Group, Inc. common stockholders:

|                                                             | Three Months Ended June 30 |           | Six Months Ended June 30 |            |
|-------------------------------------------------------------|----------------------------|-----------|--------------------------|------------|
|                                                             | 2014                       | 2013      | 2014                     | 2013       |
| Amounts attributable to OM Group, Inc. common stockholders: |                            |           |                          |            |
| Net income (loss)                                           | \$4.8                      | \$(3.3 )  | \$10.1                   | \$(113.1 ) |
| Earnings (loss) per common share - basic:                   |                            |           |                          |            |
| Net income (loss)                                           | \$0.15                     | \$(0.11 ) | \$0.32                   | \$(3.57 )  |
| Earnings per common share - assuming dilution:              |                            |           |                          |            |
| Net income (loss)                                           | \$0.15                     | \$(0.11 ) | \$0.31                   | \$(3.57 )  |
| Weighted average shares outstanding — basic                 | 31.5                       | 31.5      | 31.5                     | 31.7       |
| Dilutive effect of stock options and restricted stock       | 0.3                        | 0.1       | 0.4                      | —          |
| Weighted average shares outstanding — assuming dilution     | 31.8                       | 31.6      | 31.9                     | 31.7       |

We use the treasury stock method to calculate the effect of outstanding share-based compensation awards, which requires us to compute total employee proceeds as the sum of (a) the amount the employee must pay upon exercise of the award, (b) the amount of unearned share-based compensation costs attributed to future services and (c) the amount of tax benefits, if any, that would be credited to additional paid-in capital assuming exercise of the award. Shares, under share-based compensation awards, for which the total employee proceeds exceed the average market price over the applicable period have an anti-dilutive effect on earnings per share, and accordingly, are excluded from the calculation of diluted earnings per share.

In the three and six months ended June 30, 2014, stock options to purchase 0.1 million and 0.1 million shares, respectively, and in the three months ended June 30, 2013 stock options to purchase 0.3 million shares of common stock were excluded from the calculation of dilutive earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would have been anti-dilutive.

## Note 14 — Share-Based Compensation

Set forth below is a summary of share-based compensation expense for option grants, restricted stock awards and restricted stock unit awards included as a component of Selling, general and administrative expenses in the Unaudited Condensed Consolidated Statements of Operations:

|                                                           | Three Months Ended June 30 |       | Six Months Ended June 30 |       |
|-----------------------------------------------------------|----------------------------|-------|--------------------------|-------|
|                                                           | 2014                       | 2013  | 2014                     | 2013  |
| Stock options and restricted stock awards                 | \$1.7                      | \$1.4 | \$3.9                    | \$2.7 |
| Restricted stock unit awards                              | —                          | 0.1   | \$0.2                    | \$0.2 |
| Share-based compensation expense - employees              | \$1.7                      | \$1.5 | \$4.1                    | \$2.9 |
| Share-based compensation expense - non-employee directors | \$0.1                      | \$0.1 | \$0.3                    | \$0.2 |

No tax benefit for share-based compensation was realized during 2014 or 2013 as a result of a valuation allowance against the deferred tax assets.

At June 30, 2014, there was \$9.5 million of unrecognized compensation expense related to unvested share-based awards. That cost is expected to be recognized as follows: \$3.4 million in the last six months of 2014, \$4.8 million in 2015, and \$1.4 million in 2016 as a component of Selling, general and administrative expenses. 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, updated vesting assumptions for performance awards, and fluctuations in the fair value of restricted stock unit awards.

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 New York Stock Exchange ("NYSE") on the last trading date of the quarter. Pursuant to the 2007 plan, we issued 3,976 and 7,084 shares in the three and six months ended June 30, 2014 and 5,078 and 11,049 shares in the three and six months ended June 30, 2013, respectively, to non-employee directors.

## Note 15 — Commitments and Contingencies

We have potential contingent liabilities with respect to environmental matters related to our former operations in Brazil which were sold in 2003. Environmental cost-sharing arrangements are in place between the original owner and operator of these operations and between the Company and the subsequent purchaser of these operations. We have reviewed the limited information made available to us on the environmental conditions and are awaiting more detailed information from the purchaser. We cannot currently evaluate whether or not, or to what extent, we will be responsible for any remediation costs until more detailed information is received and validated.

From time to time, we are subject to various legal and regulatory proceedings, claims and assessments that arise in the normal course of business. The ultimate resolution of such proceedings, claims and assessments is inherently unpredictable and, as a result, our estimates of liability, if any, are subject to change and actual results may materially differ from such estimates. Our estimate of any costs to be incurred as a result of these proceedings, claims and assessments are accrued when the liability is considered probable and the amount can be reasonably estimated. We believe the amount of any current potential liability with respect to legal and regulatory proceedings, claims and assessments will not have a material adverse effect upon our financial condition, results of operations, or cash flows.



## Note 16 — Reportable Segments

We operate and report our results in four operating segments: Magnetic Technologies, Battery Technologies, Specialty Chemicals, and Advanced Materials. Intersegment transactions are generally recognized based on current market prices and are eliminated in consolidation. Corporate is comprised of general and administrative expenses not allocated to the operating segments. The following table reflects the results of our reportable segments:

|                                                              | Three Months Ended June 30, |         | Six Months Ended June 30, |          |
|--------------------------------------------------------------|-----------------------------|---------|---------------------------|----------|
|                                                              | 2014                        | 2013    | 2014                      | 2013     |
| Net Sales                                                    |                             |         |                           |          |
| Magnetic Technologies                                        | \$130.9                     | \$128.9 | \$260.1                   | \$266.0  |
| Battery Technologies                                         | 41.0                        | 40.2    | 81.5                      | 81.2     |
| Specialty Chemicals (a)                                      | 81.9                        | 83.4    | 158.8                     | 160.7    |
| Advanced Materials                                           | 43.7                        | 26.9    | 58.8                      | 113.3    |
| Intersegment items                                           | —                           | —       | —                         | (0.1)    |
|                                                              | \$297.5                     | \$279.4 | \$559.2                   | \$621.1  |
| Operating profit (loss)                                      |                             |         |                           |          |
| Magnetic Technologies (b)                                    | \$3.2                       | \$1.2   | \$8.9                     | \$7.5    |
| Battery Technologies (b)                                     | 8.1                         | 8.2     | 14.5                      | 16.5     |
| Specialty Chemicals (a) (b) (c)                              | 8.5                         | 8.2     | 15.9                      | 15.2     |
| Advanced Materials                                           | (2.5)                       | (0.4)   | (3.5)                     | 1.4      |
| Corporate                                                    | (7.4)                       | (8.0)   | (17.4)                    | (17.3)   |
|                                                              | \$9.9                       | \$9.2   | \$18.4                    | \$23.3   |
| Interest expense                                             | \$(0.6)                     | \$(1.8) | \$(1.3)                   | \$(9.5)  |
| Foreign exchange loss                                        | (0.9)                       | 2.8     | (1.2)                     | 0.2      |
| Loss on divestiture of Advanced Materials business           | (0.8)                       | (0.5)   | (1.0)                     | (112.1)  |
| Other expense, net                                           | (0.7)                       | 0.3     | (1.4)                     | (0.3)    |
| Income (loss) from continuing operations before income taxes | \$6.9                       | \$10.0  | \$13.5                    | \$(98.4) |
| Expenditures for property, plant & equipment                 |                             |         |                           |          |
| Magnetic Technologies                                        | \$6.0                       | \$5.1   | \$7.7                     | \$8.0    |
| Battery Technologies                                         | 0.5                         | 0.8     | 1.4                       | 1.9      |
| Specialty Chemicals (a)                                      | 1.0                         | 2.8     | 1.5                       | 5.0      |
| Advanced Materials                                           | —                           | —       | —                         | 6.4      |
| Corporate                                                    | 0.1                         | —       | 0.2                       | —        |
|                                                              | \$7.6                       | \$8.7   | \$10.8                    | \$21.3   |
| Depreciation and amortization                                |                             |         |                           |          |
| Magnetic Technologies                                        | \$11.9                      | \$10.7  | \$23.7                    | \$21.5   |
| Battery Technologies                                         | 2.6                         | 2.5     | 5.1                       | 5.0      |
| Specialty Chemicals (a)                                      | 3.5                         | 3.6     | 7.1                       | 7.5      |
| Advanced Materials                                           | —                           | (0.3)   | —                         | 3.9      |
| Corporate                                                    | 0.3                         | 0.1     | 0.5                       | 0.2      |
|                                                              | \$18.3                      | \$16.6  | \$36.4                    | \$38.1   |

(a) The June 30, 2013 results related to the UPC business are excluded from the Specialty Chemicals segment.

(b) The three months and six ended June 30, 2013 include costs related to cost reduction initiatives of \$0.4 million and \$4.2 million in Magnetic Technologies, \$0.5 million and \$0.7 million in Battery Technologies, and \$1.1 million

and \$1.1 million in Specialty Chemicals, respectively.

(c) The three months and six ended June 30, 2014 include costs related to cost reduction initiatives of \$0.4 million in Specialty Chemicals.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations  
(In millions, except as noted and share and per share amounts)

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 Form 10-Q.

Certain financial data may have been rounded. As a result of such rounding, the totals of data presented in this document may vary slightly from the actual arithmetical totals of such data.

OM Group, Inc. (the "Company", "we", "our", "us") is a technology-driven diversified industrial company serving attractive global markets, including automotive systems, electronic devices, aerospace and defense, industrial and renewable energy. Our business platforms use innovation and technology to address customers' complex applications and demanding requirements. Our strategy is to grow organically through product and application innovation and new market and customer development, to grow strategically through complementary acquisitions, and to maximize total stockholder return through a combination of business growth, financial discipline, optimal deployment of capital and continued operational excellence. Our objective is to deliver sustainable, profitable growth and create long-term stockholder value.

On March 29, 2013, we completed the divestiture of our cobalt-based Advanced Materials business. In connection with this transaction, we received net proceeds of \$329 million.

On May 31, 2013, we completed the divestiture of our Ultra Pure Chemicals (UPC) business for cash proceeds of \$63 million. The results of operations of the UPC business are reflected as discontinued operations in the accompanying unaudited condensed consolidated financial statements for all periods presented.

We used the proceeds of these divestitures, along with cash on hand, to repay our remaining indebtedness in 2013.

We operate three strategic business platforms: Magnetic Technologies, Battery Technologies, and Specialty Chemicals. We also have limited continuing involvement in the Advanced Materials business through transition agreements with the buyer as described below. Further discussion of and financial information for these segments, including external sales, operating profit and total assets, is contained in Note 16 to the accompanying consolidated financial statements of this Quarterly Report on Form 10-Q.

#### Magnetic Technologies

The Magnetic Technologies segment develops, manufactures and distributes high-performance, industrial-use magnetic materials and related products and systems with differentiated magnetic and/or performance properties. We offer a wide range of magnetic technology products, from magnetically soft products to some of the most powerful permanent magnets in the world. Our products are sold into a wide array of end markets, including automotive systems, electrical installation technology, industrial, retail and renewable energy.

#### Battery Technologies

The Battery Technologies segment provides advanced batteries, battery management systems, and energetic devices for defense, space and medical markets. The business is also developing and commercializing products, technologies and applications for emerging markets, including commercial aerospace, alternative energy storage and oil & gas.

#### Specialty Chemicals

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

Advanced Materials (divested)

As discussed above, we completed the divestiture of this business in March 2013. Through the date of the sale, this business manufactured inorganic products using unrefined cobalt and other metals, for the mobile energy storage, renewable energy, automotive systems, construction and mining, and industrial end markets. It also had a 55% interest in the DRC-based joint venture known as GTL.

Following the sale, to assist in the transition of the downstream business, we entered into two agreements with the buyer pursuant to which: (1) we act as intermediary in a supply agreement between GTL and the buyer, in back-to-back arrangements for a period of at least two years, subject to delivery of 7,000 MT of cobalt feed, and extendable for up to an additional six months in order to deliver 7,000 MT of cobalt feed; and, (2) we served as the U.S. distributor for refined cobalt products in primarily back-to-back arrangements until December 31, 2013. These agreements have resulted in minimal statement of operations or cash flow impact for us and will be reported in the Advanced Materials segment until both agreements expire or are terminated.

#### Executive Overview - Second Quarter 2014

Net sales in the second quarter were \$298 million, or \$254 million on a pro forma basis excluding the divested Advanced Materials business. Excluding the Advanced Materials sales, consolidated sales were up 0.5% compared to the second quarter of 2013. Sales were 2% higher in Magnetic Technologies due primarily to a higher Euro/U.S. dollar exchange rate and increased sales volumes, partially offset by the impact of lower rare earth prices, resulting in lower pass-through on the sales line. Battery Technologies net sales increased 2% over the second quarter of 2013 due to favorable product sales mix. Sales in Specialty Chemicals were down 2% compared to the second quarter of 2013 due to lower sales volumes into the electronics, coatings and tire end markets, partially offset by favorable mix. Excluding the Advanced Materials business, adjusted operating profit and adjusted EBITDA in the 2014 second quarter were \$12 million and \$31 million, respectively. These profit amounts are 8% higher than a year ago, due primarily to increased profitability in Magnetic Technologies driven by higher sales volumes, and lower Corporate costs. A reconciliation of US GAAP to adjusted numbers is contained on pages 20 and 21.

## Consolidated Operating Results

|                                                                                             | Three months ended |        |           |        | Six months ended |        |           |        |
|---------------------------------------------------------------------------------------------|--------------------|--------|-----------|--------|------------------|--------|-----------|--------|
|                                                                                             | June 30,           |        |           |        | June 30,         |        |           |        |
| (in millions & percent of net sales)                                                        | 2014               |        | 2013      |        | 2014             |        | 2013      |        |
| Net sales                                                                                   | \$297.5            |        | \$279.4   |        | \$559.2          |        | \$621.1   |        |
| Cost of goods sold                                                                          | 234.4              |        | 215.6     |        | 434.2            |        | 483.1     |        |
| Gross profit                                                                                | 63.1               | 21.2 % | 63.8      | 22.8 % | 125.0            | 22.4 % | 138.0     | 22.2 % |
| Selling, general and administrative expenses                                                | 53.2               | 17.9 % | 54.6      | 19.5 % | 106.6            | 19.1 % | 114.7     | 18.5 % |
| Operating profit                                                                            | 9.9                | 3.3 %  | 9.2       | 3.3 %  | 18.4             | 3.3 %  | 23.3      | 3.8 %  |
| Loss on divestiture of Advanced Materials business                                          | (0.8 )             |        | (0.5 )    |        | (1.0 )           |        | (112.1 )  |        |
| Other (expense) gain, net                                                                   | (2.2 )             |        | 1.3       |        | (3.9 )           |        | (9.6 )    |        |
| Income tax expense                                                                          | 1.8                |        | 1.9       |        | 3.1              |        | 4.5       |        |
| Income (loss) from continuing operations, net of tax                                        | 5.1                |        | 8.1       |        | 10.4             |        | (102.9 )  |        |
| Loss from discontinued operations, net of tax                                               | (0.3 )             |        | (11.4 )   |        | (0.3 )           |        | (11.9 )   |        |
| Consolidated net income (loss)                                                              | 4.8                |        | (3.3 )    |        | 10.1             |        | (114.8 )  |        |
| Net loss attributable to noncontrolling interest                                            | —                  |        | —         |        | —                |        | 1.7       |        |
| Net income (loss) attributable to OM Group, Inc. common stockholders                        | \$4.8              |        | \$(3.3 )  |        | \$10.1           |        | \$(113.1) |        |
| Amounts attributable to OM Group, Inc. common stockholders:                                 |                    |        |           |        |                  |        |           |        |
| Income (loss) from continuing operations, net of tax                                        | \$5.1              |        | \$8.1     |        | \$10.4           |        | \$(101.2) |        |
| Loss from discontinued operations, net of tax                                               | (0.3 )             |        | (11.4 )   |        | (0.3 )           |        | (11.9 )   |        |
| Net income (loss)                                                                           | \$4.8              |        | \$(3.3 )  |        | \$10.1           |        | \$(113.1) |        |
| Earnings (loss) per common share — assuming dilution:                                       |                    |        |           |        |                  |        |           |        |
| Income (loss) from continuing operations attributable to OM Group, Inc. common stockholders | \$0.16             |        | \$0.26    |        | \$0.33           |        | \$(3.19 ) |        |
| Loss from discontinued operations attributable to OM Group, Inc. common stockholders        | (0.01 )            |        | (0.37 )   |        | (0.02 )          |        | (0.38 )   |        |
| Net income (loss) attributable to OM Group, Inc. common stockholders                        | \$0.15             |        | \$(0.11 ) |        | \$0.31           |        | \$(3.57 ) |        |

We are providing adjusted operating profit (loss), adjusted EBITDA, and adjusted earnings per common share attributable to OM Group, Inc. common stockholders - assuming dilution, which are non-GAAP financial measures. The tables below present reconciliations of these amounts to the comparable U.S. GAAP amounts. We believe that the non-GAAP financial measures presented in the tables facilitate a comparative assessment of our operating performance and enhance investors' understanding of the performance of our operations. The non-GAAP financial information set forth in the tables below are not alternatives to reported results determined in accordance with U.S.

GAAP.

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|                                               |                                           |                         |                        |           |          |                       |              |
|-----------------------------------------------|-------------------------------------------|-------------------------|------------------------|-----------|----------|-----------------------|--------------|
|                                               | For the quarter ended<br>June 30, 2014    |                         |                        |           |          |                       |              |
|                                               | Magnetic<br>Technologies                  | Battery<br>Technologies | Specialty<br>Chemicals | Corporate | Subtotal | Advanced<br>Materials | Consolidated |
| Operating profit (loss) - as reported         | \$3.2                                     | \$8.1                   | \$8.5                  | \$(7.4 )  | \$12.4   | \$(2.5 )              | \$9.9        |
| Charges related to cost-reduction initiatives | —                                         | —                       | 0.4                    | —         | 0.4      | —                     | 0.4          |
| Adjusted operating profit                     | 3.2                                       | 8.1                     | 8.9                    | (7.4 )    | 12.8     | (2.5 )                | 10.3         |
| Depreciation and amortization                 | 11.9                                      | 2.6                     | 3.5                    | 0.3       | 18.3     | —                     | 18.3         |
| Adjusted EBITDA                               | \$15.1                                    | \$10.7                  | \$12.4                 | \$(7.1 )  | \$31.1   | \$(2.5 )              | \$28.6       |
|                                               | June 30, 2013                             |                         |                        |           |          |                       |              |
|                                               | Magnetic<br>Technologies                  | Battery<br>Technologies | Specialty<br>Chemicals | Corporate | Subtotal | Advanced<br>Materials | Consolidated |
| Operating profit (loss) - as reported         | \$1.2                                     | \$8.2                   | \$8.2                  | \$(8.0 )  | \$9.6    | \$(0.4 )              | \$9.2        |
| Charges related to cost-reduction initiatives | 0.4                                       | 0.5                     | 1.1                    | —         | 2.0      | —                     | 2.0          |
| Adjusted operating profit                     | 1.6                                       | 8.7                     | 9.3                    | (8.0 )    | \$11.6   | (0.4 )                | 11.2         |
| Depreciation and amortization                 | 10.7                                      | 2.5                     | 3.6                    | 0.1       | 16.9     | (0.3 )                | 16.6         |
| Adjusted EBITDA                               | \$12.3                                    | \$11.2                  | \$12.9                 | \$(7.9 )  | 28.5     | \$(0.7 )              | \$27.8       |
|                                               | For the six months ended<br>June 30, 2014 |                         |                        |           |          |                       |              |
|                                               | Magnetic<br>Technologies                  | Battery<br>Technologies | Specialty<br>Chemicals | Corporate | Subtotal | Advanced<br>Materials | Consolidated |
| Operating profit (loss) - as reported         | \$8.9                                     | \$14.5                  | \$15.9                 | \$(17.4 ) | \$21.9   | \$(3.5 )              | \$18.4       |
| Charges related to cost-reduction initiatives | —                                         | —                       | 0.4                    | —         | 0.4      | —                     | 0.4          |
| Adjusted operating profit                     | 8.9                                       | 14.5                    | 16.3                   | (17.4 )   | 22.3     | (3.5 )                | 18.8         |
| Depreciation and amortization                 | 23.7                                      | 5.1                     | 7.1                    | 0.5       | 36.4     | —                     | 36.4         |
| Adjusted EBITDA                               | \$32.6                                    | \$19.6                  | \$23.4                 | \$(16.9 ) | \$58.7   | \$(3.5 )              | \$55.2       |
|                                               | June 30, 2013                             |                         |                        |           |          |                       |              |
|                                               | Magnetic<br>Technologies                  | Battery<br>Technologies | Specialty<br>Chemicals | Corporate | Subtotal | Advanced<br>Materials | Consolidated |
| Operating profit (loss) - as reported         | \$7.5                                     | \$16.5                  | \$15.2                 | \$(17.3 ) | \$21.9   | \$1.4                 | \$23.3       |
| Charges related to cost-reduction initiatives | 4.2                                       | 0.7                     | 1.1                    | —         | 6.0      | —                     | 6.0          |
| Adjusted operating profit                     | 11.7                                      | 17.2                    | 16.3                   | (17.3 )   | 27.9     | 1.4                   | 29.3         |
| Depreciation and amortization                 | 21.5                                      | 5.0                     | 7.5                    | 0.2       | 34.2     | 3.9                   | 38.1         |
| Adjusted EBITDA                               | \$33.2                                    | \$22.2                  | \$23.8                 | \$(17.1 ) | \$62.1   | \$5.3                 | \$67.4       |

Charges related to cost-reduction initiatives in the three and six months ended June 30, 2013 relate to actions during our 2013 enterprise-wide program to improve profitability, including headcount reductions, minor facility consolidation, supply chain optimization, corporate cost reductions and other structural changes.





|                                                                                                           | Three Months Ended<br>June 30,<br>2014 |                |                 |                | Six Months Ended<br>June 30,<br>2014 |                |                 |                |
|-----------------------------------------------------------------------------------------------------------|----------------------------------------|----------------|-----------------|----------------|--------------------------------------|----------------|-----------------|----------------|
|                                                                                                           | Amounts                                | Diluted<br>EPS | 2013<br>Amounts | Diluted<br>EPS | Amounts                              | Diluted<br>EPS | 2013<br>Amounts | Diluted<br>EPS |
| Income (loss) from continuing operations attributable to OM Group, Inc. common stockholders - as reported | \$5.1                                  | \$0.16         | \$8.1           | \$0.26         | \$10.4                               | \$0.33         | \$(101.2 )      | \$(3.17 )      |
| Add (Less):                                                                                               |                                        |                |                 |                |                                      |                |                 |                |
| Loss on divestiture of Advanced Materials business                                                        | 0.8                                    | 0.03           | 0.5             | 0.02           | 1.0                                  | 0.03           | 112.1           | 3.52           |
| Charges related to cost-reduction initiatives                                                             | 0.4                                    | 0.01           | 2.0             | 0.06           | 0.4                                  | 0.01           | 6.0             | 0.19           |
| Acceleration of deferred financing fees                                                                   | —                                      | —              | 0.5             | 0.01           | —                                    | —              | 0.5             | 0.01           |
| Tax effect of special items                                                                               | —                                      | —              | (0.3 )          | (0.01 )        | —                                    | —              | (0.9 )          | (0.03 )        |
| Adjusted income from continuing operations attributable to OM Group, Inc.                                 | \$6.3                                  | \$0.20         | \$10.8          | \$0.34         | \$11.8                               | \$0.37         | \$16.5          | \$0.52         |
| Weighted average shares outstanding - diluted (a)                                                         |                                        | 31.8           |                 | 31.6           |                                      | 31.9           |                 | 31.8           |

(a) For the six months ended June 30, 2013, because the reported loss from continuing operations is income on an adjusted basis, we used diluted shares to calculate EPS.

#### Second Quarter of 2014 Compared with Second Quarter of 2013

The following table identifies, by segment, the components of change in net sales and operating profit for the three months ended June 30, 2014, compared with the three months ended June 30, 2013:

|                       | Net sales | Operating profit - as reported |
|-----------------------|-----------|--------------------------------|
| 2013                  | \$279.4   | \$9.2                          |
| Change in 2013 from:  |           |                                |
| Magnetic Technologies | 2.0       | 2.0                            |
| Battery Technologies  | 0.8       | (0.1 )                         |
| Specialty Chemicals   | (1.5 )    | 0.3                            |
| Advanced Materials    | 16.9      | (2.1 )                         |
| Corporate             | —         | 0.6                            |
| Intersegment items    | —         | —                              |
| 2014                  | \$297.6   | \$9.9                          |

Net sales increased \$18.2 million, or 6.5%, primarily due to higher sales in Advanced Materials. Excluding Advanced Materials, pro forma sales were relatively flat in the second quarter of 2014 compared to the 2013 period. This was due to a higher Euro/U.S. dollar exchange rate and increased sales volumes in Magnetic Technologies, partially offset by the impact of lower rare earth prices, resulting in lower pass-through on the sales line. Battery Technologies net sales increased 2% over the second quarter of 2013 due to favorable product sales mix. Sales in Specialty Chemicals were down 2% compared to the second quarter of 2013 due to lower sales volumes into the electronics, coatings and tire end markets, partially offset by favorable mix.

Gross profit decreased \$0.7 million, or 1%, in the three months ended June 30, 2014 compared with the three months ended June 30, 2013. As a percent of sales, gross margin decreased to 21.2% in the second quarter of 2014 compared to 22.8% a year ago, driven primarily by slightly lower margins in the Magnetic Technologies business.

Selling, general and administrative expenses (“SG&A”) decreased to \$53.2 million in the three months ended June 30, 2014 from \$54.6 million in the three months ended June 30, 2013, due primarily to the effect of cost-reduction activities in Magnetic Technologies and Corporate, partially offset by increased expenses in Advanced Materials due to increased sales levels. SG&A as a percentage of net sales was 17.9% in the second quarter of 2014 compared with 19.5% in the second quarter of 2013; the lower percentage in 2014 is due primarily to the cost improvements at Magnetic Technologies and Corporate.

The following table summarizes the components of Other expense, net for the three months ended June 30:

|                                                    | 2014   | 2013     | Change  |   |
|----------------------------------------------------|--------|----------|---------|---|
| Interest expense                                   | \$(0.6 | ) \$(1.8 | ) \$1.2 |   |
| Foreign exchange (loss)                            | (0.9   | ) 2.8    | (3.7    | ) |
| Loss on divestiture of Advanced Materials business | (0.8   | ) (0.5   | ) (0.3  | ) |
| Other expense, net                                 | (0.7   | ) 0.3    | (1.0    | ) |
|                                                    | \$(3.0 | ) \$0.8  | \$(3.8  | ) |

The decrease in interest expense is due to no debt outstanding in 2014 compared to 2013; the expense in 2014 relates to facility fees and amortization of finance costs. The foreign exchange loss in the three months ended June 30, 2014 is primarily related to weakening of the Euro versus the U.S. dollar during the quarter and the resulting impact on the revaluation of non-functional currency balances. The gain in 2013 was due to strengthening of the Euro versus the U.S. dollar during the quarter and the resulting impact on the revaluation of non-functional currency cash and debt balances.

See Note 4(b) in our Unaudited Condensed Consolidated Financial Statements included in this Form 10-Q for discussion on the loss on divestiture of Advanced Materials business.

Income tax expense in the second quarter of 2014 was \$1.8 million on pre-tax income of \$6.9 million, resulting in an effective income tax rate of 25.8%. This rate is lower than the U.S. statutory tax rate primarily due to income earned in tax jurisdictions with lower statutory rates than the U.S. and our financing structure, partially offset by losses in certain jurisdictions (including the U.S.) with no corresponding tax benefit. For the three months ended June 30, 2013, income tax expense was \$1.9 million on pre-tax income of \$10.0 million.

#### Six Months Ended June 30, 2014 Compared with Six Months Ended June 30, 2013

The following table identifies, by segment, the components of change in net sales and operating profit for the six months ended June 30, 2014, compared with the six months ended June 30, 2013:

|                       | Net sales | Operating profit - as reported |   |
|-----------------------|-----------|--------------------------------|---|
| 2013                  | \$621.1   | \$23.3                         |   |
| Change in 2013 from:  |           |                                |   |
| Magnetic Technologies | (5.9      | ) 1.4                          |   |
| Battery Technologies  | 0.3       | (2.0                           | ) |
| Specialty Chemicals   | (1.9      | ) 0.7                          |   |
| Advanced Materials    | (54.5     | ) (4.9                         | ) |
| Corporate             | —         | (0.1                           | ) |
| Intersegment items    | 0.1       | —                              |   |
| 2014                  | \$559.2   | \$18.4                         |   |

Net sales in the six months ended June 30, 2014 decreased \$61.9 million, or 10.0%, compared to the six months ended June 30, 2013 primarily due to the divestiture of Advanced Materials.

Gross profit decreased \$13.0 million in the six months ended June 30, 2014 compared with the six months ended June 30, 2013, primarily due to the divestiture of Advanced Materials, which had an \$11.5 million impact. As a percent of sales, gross margin remained relatively flat at 22.4% compared to 22.2% a year ago.

Selling, general and administrative expenses ("SG&A") decreased to \$106.6 million in the six months ended June 30, 2014 from \$114.7 million in the six months ended June 30, 2013, due primarily to the divestiture of Advanced Materials. SG&A as a percentage of net sales was 19.1% in the year-to-date period ended June 30, 2014 compared with 18.5% in the comparable 2013 period; the higher percentage in 2014 is due to the divestiture of Advanced Materials, which had a low SG&A percentage.

The following table summarizes the components of Other expense, net for the six months ended June 30:

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|                                                    | 2014   | 2013       | Change    |   |
|----------------------------------------------------|--------|------------|-----------|---|
| Interest expense                                   | \$(1.3 | ) \$(9.5   | ) \$8.2   |   |
| Foreign exchange (loss)                            | (1.2   | ) 0.2      | (1.4      | ) |
| Loss on divestiture of Advanced Materials business | (1.0   | ) (112.1   | ) 111.1   |   |
| Other expense, net                                 | (1.4   | ) (0.3     | ) (1.1    | ) |
|                                                    | \$(4.9 | ) \$(121.7 | ) \$116.8 |   |

The decrease in interest expense is due to no debt outstanding in 2014 compared to 2013; the expense in 2014 relates to facility fees and amortization of finance costs. The foreign exchange loss in the six months ended June 30, 2014 is primarily related to movements in Euro/U.S. dollar exchange rates and the resulting impact on the revaluation of non-functional currency balances.

See Note 4(b) in our Unaudited Condensed Consolidated Financial Statements included in this Form 10-Q for discussion on the loss on divestiture of Advanced Materials business.

Income tax expense was \$3.1 million on pre-tax income of \$13.5 million for the six months ended June 30, 2014, resulting in an effective income tax rate of 23.3%. This rate is lower than the U.S. statutory tax rate primarily due to income earned in tax jurisdictions with lower statutory rates than the U.S. and our financing structure, partially offset by losses in certain jurisdictions (including the U.S.) with no corresponding tax benefit. For the six months ended June 30, 2013, income tax expense was \$4.5 million on pre-tax losses of \$98.4 million.

#### Segment Results and Corporate Expenses

##### Magnetic Technologies

The segment is focused on developing and leveraging its substantial patent portfolio to develop new applications, enter new markets and increase market share and on reducing its cost structure.

The primary raw materials used by Magnetic Technologies include the rare earth materials dysprosium and neodymium. Rare earth materials are currently available from a limited number of suppliers, primarily in China. Supply of rare earth materials is expected to increase as additional sources outside of China become available. We generally pass through rare earth prices to our customers in our selling prices, although timing differences can result between changes in selling prices and inventory costs.

The following table identifies the components of changes in net sales and operating profit (loss):

|                                                  | Three Months Ended<br>June 30, |                     |                                 | Six Months Ended<br>June 30, |                     |                                 |
|--------------------------------------------------|--------------------------------|---------------------|---------------------------------|------------------------------|---------------------|---------------------------------|
|                                                  | Net sales                      | Operating<br>profit | Adjusted<br>operating<br>profit | Net sales                    | Operating<br>profit | Adjusted<br>operating<br>profit |
| 2013                                             | \$128.9                        | \$1.2               | \$1.6                           | \$266.0                      | \$7.5               | \$11.7                          |
| Increase (decrease) in 2014 from:                |                                |                     |                                 |                              |                     |                                 |
| Volume/mix                                       | 4.7                            | 2.0                 | 2.0                             | 1.2                          | 0.7                 | 0.7                             |
| Selling price                                    | (0.5                           | ) (0.5              | ) (0.5                          | ) (0.9                       | ) (0.9              | ) (0.9                          |
| Rare earth pricing effects                       | (6.3                           | ) (0.6              | ) (0.6                          | ) (12.7                      | ) (2.8              | ) (2.8                          |
| Charges related to cost-reduction<br>initiatives | —                              | 0.4                 | —                               | —                            | 4.2                 | —                               |
| Foreign currency                                 | 6.2                            | 0.3                 | 0.3                             | 10.9                         | 0.6                 | 0.6                             |
| Other                                            | (2.1                           | ) 0.4               | 0.4                             | (4.4                         | ) (0.4              | ) (0.4                          |
| 2014                                             | \$130.9                        | \$3.2               | \$3.2                           | \$260.1                      | \$8.9               | \$8.9                           |

Net sales increased slightly in the second quarter of 2014 compared to the second quarter of 2013 due primarily to a higher Euro/U.S. dollar exchange rate and increased sales volumes, partially offset by the impact of lower rare earth prices, resulting in lower pass-through on the sales line. Net sales in the six month period ended June 30, 2014 were

lower than the prior year period due primarily to lower rare earth prices, resulting in lower pass-through on the sales line, partially offset by the favorable impact of foreign currency.

Adjusted operating profit in the second quarter of 2014 was higher than the second quarter of 2013 due primarily to increased volumes, favorable exchange rate effects and the benefits of 2013 cost-reduction actions (included in Other), partially offset by rare-earth pricing pressure and unfavorable price. Adjusted operating profit was lower in the six months ended June 30, 2014 than in the six months ended June 30, 2013 due primarily to the negative rare-earth pricing effects, as well as the absence of a one-time benefit in the first quarter of 2013 that did not repeat in 2014.

Charges related to cost-reduction initiatives in the three and six months ended June 30, 2013 relate to the cost reduction actions previously described.

### Battery Technologies

The segment is focused on developing new battery chemistries, applications and products, expanding its served markets and reducing its cost structure in response to the uncertainty of U.S. government spending.

The following table identifies the components of changes in net sales and operating profit:

|                                               | Three Months Ended<br>June 30, |                     |                                 | Six Months Ended<br>June 30, |                     |                                 |
|-----------------------------------------------|--------------------------------|---------------------|---------------------------------|------------------------------|---------------------|---------------------------------|
|                                               | Net sales                      | Operating<br>profit | Adjusted<br>operating<br>profit | Net sales                    | Operating<br>profit | Adjusted<br>operating<br>profit |
| 2013                                          | \$40.2                         | \$8.2               | \$8.7                           | \$81.2                       | \$16.5              | \$17.2                          |
| Increase (decrease) in 2014 from:             |                                |                     |                                 |                              |                     |                                 |
| Volume                                        | —                              | —                   | —                               | —                            | —                   | —                               |
| Selling price/mix                             | 0.8                            | (0.3)               | ) (0.3)                         | ) 0.3                        | (1.7)               | ) (1.7)                         |
| Charges related to cost-reduction initiatives | —                              | 0.5                 | —                               | —                            | 0.7                 | —                               |
| Other                                         | —                              | (0.3)               | ) (0.3)                         | ) —                          | (1.0)               | ) (1.0)                         |
| 2014                                          | \$41.0                         | \$8.1               | \$8.1                           | \$81.5                       | \$14.5              | \$14.5                          |

Net sales in the three and six months ended June 30, 2014 were higher than the comparable 2013 periods, as higher volumes in medical more than offset lower volumes in defense and aerospace applications.

Adjusted operating profit in the second quarter of 2014 was lower when compared to the second quarter of 2013 due primarily to unfavorable mix in defense applications being offset by the favorable impact of higher medical sales.

Adjusted operating profit year-to-date in 2014 was lower than the 2013 period due to the unfavorable mix in defense applications, primarily in the first quarter, partially offset by the favorable impact of higher medical sales.

The Battery Technologies segment tracks backlog, which is equal to the value of unfulfilled orders for which funding is contractually obligated by the customer and for which revenue has not been recognized. At June 30, 2014, backlog was \$122.9 million, compared to \$135.2 million at December 31, 2013. Of this amount, \$65.2 million is expected to be converted to sales by December 31, 2014, with the remainder expected to be converted to sales in future periods.

Charges related to cost-reduction initiatives in the three and six months ended June 30, 2013 relate to the cost reduction actions previously described.

### Specialty Chemicals

This segment is focused on organic growth through broadened product offerings, leveraging its formulations and technical application expertise, and geographic expansion and market penetration.



The following table identifies the components of changes in net sales and operating profit:

|                                               | Three Months Ended<br>June 30, |                     |                                 | Six Months Ended<br>June 30, |                     |                                 |
|-----------------------------------------------|--------------------------------|---------------------|---------------------------------|------------------------------|---------------------|---------------------------------|
|                                               | Net sales                      | Operating<br>profit | Adjusted<br>operating<br>profit | Net sales                    | Operating<br>profit | Adjusted<br>operating<br>profit |
| 2013                                          | \$83.4                         | \$8.2               | \$9.3                           | \$160.7                      | \$15.2              | \$16.3                          |
| Increase (decrease) in 2014 from:             |                                |                     |                                 |                              |                     |                                 |
| Volume                                        | (5.8 )                         | (2.7 )              | (2.7 )                          | (7.3 )                       | (3.4 )              | (3.4 )                          |
| Selling price/mix                             | 3.8                            | 1.8                 | 1.8                             | 4.4                          | 3.2                 | 3.2                             |
| Foreign currency                              | 0.9                            | —                   | —                               | 1.6                          | —                   | —                               |
| Charges related to cost-reduction initiatives | —                              | 1.1                 | —                               | —                            | 1.1                 | —                               |
| Other                                         | (0.4 )                         | 0.1                 | 0.1                             | (0.6 )                       | (0.2 )              | (0.2 )                          |
| 2014                                          | \$81.9                         | \$8.5               | \$8.5                           | \$158.8                      | \$15.9              | \$15.9                          |

Net sales in the three months ended June 30, 2014 were lower than in the three months ended June 30, 2013 due primarily to lower sales volumes into the electronics, coatings and tire end markets, partially offset by favorable mix. Net sales in the six months ended June 30, 2014 were lower than in the corresponding 2013 period due primarily to lower sales volumes into the electronics and coatings end markets, partially offset by favorable mix. Adjusted operating profit was lower in the three and six month periods ended June 30, 2014 compared to 2013 due primarily to lower sales volumes, partially offset by favorable mix.

#### Advanced Materials

As described above, we divested this business as of March 29, 2013. Activity in this segment beginning in the second quarter of 2013 represents performance under the transition agreements described above, which have resulted in minimal impact on our operating profit and cash flows.

During 2012 and through the date of the sale, this business manufactured inorganic products using unrefined cobalt and other metals, for the mobile energy storage, renewable energy, automotive systems, construction and mining, and industrial end markets. It also had a 55% interest in GTL.

For the three and six months ended June 30:

|                  | Three Months Ended June 30, |          | Six Months Ended June 30, |         |
|------------------|-----------------------------|----------|---------------------------|---------|
|                  | 2014                        | 2013     | 2014                      | 2013    |
| Net sales        | \$43.7                      | \$26.9   | \$58.8                    | \$113.3 |
| Operating profit | \$(2.5 )                    | \$(0.4 ) | \$(3.5 )                  | \$1.4   |

#### Corporate Expenses

Corporate expenses are those expenses that support but are not specifically allocated to the operating segments, including certain legal, finance, human resources and strategic development activities, as well as share-based compensation for the entire Company. Corporate expenses were \$7.4 million in the second quarter of 2014 as compared with \$8.0 million in the second quarter of 2013. Corporate expenses were \$17.4 million in the first six months of 2014 as compared with \$17.3 million in the first six months of 2013.

Liquidity and Capital Resources

Cash Flow Summary

Our cash flows from operating, investing and financing activities, as reflected in the Unaudited Condensed Statements of Consolidated Cash Flows, are presented in the following table and discussed in the related narrative:

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|                                         | Six months ended<br>June 30, |             |
|-----------------------------------------|------------------------------|-------------|
|                                         | 2014                         | 2013        |
| Net cash provided by (used for):        |                              |             |
| Operating activities                    | \$21.8                       | \$(6.8)     |
| Investing activities                    | (9.8)                        | ) 344.1     |
| Financing activities                    | (15.1)                       | ) (480.2)   |
| Effect of exchange rate changes on cash | (0.2)                        | ) (1.4)     |
| Cash used by discontinued operations    | (0.8)                        | ) (2.7)     |
| Net change in cash and cash equivalents | \$(4.1)                      | ) \$(147.0) |

### Operating Activities

In the first six months of 2014, cash inflow from operating activities was \$21.8 million compared with a cash outflow of \$6.8 million in the same period of the prior year. The cash flows from operating activities can fluctuate significantly from period-to-period due to profitability, working capital changes and the timing of payments for items such as income taxes, pensions and other items which impact reported cash flows.

### Investing Activities

We used \$10.8 million of cash for capital expenditures in the first six months of 2014 primarily to expand capacity; to maintain and improve throughput; for compliance with environmental, health and safety regulations; and for other fixed asset additions at existing facilities. We expect to fund 2014 capital expenditures through cash generated from operations and cash on hand at June 30, 2014. Net cash provided by investing activities in the first six months of 2013 included net proceeds of \$302.1 million from the divestiture of the Advanced Materials business and \$63.3 million from the divestiture of the UPC business, less capital expenditures of \$21.3 million.

### Financing Activities

We used \$4.8 million of cash to pay dividends and \$10.0 million to repurchase common stock in the first six months of 2014. The decrease in cash used in financing activities as of June 30, 2014 compared to June 30, 2013 was primarily due to pre-payment of long-term debt from funds received when we divested our Advanced Materials and UPC businesses, additional pre-payment of long-term debt utilizing cash on hand and more repurchases of common stock in 2013.

### Financial Condition

Cash balances are held in numerous locations throughout the world. As of June 30, 2014, most of our cash and cash equivalents were held outside the United States, primarily in Germany. If the amounts held outside the U.S. were repatriated to the U.S. then, under current law, the repatriated amounts would be subject to U.S. income taxes, less applicable foreign tax credits. Our intent is to retain the majority of our cash balances where generated and to meet U.S. liquidity needs through cash generated from operations in the U.S., limited repatriation of future foreign earnings, and external borrowings. We expect our available cash, 2014 operating cash flows and availability under our credit facility described below to be adequate to fund 2014 operating needs and capital expenditures.

### Debt and Other Financing Activities

Our Senior Secured Revolving Credit Facility (“the Facility”) provides for \$350 million of revolving borrowing capacity and includes an expansion option of up to an additional \$150 million, subject to certain conditions. The borrowers under the agreement are the Company, Harko C.V. (“Harko”), a limited partnership organized under the laws of the Netherlands, and VAC Germany GmbH (“VAC”), a limited liability company under the laws of Germany. Harko and VAC are wholly-owned subsidiaries of the Company. The Facility matures on September 4, 2018. See Note 5 in the Notes in our Unaudited Consolidated Financial Statements included in this Form 10-Q for further discussion of the Facility.

### Contractual Obligations

Since December 31, 2013, there have been no significant changes in the total amount of contractual obligations, or the timing of cash flows in accordance with those obligations, as reported in the Form 10-K for the year ended December 31, 2013.

#### Critical Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying unaudited condensed consolidated financial statements. In preparing these financial statements, management has made its best estimates and judgments of certain amounts, giving due consideration to materiality. The application of accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. In addition, other companies may utilize different estimates and assumptions, which may impact the comparability of our results of operations to similar businesses. There have been no changes to the critical accounting policies as stated in our Annual Report on Form 10-K for the year ended December 31, 2013.

#### Cautionary Statement for “Safe Harbor” Purposes under the Private Securities Litigation Reform Act of 1995

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company. This report contains statements that we believe may be “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are not historical facts and generally can be identified by use of statements that include words such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “foresee” or other words or phrases of similar import. Similarly, statements that describe our objectives, plans or goals also are forward-looking statements. These forward-looking statements are subject to risks and uncertainties that are difficult to predict, may be beyond our control and could cause actual results to differ materially from those currently anticipated. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Significant factors affecting these expectations are set forth under Item 1A — Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013.

#### Item 3. Quantitative and Qualitative Disclosures about Market Risk

A discussion of market risk exposures is included in Part II, Item 7a. Quantitative and Qualitative Disclosure About Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2013. There have been no material changes from the quantitative and qualitative disclosure about market risk previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2014. As defined in Rule 13a-15(e) under the Exchange Act, disclosure controls and procedures are controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported on a timely basis, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures include components of our internal control over financial reporting. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2014.

##### Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting, identified in connection with management's evaluation of internal control over financial reporting, that occurred during the three months ended June 30, 2014 and materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### PART II - OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

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## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

| Period                        | Issuer Purchases of Equity Securities |                              |                                                                                      | Maximum Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs |
|-------------------------------|---------------------------------------|------------------------------|--------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
|                               | Total Number of Shares Purchased      | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) |                                                                                                  |
| April 1 - 30, 2014            | —                                     | \$—                          | —                                                                                    | \$35,916,904                                                                                     |
| May 1 - 31, 2014              | 118,195                               | 29.96                        | 118,195                                                                              | 32,375,836                                                                                       |
| June 1 - 30, 2014             | 209,302                               | 30.86                        | 209,302                                                                              | 25,916,851                                                                                       |
| Total April 1 - June 30, 2014 | 327,497                               | \$30.53                      | 327,497                                                                              | \$25,916,851                                                                                     |

(1) On January 21, 2013, we announced that our Board of Directors had authorized a share repurchase plan of up to \$50 million of the Company's then outstanding common shares. By June 30, 2014, we repurchased 916,097 shares under this plan.

Item 6. Exhibits and Financial Statement Schedules

Exhibits are as follows:

- |       |                                                                                                         |
|-------|---------------------------------------------------------------------------------------------------------|
| 31.1  | Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)                                 |
| 31.2  | Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)                                 |
| 32    | Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. 1350 |
| 101.1 | Instance Document                                                                                       |
| 101.2 | Schema Document                                                                                         |
| 101.3 | Calculation Linkbase Document                                                                           |
| 101.4 | Labels Linkbase Document                                                                                |
| 101.5 | Presentation Linkbase Document                                                                          |
| 101.6 | Definition Linkbase Document                                                                            |

Signatures

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

OM GROUP, INC.

Date: August 1, 2014

By: /s/ Christopher M. Hix  
Christopher M. Hix  
Vice President and Chief Financial Officer  
(Principal Financial Officer and Duly Authorized Officer)