OM GROUP INC
Form 10-K
February 26, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2013 Commission file number 001-12515

OR

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

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

Delaware (State or other jurisdiction of incorporation or organization)	52-1736882 (I.R.S. Employer Identification No.)
950 Main Avenue, Suite 1300, Cleveland, Ohio (Address of principal executive offices)	44113-7210 (Zip Code)

216-781-0083
Registrant's telephone number, including area code
Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

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

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

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

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

Large accelerated filer x   Accelerated filer o   Non-accelerated filer o   Smaller reporting company o
(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of Act). Yes ¨ No x
The aggregate market value of Common Stock, par value $.01 per share, held by nonaffiliates (based upon the closing sale price on the NYSE) on June 28, 2013 was approximately $969.8 million.
As of January 31, 2014 there were 31,993,821 shares of Common Stock, par value $.01 per share, outstanding.
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Company’s Proxy Statement for the 2014 Annual Meeting of Stockholders to be held on May 13, 2014 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

Item 1. Business

Overview
OM Group, Inc. (the “Company”, “we”, “our”, “us”) is a technology-driven industrial company serving attractive global markets, including automotive systems, electronic devices, aerospace and defense, industrial and renewable energy. We use innovative technologies 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 primarily 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 Company is a Delaware Corporation and was formed in 1991.

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 17 to the accompanying consolidated financial statements of this Annual Report on Form 10-K.

On March 29, 2013, we completed the divestiture of our cobalt-based Advanced Materials business and the transfer of our 55% equity interests in the Democratic Republic of Congo-based joint venture known as GTL to the joint venture partners. In connection with this transaction, we received net proceeds of $329 million, $302 million of which was used, together with cash on hand, to repay approximately $346 million of our Term B debt. A loss of $112 million was recorded on the divestiture. 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, it is not probable that the business will meet the revenue targets, and no value was assigned to the potential future cash consideration while calculating the loss at the time of the divestiture or at December 31, 2013.

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. A loss, net of tax, of $9.8 million was recorded on the divestiture. We used the proceeds of the UPC divestiture, along with cash on hand, to repay our remaining indebtedness.

The Company consists of the following segments:

Magnetic Technologies segment
The Magnetic Technologies segment develops, manufactures and distributes high-performance, industrial-use magnetic materials and related products with differentiated magnetic and/or other performance properties. A large majority of our products are specially designed and manufactured for specific customers. 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. We sell the majority of our products directly to original equipment manufacturers who incorporate them into their sub-assemblies and final assemblies.

At December 31, 2013 and 2012, backlog was $97.9 million and $101.3 million, respectively. The entire December 2013 backlog is expected to be converted into sales during the next twelve months.

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

Magnetic Technologies uses a variety of material inputs, including dysprosium and neodymium, to produce its products. The supply of these rare earths is currently concentrated in China and was constrained in 2011, resulting in significant price increases during 2011. These prices declined significantly throughout 2012 before moderating in the second half of 2013. Please see Risk Factors for important information regarding rare earth raw materials.

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The segment is focused on developing and leveraging its substantial patent portfolio and applications expertise to develop new products, enter new markets and generally increase market share.

Battery Technologies segment

The Battery Technologies segment provides advanced batteries, battery management systems, and energetic devices for defense, space and medical markets. We sell these products directly to customers who incorporate them into sub-assemblies. The business is also developing and commercializing products, technologies and applications for emerging markets, including commercial aerospace, alternative energy storage and oil & gas.

At December 31, 2013, backlog was $135.2 million as compared to $128.0 million at December 31, 2012. At December 31, 2013, $15.1 million of the backlog is not expected to be converted into sales during the next twelve months.

We believe we are a market leader for defense and space applications in the U.S. due to our innovation, reliability, broad applications expertise and chemistries and long-standing relationships with key customers. There are few competitors qualified to supply into our principal markets. The segment is a prime contractor or subcontractor for numerous U.S. Government programs, including U.S. Government customers, and its top three customers account for approximately half of its sales. Please see "Risk Factors" for important information regarding U.S. government contracts and programs.

The segment is focused on developing new battery chemistries, expanding the markets it serves and developing products and technologies for emerging applications.

Specialty Chemicals segment

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. The majority of our sales are directly to customers. Orders are quickly filled, and backlog is not material in this segment.

We participate in fragmented markets and believe we are a market leader for certain of our products for electronic device and coating applications. Our customer base in this segment requires significant technical support and high-quality formulations and products that meet stringent requirements and quality specifications. New products and customers often require a long qualification process.

We are focused on providing innovative products that meet specific customer requirements and expanding our geographical reach.

Advanced Materials segment

As discussed above, we completed the divestiture of this business in March 2013. Through the date of 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.

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 result 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.

Raw Materials

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

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

We generally pass through rare earth and certain other raw material prices to our customers in our selling prices. During periods of rapidly changing prices of key raw materials, there may be price lags that can positively or negatively impact our short-term profitability and cash flow from operations. Declines in the selling prices of our finished goods, which can result from decreases in the market price of raw materials and the timing of our pass-through of certain raw materials costs in our selling prices, can result in our inventory carrying value being written down to a lower market value.

Foreign Operations

We have operations in North America, Europe and Asia, with the majority of our operations located outside of the United States. We market our products worldwide and purchase important raw materials from suppliers located outside of the United States. Some of our sales, raw material prices, operating expenses and income taxes are denominated in local currencies. Accordingly, fluctuations in currency prices affect our operating results. The primary currencies for which we have foreign currency rate exposure are the European Union Euro, Taiwanese Dollar, Malaysian Ringgit, Singapore Dollar, British Pound Sterling, Chinese Renminbi and the Canadian Dollar. Please see "Risk Factors" for additional information regarding our foreign operations and Note 17 to the accompanying consolidated financial statements to this Annual Report on Form 10-K for financial information about geographic areas.

Research and Development

Our research and development programs are part of our strategy to grow the business through new products, applications and markets. Research and development expenses were approximately $26.3 million in 2013, $32.2 million in 2012 and $24.4 million in 2011. The decrease from 2012 to 2013 is primarily due to the sale of the cobalt business in 2013. The increase from 2011 to 2012 is primarily due to the acquisition of VAC in August 2011. These amounts do not include development and application engineering costs incurred in conjunction with fulfilling customer orders and executing customer projects.

Patents and Other Intellectual Property

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

Environmental Matters

The Company is subject to a variety of environmental and pollution control laws and regulations in the jurisdictions in which it operates. As is the case with other companies in similar industries, we face exposure from actual and potential claims and legal proceedings involving environmental matters. A number of factors affect the cost of environmental remediation, including the determination of the extent of contamination, the length of time the remediation may require, the complexity of environmental regulations and the continuing improvements in remediation techniques. Taking these factors into consideration, we estimate the undiscounted costs of remediation, which will be incurred over several years, and accrue an amount consistent with the estimates of these costs when it is probable that a liability has been incurred. We continually evaluate the adequacy of our reserves and adjust the reserves when determined to be appropriate. Ongoing environmental compliance costs, which are expensed as incurred, were approximately $8.0 million in 2013 and $15.3 million in 2012. We anticipate that we will continue to incur compliance costs for the foreseeable future; however, the amount and timing of future environmental expenditures could vary significantly. We believe that our ultimate aggregate cost of environmental remediation as well as liability under environmental protection laws will not materially adversely affect our financial condition or results of operations.

Employees

At December 31, 2013, we had 5,900 full-time employees.

SEC Reports

We make available, free of charge, through our website, (www.omgi.com) our reports on Forms 10-K, 10-Q and 8-K as soon as reasonably practicable after the reports are electronically filed with the Securities and Exchange Commission. A copy of any of these documents is available in print, free of charge, to any stockholder who requests a copy, by writing to OM Group, Inc., 950 Main Avenue, Suite 1300, Cleveland, Ohio 44113-7210, USA, Attention:

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Investor Relations. The SEC maintains an Internet website at http://www.SEC.gov that contains the Company's annual report and proxy statements and other information. You may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Item 1A. Risk Factors

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

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

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

Our Battery Technologies segment maintains contracts with the United States Government and is subject to government regulations, uncertain levels of funding, modifications due to changes in customer priorities and potential termination.
U.S. Government contracts are subject to specific regulations including those related to employment practices, environmental protection, recordkeeping and accounting. These laws impact how we transact business with our governmental clients and, in some instances, impose significant costs on our business operations. If we fail to comply with any of these regulations, requirements or statutes, our existing government contracts could be terminated, and we could be temporarily suspended or even debarred from government contracting or subcontracting which would reduce our sales and profits. Non-compliance with government regulations could also result in financial penalties, disallowed payments to us, and criminal prosecution.

The funding of U.S. Government programs is subject to congressional budget authorization and appropriation processes. We cannot predict the extent to which funding will be provided as part of the budget ultimately approved by Congress. In the event that appropriations for any of our or our customers' programs are impacted, our contract or subcontract under such program may be terminated or adjusted by the U.S. Government. We also cannot predict the impact of potential changes in priorities due to sequestration, military transformation and planning and/or the nature of war-related activity on related programs.

We intend to seek additional acquisitions, but we may not be able to identify attractive targets, complete transactions, or successfully integrate acquired companies, which could adversely affect our strategy.

Our strategy anticipates growth partly through future acquisitions; however, our ability to identify and consummate any future acquisitions on terms that are favorable to us may be limited by the number of attractive acquisition targets, internal demands on our resources and our ability to obtain financing. Our success in integrating newly-acquired businesses could be compromised if we fail to retain key personnel or fail to execute effective integration plans. Integration of acquired operations may take longer, or be more costly or disruptive to our business, than originally anticipated, and it is also possible that expected synergies from future acquisitions may not materialize. We also may incur costs and divert management attention for potential acquisitions that are never consummated. Acquisitions could result in the incurrence of additional debt, costs and contingent liabilities.

There may be liabilities of the acquired companies that we fail to properly determine during the due diligence investigation and for which we, as a successor owner, may be responsible. Indemnities and warranties obtained from

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the seller may not fully cover the liabilities due to limitations in scope, amount, duration, financial limitations of the indemnitor or warrantor or other reasons.

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

The majority of our operations are outside the United States, which subjects us to risks that may adversely affect our operating results.
Conducting business outside the U.S subjects us to risks related to the differing legal and regulatory requirements and the social, political and economic conditions of many jurisdictions. These risks include currency rate fluctuations; labor difficulties; difficulty collecting receivables and longer customer payment cycles; unexpected additional taxes, tariffs, restrictions on capital flows, restrictions on trade; and changes in foreign laws or regulatory requirements. Furthermore, unexpected devaluations of currencies in developing or emerging markets could negatively affect the value of our earnings from, and of the assets located in, those markets.

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

We are at risk from fluctuations in the price and uncertainties in the supply of certain raw materials.
Nickel, cobalt and certain rare earth materials, primarily dysprosium and neodymium, are the primary raw materials used by Magnetic Technologies. Fluctuations in the price of rare earth materials and other raw materials have been significant in the past and we believe price fluctuations are possible in the future. Our ability to pass increases in raw material costs through to our customers by increasing the selling prices of our products is an important factor in our business. We cannot guarantee that we will be able to maintain an appropriate differential between customer prices and our costs at all times, which could lead to reduced profitability. In addition, we may be required under US generally accepted accounting policies ("US GAAP") accounting rules to write down the carrying value of our inventory when rare earth and other raw material prices decrease, which could reduce our profit margins.

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

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

operating results and could have a material adverse impact on liquidity.

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

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

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

We are subject to stringent environmental regulation that could cause us to incur unanticipated costs or liabilities and could affect sales of our products.
We have expended, and may be required to expend in the future, substantial funds for compliance with laws and regulations relating to the storage, handling, disposal, emission and discharge of materials into the environment. In addition, we may from time to time be subjected to claims for personal injury, property damages or natural resource damages made by third parties or regulators. Given the many uncertainties involved in assessing liability for environmental claims or fully anticipating the scope of unknown contamination and remediation, our current reserves may prove to be insufficient.

In addition, new or revised governmental regulations relating to health, safety and the environment may affect demand for our products. Such new or revised regulations may result in heightened concerns about the materials involved and in additional requirements being placed on the production, handling, or labeling of these materials and may increase the cost of producing them, transporting them and/or limit the use of such materials or products containing such materials, which could lead to a decrease in demand. As a result of these regulations, customers may avoid purchasing some products in favor of perceived environmentally sensitive, less hazardous or less costly alternatives.

Our financial condition could be negatively impacted if we fail to maintain sufficient cash in the United States.
The majority of our cash and cash equivalents are held outside the United States. If a substantial amount of cash were required in the United States for debt repayment, capital expenditures or other initiatives including future acquisitions, we may be required to repatriate funds to the United States with potentially unfavorable tax consequences or otherwise finance the desired activity.

We may not be able to adequately protect or enforce our intellectual property rights.
We rely on patents and trade secrets to protect our intellectual property. We attempt to protect and restrict access to our trade secrets and proprietary information, but it may be possible for a third party to obtain our information and develop similar technologies. If a competitor infringes upon our patent or other intellectual property rights, enforcing those rights could be difficult, expensive and time-consuming, making the outcome uncertain. Even if we are successful, litigation to enforce our intellectual property rights or to defend our patents against challenge could be costly and could divert management's attention.

Because we depend on several large customers for a significant portion of our revenues, our operating results could be adversely affected by any disruption of our relationship with these customers or any material adverse change in their businesses.
We depend on several large customers for a significant portion of our business. For example, sales to the top three customers in the Battery Technologies segment represented approximately half of Battery Technologies' net sales in

2013. Any disruption in our relationships with our major customers, including any adverse modification of our agreements with them or their unwillingness or inability to perform their obligations under the agreements, could adversely affect us. In addition, any material adverse change in the financial condition of any of our major customers could have similar adverse effects on us.

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

We believe that industry consolidation among our peers could result in stronger competitors with greater financial and other resources that are better able to compete for customers.

Future indebtedness may impair our ability to operate our business successfully.
The terms of our Senior Secured Revolving Credit Facility (the Facility) could adversely affect our ability to finance future operations or capital needs and pursue available business opportunities. This Facility contains various provisions that limit our ability to, among other things, incur additional indebtedness, make investments, or sell assets. These restrictions could place us at a competitive disadvantage against competitors. In addition future borrowings could expose us to material increases in interest expense since future borrowings will have variable interest rate provisions.

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

Any impairment in the value of our intangible assets, including goodwill, would negatively affect our operating results and total capitalization.
Our total assets reflect substantial intangible assets, primarily goodwill. The goodwill results from our acquisitions and represents the excess of cost over the fair value of the identifiable net assets we acquired. We assess at least annually whether there has been any impairment in the value of our intangible assets. If future operating performance at one or more of our business units were to fall significantly below current levels, if competing or alternative technologies emerge, if market conditions for acquired businesses decline, if significant and prolonged negative industry or economic trends continue, if our stock price and market capitalization declines, or if future cash flow estimates decline, we could incur under current applicable accounting rules, a non-cash charge to operating earnings for goodwill impairment. Any determination requiring the write-off of a significant portion of unamortized intangible assets would negatively affect our results of operations and equity book value, the effect of which could be material.

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

Failure of GTL to fully perform under the two-year cobalt supply agreement could have an adverse impact on us.
We transferred our 55% equity interest in GTL to our joint venture partners as a part of the divestiture of the cobalt-based Advanced Materials business. Following the sale, to assist the buyer of the downstream business with the ownership transition, we act as an intermediary of cobalt supply between GTL and the Freeport joint venture under a two-year agreement subject to delivery of 7,000 MT of cobalt feed. If GTL fails to fully perform its obligations under that supply agreement we could be obligated to meet the supply requirements which would require us to incur additional costs and could have an adverse impact on our financial results.

Item 1B. Unresolved Staff Comments
None.

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Item 2. Properties

We believe that our plants and facilities, which are of varying ages and of different construction types, have been satisfactorily maintained, are suitable for our operations and generally provide sufficient capacity to meet the Company’s production requirements.

The number, type, location and size of our properties as of December 31, 2013, by segment, are set forth below:

	Number and Nature of Facilities			Square Footage (in thousands)	
Segment	Manufacturing	Warehouse	Sales/Service	Owned	Leased
Magnetic Technologies	6	6	15	1,966	332
Specialty Chemicals	12	11	13	606	350
Battery Technologies	7	8	9	408	126

	Locations				Leased Facilities Expiration Dates (years)	
Segment	North America	Europe	Asia	Other	Minimum	Maximum
Magnetic Technologies	1	4	10	—	1	9
Specialty Chemicals	9	5	5	—	1	28
Battery Technologies	5	&				