

OM GROUP INC  
Form 10-Q  
August 12, 2003

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2003  
Commission File Number 0-22572

**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 Number)

Tower City  
50 Public Square  
Suite 3500  
Cleveland, Ohio 44113-2204  
(Address of principal executive offices)  
(zip code)

(216) 781-0083  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934)

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of June 30, 2003: Common Stock, \$.01 Par Value 28,354,804 shares.

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**SIGNATURE**

EX-12 Computation-Ratio of Earnings:Fixed Charges

EX-31.1 302 Certification of CEO

EX-31.2 302 Certification of CFO

EX-32.1 906 Certification of CEO

EX-32.2 906 Certification of CFO

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OM GROUP, INC.**

**Part I. Financial Information**

- Item 1. Financial Statements (Unaudited)
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- Item 3. Quantitative and Qualitative Disclosures about Market Risk
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**Part II. Other Information**

- Item 1. Legal Proceedings Not applicable
- Item 2. Changes in Securities and Use of Proceeds Not applicable
- Item 3. Defaults upon Senior Securities Not applicable
- Item 4. Submission of Matters to a Vote of Security Holders
- Item 5. Other information Not applicable
- Item 6. Exhibits and Reports on Form 8-K
- (a) Exhibits
- (12) Computation of Ratio of Earnings to Fixed Charges
- (31.1) Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 Chief Executive Officer
- (31.2) Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 Chief Financial Officer
- (32.1) Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Chief Executive Officer
- (32.2) Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Chief Financial Officer
- (b) Reports on Form 8-K
1. The Company furnished to the SEC a Current Report on Form 8-K under Item 12, filed under Item 9 pursuant to the SEC's interim guidance, dated April 29, 2003, regarding the Company's financial results for the quarter ended March 31, 2003.
  2. The Company furnished to the SEC a Current Report on Form 8-K under Item 9, dated June 3, 2003, regarding a definitive agreement to sell its Precious Metals business, and a letter of intent to sell its PVC Heat Stabilizer product line.
  - 3.

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The Company furnished to the SEC a Current Report on Form 8-K under Item 12, filed under Item 9 pursuant to the SEC's interim guidance, dated June 3, 2003, regarding Second Quarter 2003 financial expectations.

Signature

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**OM GROUP, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Thousands of dollars, except share data)  
(Unaudited)

	<u>June 30,</u>	<u>December</u>
	2003	31, 2002
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$19,518	\$11,757
Accounts receivable	110,120	95,829
Inventories	306,965	295,951
Other current assets	69,450	90,377
<hr/>		
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<i>Total Current Assets</i>	506,053	493,914
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	5,117	4,970
Buildings and improvements	175,797	176,110
Machinery and equipment	510,344	499,226
Furniture and fixtures	15,558	15,392
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	706,816	695,698
Less accumulated depreciation	223,375	196,920
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483,441 498,778  
OTHER ASSETS

Goodwill and other intangible assets  
190,073 188,597  
Other assets  
93,882 91,080  
Assets of discontinued operations  
1,089,860 1,066,767

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TOTAL ASSETS  
\$2,363,309 \$2,339,136

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**LIABILITIES AND  
STOCKHOLDERS EQUITY**

CURRENT LIABILITIES

Current portion of long-term debt  
\$7,000 \$6,750  
Accounts payable  
63,317 94,186  
Other accrued expenses  
57,225 55,203

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*Total Current Liabilities*  
127,542 156,139

LONG -TERM LIABILITIES

Long-term debt  
1,145,776 1,187,650  
Deferred income taxes  
58,024 64,136  
Minority interests and other long-term  
liabilities  
65,879 64,483  
Liabilities of discontinued operations  
444,832 396,843

STOCKHOLDERS EQUITY

Preferred stock, \$0.01 par value:

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Authorized 2,000,000 shares; no  
shares issued or outstanding

Common stock, \$0.01 par value:

Authorized 60,000,000 shares; issued  
28,402,163 shares in 2003 and 2002  
284 284

Capital in excess of par value  
490,741 490,741

Retained deficit  
(21,329) (17,943)

Treasury stock (47,359 shares in 2003  
and 2002, at cost)  
(2,255) (2,255)

Accumulated other comprehensive  
income  
56,305 2,008

Unearned compensation  
(2,490) (2,950)

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*Total Stockholders Equity*  
521,256 469,885

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TOTAL LIABILITIES AND  
STOCKHOLDERS EQUITY  
\$2,363,309 \$2,339,136

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*See notes to condensed Consolidated Financial Statements*

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**Part I Financial Information**

**Item 1 Financial Statements**

**OM GROUP, INC.**  
**CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS**  
(Thousands of dollars, except per share data)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net sales	\$ 196,719	\$ 182,487	\$ 406,059	\$ 349,041
Cost of products sold				
161,775 130,836 335,635 250,150				
<hr/>				
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34,944 51,651 70,424 98,891				
Selling, general and administrative expenses				
20,597 18,288 40,338 38,083				
Restructuring charges				
3,799				
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<hr/>				
<hr/>				
<hr/>				
INCOME FROM OPERATIONS				
14,347 33,363 26,287 60,808				
OTHER INCOME (EXPENSE)				
Interest expense				
(10,679) (5,800) (20,890) (12,487)				
Foreign exchange gain				
3,196 6,894 734 6,595				
Investment income and other, net				
492 2,783 963 2,812				
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(6,991) 3,877 (19,193) (3,080)

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INCOME FROM CONTINUING OPERATIONS  
BEFORE INCOME TAXES AND MINORITY  
INTERESTS

7,356 37,240 7,094 57,728

Income taxes

1,542 8,328 1,542 16,834

Minority interests

(1,429) 25 (1,367) (21)

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INCOME FROM CONTINUING OPERATIONS

7,243 28,887 6,919 40,915

INCOME (LOSS) FROM DISCONTINUED  
OPERATIONS, NET OF INCOME TAXES

(2,868) (3,386) (10,308) 7,954

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NET INCOME (LOSS)

\$4,375 \$25,501 \$(3,389) \$48,869

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Net income (loss) per common share basic

Continuing operations  
 \$0.26 \$1.02 \$0.24 \$1.48  
 Discontinued operations  
 (0.11) (0.12) (0.36) 0.28

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Net income (loss)  
 \$0.15 \$0.90 \$(0.12) \$1.76  
 Net income (loss) per common share assuming  
 dilution

Continuing operations  
 \$0.26 \$1.01 \$0.24 \$1.45  
 Discontinued operations  
 (0.11) (0.12) (0.36) 0.29

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Net income (loss)  
 \$0.15 \$0.89 \$(0.12) \$1.74  
 Weighted average shares outstanding (000)

Basic  
 28,306 28,253 28,304 27,696  
 Assuming dilution  
 28,308 28,706 28,305 28,151  
 Dividends paid per common share  
 \$ 0.14 \$ 0.28

*See notes to condensed Consolidated Financial Statements*

**Table of Contents****Part I Financial Information****Item 1 Financial Statements**

**OM GROUP, INC.**  
**CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS**  
(Thousands of dollars)  
(Unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2003</b>	<b>2002</b>
<b>OPERATING ACTIVITIES</b>		
Income from continuing operations		
\$6,919 \$40,915		
Items not affecting cash:		
Depreciation and amortization		
30,393 25,754		
Foreign exchange gain		
(734) (6,595)		
Minority interests		
(1,367) (21)		
Changes in operating assets and liabilities		
(32,491) (66,712)		
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
2,720 (6,659)		
<b>INVESTING ACTIVITIES</b>		
Expenditures for property, plant and equipment, net		
(2,182) (41,054)		
Investments in unconsolidated joint venture		
(994)		
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		
(2,182) (42,048)		
<b>FINANCING ACTIVITIES</b>		

Payments of long-term debt  
 (41,624) (245,851)  
 Dividend payments  
 (7,915)  
 Long-term borrowings  
 9,994  
 Proceeds from exercise of stock  
 options  
 2,716  
 Proceeds from sale of common  
 shares  
 225,805

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NET CASH USED IN  
 FINANCING ACTIVITIES  
 (41,624) (15,251)

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Cash used in continuing operations  
 (41,086) (63,958)  
 Cash provided by discontinued  
 operations (See Note B)  
 48,296 61,045  
 Effect of exchange rate changes on  
 cash and cash equivalents  
 551 977

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Increase (decrease) in cash and cash  
 equivalents  
 7,761 (1,936)  
 Cash and cash equivalents at  
 beginning of period  
 11,757 18,852

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Cash and cash equivalents at end of  
 period  
 19,518 16,916



*See notes to condensed Consolidated Financial Statements*



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**Part I Financial Information**

**Item 1 Financial Statements**

**OM GROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

June 30, 2003

(Thousands of dollars, except as noted and per share amounts)

**Note A**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by 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 financial presentation have been included. 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 financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended

December 31, 2002. **Note B Divestitures of Precious Metals (Subsequent Event) and SCM Metals, Inc.** On June 3, 2003, the Company announced that it had entered into a definitive agreement with Umicore to sell its Precious Metals business ( PMG business ). This business is comprised of the Precious Metal Chemistry and Metal Management reportable segments, which were acquired by the Company from



Degussa in August 2001. The sale to Umicore was completed on July 31, 2003, on which date the Company received gross proceeds of 697 million, or \$814 million, before transaction costs, taxes and expenses. The PMG business has been classified as a discontinued operation, and the consolidated financial statements of prior periods have been restated, where applicable, to reflect this business as a discontinued operation. The transaction and related gain on sale will be recorded in the third quarter of 2003. The gross proceeds were used to repay the Company's outstanding indebtedness under its Senior credit facilities. The net proceeds from the sale are expected to be approximately \$730 million, after transaction costs and expenses and taxes. During June 2003, the Company

received a commitment for a new \$150 million revolving credit facility. The new facility, which closed on August 7, 2003, bears interest at an interest rate of LIBOR plus 2.00% to 3.00% or PRIME plus 0.25% to 1.25%, matures in August 2006 and includes covenants that are less stringent than those in the previous Senior facility. On April 1, 2003, the Company completed its previously announced sale of its copper powders business SCM Metal Products, Inc. for proceeds of \$65 million before transaction costs and expenses. The net proceeds, which are included in Cash provided by discontinued operations in the Condensed Statements of Consolidated Cash Flows, were used to repay a portion of the Company's outstanding indebtedness.

under its credit facilities.

There was no gain or loss recorded on that date, as the business was written-down to fair value in the fourth quarter of 2002. This business has been presented as a discontinued operation for all periods presented. Operating results of discontinued operations are summarized as follows (in millions):

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net sales	\$ 941.9	\$ 1,079.1	\$ 2,081.6	\$ 2,101.3
Operating income	22.4	21.6	37.7	46.1
Interest expense allocated	14.0	12.5	29.1	23.4
Income taxes	2.9	2.0	6.8	2.0

The operating results summarized above include an allocation of consolidated interest expense, based upon the estimated net proceeds from the sales of the respective discontinued businesses that are required to be used to re-pay amounts under the Company's credit facilities.

The assets and liabilities of these businesses, which have been classified as Assets of Discontinued Operations and Liabilities of Discontinued Operations in the Consolidated Balance Sheet, consist of the following (in millions):

	June 30, 2003	December 31, 2002
Current assets	\$ 880.9	\$ 829.3
Property, plant and equipment	187.1	194.2
Other long-term assets	21.9	43.3
Total assets of discontinued operations	\$ 1,089.9	\$ 1,066.8
Current liabilities, including accounts payable and other accrued expenses	\$ 256.7	\$ 272.0
Long-term liabilities	188.1	124.8
Total liabilities of discontinued operations	\$ 444.8	\$ 396.8

Current assets include primarily accounts receivable and inventories.

**Note C****Restructuring Charges**

During the first quarter of 2003, the Company recorded restructuring charges related to continuing operations of \$3.8 million. These charges, which represent the continuation of the Company's restructuring plan that commenced in the fourth quarter of 2002, are recorded in a separate line in the Condensed Statement of Consolidated Operations. Restructuring liabilities for continuing operations at December 31, 2002, charges taken in the first quarter of 2003, and amounts utilized in 2003 to date are summarized as follows (in millions):

	Number of Employees	Workforce Reductions	Inventory and other asset write-downs	Facility Exit and Other	Total
Balance at 12/31/02	68	\$5.2	\$ 0	\$ 2.0	\$7.2
Charges in 2003	11	0.7	1.5	1.6	3.8
Utilized in 2003	(74)	(2.6)	(1.5)	(1.4)	(5.5)

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Balance at 6/30/03  
5 \$3.3 \$0 \$2.2 \$5.5

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In connection with the first quarter 2003 restructuring activities, the Company also recorded charges of

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\$6.3 million related to discontinued operations, which are included in Income (Loss) from Discontinued Operations.

**Note D Inventories**

Inventories consist of the following:

	<u>June 30, 2003</u>	<u>December 31, 2002</u>
Raw materials and supplies	\$ 144,303	\$ 133,015
Finished goods		
126,123 119,975		
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270,426 252,990		
LIFO reserve		
36,539 42,961		
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Total inventories		
\$306,965 \$295,951		
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**Note E Contingent Matters**

The Company is a party to various legal proceedings incidental to its business and is subject to a variety of environmental and pollution control laws

and regulations in the jurisdictions in which it operates. As is the case with other companies in similar industries, the Company faces exposure from actual or potential claims and legal proceedings involving environmental matters.

Although it is very difficult to quantify the potential impact of compliance with or liability under environmental protection laws, management believes that the ultimate aggregate cost to the Company of environmental remediation, as well as other legal proceedings arising out of operations in the normal course of business, will not result in a material adverse effect upon its financial condition or results of operations. **Note**

**F**  
**Computation of Net Income (Loss) Per Common Share** The following table



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sets forth the computation of net income (loss) per common share and net income (loss) per common share assuming dilution (shares in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net income (loss)	\$ 4,375	\$25,501	\$ (3,389)	\$48,869
Weighted average number of shares outstanding	28,306	28,253	28,304	27,696
Dilutive effect of stock-based compensation	2 453	1 455		
<hr/>				
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Weighted average number of shares outstanding assuming dilution	28,308	28,706	28,305	28,151
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Net income (loss) per common share	\$0.15	\$0.90	\$(0.12)	\$1.76
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Net income (loss) per common share assuming  
dilution  
\$0.15 \$0.89 \$(0.12) \$1.74

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**Note G Comprehensive Income**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net income (loss)	\$4,375	\$25,501	\$(3,389)	\$48,869
Unrealized loss on available-for-sale securities (2,869) (901)				
Foreign currency translation 43,374 4,363 52,875 9,121				
Unrealized gain on cash flow hedges 578 1,233 332 4,346				
Additional minimum pension liability 1,090 1,090				
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Total comprehensive income	\$49,417	\$28,228	\$50,908	\$61,435
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**Note H Stock Compensation Adoption of SFAS No. 148**

In December 2002, SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, was issued. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based

Compensation, to provide alternative methods of transition when a company voluntarily changes to the fair value-based method of recognizing expense in results of operations for stock-based employee compensation, including stock options granted to employees. Prior to 2003, the Company accounted for stock-based employee compensation under APB No. 25, Accounting for Stock Issued to Employees, and related Interpretations. Under APB 25, compensation expense has been recorded for restricted stock granted to certain executive officers, but no expense was recorded for stock options granted to employees, as all options had an intrinsic value of zero on the date of grant. During the second quarter of 2003, the Company voluntarily adopted, effective January 1, 2003, the fair value recognition

provisions of SFAS No. 123, Accounting for Stock-Based Compensation. Under the prospective method of adoption selected by the Company under the provisions of SFAS No. 148, the recognition provisions will be applied to all employee awards granted, modified or settled after January 1, 2003. As such, net income for 2003 will include expense for stock options granted to employees in 2003; there have been no such grants during the six months ended June 30, 2003. If the Company had previously elected to adopt the fair value provisions of SFAS No. 123 and thereby recorded compensation expense related to employee stock options, pro forma results of operations would have been as follows:

<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>

Net income (loss)

As reported

\$4,375 \$25,501 \$(3,389) \$48,869

Pro forma

\$4,329 \$24,636 \$(3,507) \$47,280

Basic net income (loss) per share

As reported

\$0.15 \$0.90 \$(0.12) \$1.76

Pro forma

\$0.15 \$0.87 \$(0.12) \$1.71

Diluted net income (loss) per share

As reported

\$0.15 \$0.89 \$(0.12) \$1.74

Pro forma

\$0.15 \$0.86 \$(0.12) \$1.68

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**Note I**

Income taxes as a percentage of income from continuing operations before income taxes and minority interests for the six months ended June 30, 2003 were 21.7% compared to 29.2% in the same period in 2002. These effective rates are lower than the statutory rate in the United States due primarily to significant income earned each period in Malaysia, where the Company has a tax holiday, and the allocation of a portion of interest expense in the United States to discontinued operations, which effectively shifted a portion of the U.S. net operating loss without a corresponding tax benefit to discontinued operations. The lower rate in 2003 compared to 2002 is due primarily to higher earnings in the tax holiday country of Malaysia.

**Income Taxes**

**Note J**  
**Guarantor and Non-Guarantor Subsidiary Information** In

December 2001, the Company issued \$400 million in aggregate principal amount of 9.25% Senior Subordinated Notes due 2011 (the Notes). These Notes are guaranteed by the Company's wholly-owned domestic subsidiaries. The guarantees are full, unconditional and joint and several. The Company's foreign subsidiaries are not guarantors of these Notes. The Company, as presented below, represents OM Group, Inc. exclusive of its guarantor subsidiaries and its non-guarantor subsidiaries. Condensed consolidating financial information for the Company, the guarantor subsidiaries, and the non-guarantor subsidiaries is as follows:

Balance Sheet Data	June 30, 2003			
	Combined Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations
<b>Assets</b>				
Current assets:				
Cash	\$2,003	\$2,621	\$14,894	\$19,518
Accounts receivable	731,220	77,553	431,005	\$(1,129,658)
Inventories				110,120



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	30,070	276,895	306,965	
Other current assets	18,572	3,834	47,044	69,450

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Total current assets	751,795	114,078	769,838	(1,129,658)	506,053
Property, plant and equipment, net	41,652	441,789	483,441		
Goodwill and other intangible assets	75,830	59,016	55,227	190,073	
Intercompany receivables	188,604	23,400	1,154,525	(1,366,529)	
Investment in subsidiaries	714,780	360,631	1,441,346	(2,516,757)	
Other assets	25,584	7,738	60,560	93,882	
Assets of discontinued operations	110,893	978,967	1,089,860		

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Total assets	\$1,756,593	\$717,408	\$4,902,252	\$(5,012,944)	\$2,363,309
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Liabilities and stockholders equity

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Current liabilities:

Current portion of long-term debt

\$7,000 \$7,000

Accounts payable

40,881 \$350,415 \$403,516 \$(731,495) 63,317

Other accrued expenses

(3,782) 13,517 47,490 57,225

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Total current liabilities

44,099 363,932 451,006 (731,495) 127,542

Long-term debt

1,145,776 1,145,776

Deferred income taxes

35,297 22,727 58,024

Other long-term liabilities

137 65,742 65,879

Intercompany payables

407,729 1,341,600 (1,749,329)

Liabilities of discontinued operations

52,503 392,329 444,832

Stockholders equity

531,284 (106,756) 2,628,848 (2,532,120) 521,256

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Total liabilities and stockholders equity

\$1,756,593 \$717,408 \$4,902,252 \$(5,012,944) \$2,363,309

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Balance Sheet Data	December 31, 2002				
	Combined Company	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Elimination	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$667	\$1,887	\$9,203	\$11,757	
Accounts receivable	752,800	85,378	404,084	\$(1,146,433)	95,829
Inventories	29,686	266,265	295,951		
Other current assets	26,553	4,902	58,922	90,377	
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Total current assets	780,020	121,853	738,474	(1,146,433)	493,914
Property, plant and equipment, net	42,260	456,518	498,778		
Goodwill and other intangible assets	134,922	53,675	188,597		
Intercompany receivables	300,768	1,146,191	(1,446,959)		
Investment in subsidiaries	655,822	522,939	1,268,535	(2,447,296)	
Other assets	21,231	10,146	59,703	91,080	
Assets of discontinued operations	208,051	858,716	1,066,767		
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<hr/>					
<hr/>					
Total assets					

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\$1,757,841 \$1,040,171 \$4,581,812 \$(5,040,688) \$2,339,136

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**Liabilities and stockholders equity**

Current liabilities:

Current portion of long-term debt  
 \$6,750 \$6,750  
 Accounts payable  
 65,917 \$382,699 \$373,228 \$(727,658) 94,186  
 Other accrued expenses  
 (7,681) 5,742 57,142 55,203

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Total Current liabilities  
 64,986 388,441 430,370 (727,658) 156,139  
 Long-term debt  
 1,187,650 1,187,650  
 Deferred income taxes  
 35,320 (131) 28,947 64,136  
 Other long-term liabilities  
 1,824 62,659 64,483  
 Intercompany payables  
 557,894 1,230,175 (1,788,069)  
 Liabilities of discontinued operations  
 73,242 323,601 396,843  
 Shareholder s equity  
 469,885 18,901 2,506,060 (2,524,961) 469,885

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Total liabilities and stockholders' equity  
\$1,757,841 \$1,040,171 \$4,581,812 \$(5,040,688) \$2,339,136

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**Table of Contents**

Three Months Ended June 30, 2003

Income Statement Data	Combined The Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
Net sales		\$36,756	\$219,684	\$(59,721)	\$196,719
Cost of products sold					
26,550	194,946	(59,721)	161,775		
10,206	24,738		34,944		
Selling, general and administrative expenses					
5,450	15,147		20,597		
Income from operations					
4,756	9,591		14,347		
Interest expense					
\$(8,655)	(1,684)	(18,916)	18,576	(10,679)	
Foreign exchange gain (loss)					
451	(28)	2,773	3,196		
Investment income and other, net					
4,866	509	13,693	(18,576)	492	

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Income (loss) from continuing operations before income taxes and minority interests

(3,338) 3,553 7,141 7,356

Income taxes

1,542 1,542

Minority interests

(1,429) (1,429)

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Income (loss) from continuing operations

(3,338) 3,553 7,028 7,243

Loss from discontinued operations

(14,000) (2,721) (13,853) (2,868)

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Net income (loss)

\$(17,338) \$832 \$20,881 \$4,375

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**Table of Contents**

		<b>Three Months Ended June 30, 2002</b>					
<b>Income Statement Data</b>			<b>Combined The Company</b>	<b>Combined Guarantor Subsidiaries</b>	<b>Combined Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Total</b>
Net sales			\$36,806	\$207,417	\$(61,736)		\$182,487
Cost of products sold							
	25,288	167,284	(61,736)	130,836			
	11,518	40,133	51,651				
Selling, general and administrative expenses							
	8,966	9,322	18,288				
Income (loss) from operations	2,552	30,811	33,363				
Interest expense							
	\$(5,928)	(3,466)	(11,771)	15,365	(5,800)		
Foreign exchange gain (loss)							
	717	(543)	6,720	6,894			
Investment income and other, net							
	3,547	(94)	14,695	(15,365)	2,783		

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Income (loss) from continuing operations before income

taxes and minority interests

(1,664) (1,551) 40,455 37,240

Income taxes

(2,419) (1,156) 11,903 8,328

Minority interests

25 25

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Income (loss) from continuing operations

755 (395) 28,527 28,887

Loss from discontinued operations

(11,700) (2,304) 10,618 (3,386)

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Net income (loss)

\$(10,945) \$(2,699) \$39,145 \$25,501

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**Table of Contents**

					Six Months Ended June 30, 2003					
Income Statement Data					The Company	Combined Subsidiaries	Combined Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales					\$77,982	\$442,681	\$(114,604)			\$406,059
Cost of products sold										
	55,927	394,312	(114,604)	335,635						
	22,055	48,369	70,424							
Selling, general and administrative expenses										
	24,788	15,550	40,338							
Restructuring charges										
	2,694	1,105	3,799							
Income (loss) from operations					(5,427)	31,714	26,287			
Interest expense					\$(18,149)	(5,386)	(37,041)	39,686	(20,890)	
Foreign exchange gain (loss)					524	(13)	223	734		
Investment income and other, net					10,293	311	30,045	(39,686)	963	

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Income (loss) from continuing operations before income

taxes and minority interests

(7,332) (10,515) 24,941 7,094

Income taxes

7 1,535 1,542

Minority interests

(1,367) (1,367)

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Income (loss) from continuing operations

(7,332) (10,522) 24,773 6,919

Loss from discontinued operations

(28,100) (5,774) 23,566 (10,308)

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Net income (loss)

\$(35,432) \$(16,296) \$48,339 \$(3,389)

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**Table of Contents**

					Six Months Ended June 30, 2002					
Income Statement Data					The Company	Combined Subsidiaries	Combined Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales						\$71,321	\$385,439	\$(107,719)		\$349,041
Cost of products sold										
	46,522	311,347	(107,719)	250,150						
	24,799	74,092	98,891							
Selling, general and administrative expenses										
	19,704	18,379	38,083							
Income (loss) from operations										
	5,095	55,713	60,808							
Interest expense										
	\$(12,058)	(7,162)	(26,632)	33,365	(12,487)					
Foreign exchange gain (loss)										
	513	(764)	6,846	6,595						
Investment income and other, net										
	8,164	204	27,809	(33,365)	2,812					
Income (loss) from continuing operations before income										

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taxes and minority interests  
(3,381) (2,627) 63,736 57,728  
Income taxes  
(6,794) (1,896) 25,524 16,834  
Minority interests  
(21) (21)

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Income (loss) from continuing operations  
3,413) (731) 38,233 40,915  
Loss from discontinued operations  
(21,900) (3,695) 33,549 7,954

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Net income (loss)  
\$(18,487) \$(4,426) \$71,782 \$48,869

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Cash Flow Data	Six Months Ended June 30, 2003				Total
	The Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	
Net cash provided by (used in) operating activities	\$42,960	\$1,964	\$ (42,204)	\$	\$2,720
Investing activities:					
Expenditures for property, plant and equipment, net	(507)	(1,675)	(2,182)		
Net cash used in investing activities	(507)	(1,675)	(2,182)		
Financing activities:					
Payments of long-term debt	(41,624)	(41,624)			
Net cash used in financing activities	(41,624)	(41,624)			



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Cash provided by (used in) continuing operations

1,336 1,457 (43,879) (41,086)

Cash (used in) provided by discontinued operations

(723) 49,019 48,296

Effect of exchange rate changes on cash and cash equivalents

551 551

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Increase in cash and cash equivalents

1,336 734 5,691 7,761

Cash and cash equivalents at beginning of the period

667 1,887 9,203 11,757

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Cash and cash equivalents at end of the period

\$2,003 \$2,621 \$14,894 \$19,518

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Six Months Ended June 30, 2002

Combined Data	Combined Guarantor	Combined Non-Guarantor	Cash Flow Company	Flow Subsidiaries	Eliminations	Total
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Net cash provided by (used in) operating activities  
 \$15,694 \$1,542 \$(23,895) \$(6,659)

Investing activities:

Expenditures for property, plant and equipment, net  
 (663) (40,391) (41,054)  
 Investments in unconsolidated joint venture  
 (994) (994)

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Net cash used in investing activities  
 (663) (41,385) (42,048)

Financing activities:

Payments of long-term debt  
 (245,839) (12) (245,851)  
 Dividend payments  
 (7,915) (7,915)  
 Long-term borrowings  
 9,994 9,994  
 Proceeds from exercise of stock options  
 2,716 2,716  
 Issuance of common stock  
 225,805 225,805

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Net cash provided by (used in) financing activities  
 (15,239) (12) (15,251)

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Cash provided by (used in) continuing operations

455 867 (65,280) (63,958)

Cash (used in) provided by discontinued operations

(838) 61,883 61,045

Effect of exchange rate changes on cash and cash equivalents

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Increase (decrease) in cash and cash equivalents

455 29 (2,420) (1,936)

Cash and cash equivalents at beginning of the period

638 1,647 16,567 18,852

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Cash and cash equivalents at end of the period

\$1,093 \$1,676 \$14,147 \$16,916

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**Item 2**

**Management's Discussion and Analysis of Financial Condition and Results of Operations**

On June 3, 2003, the Company announced that it had entered into a definitive agreement to sell its Precious Metals business (PMG) to Umicore. This business is comprised of the Company's Precious Metal Chemistry and Metal Management reportable segments, which were acquired by the Company from Degussa in August 2001. The sale to Umicore was completed on July 31, 2003. The PMG business has been classified as a discontinued operation, and prior periods have been restated to reflect this business as a discontinued operation. The continuing operations of the Company represent the historical base metals business for all periods presented.

*Three Months Ended June 30, 2003 Compared to Three Months Ended June 30, 2002* Net sales for the three months ended June 30, 2003 were \$196.7 million, an

increase of 7.8% compared to the same period in 2002. The increase was the result of higher metal market prices for cobalt and nickel, resulting in higher selling prices for the Company's products. This increase was partially offset by lower metal-contained sales volumes, due primarily to lower nickel volumes for the quarter. The following information summarizes market prices of the primary raw materials used by the Company:

	Market Price Ranges per Pound Three Months Ended June 30,	
	2003	2002
Cobalt - 99.3% Grade	\$8.68 to \$9.45	\$6.55 to \$8.45
Nickel	\$3.56 to \$4.25	\$2.97 to \$3.33

The following information summarizes the physical volumes of metals sold:

(in millions of pounds)	Three Months Ended June 30,		Percentage Change
	2003	2002	
Cobalt	4.9	4.6	6.5%
Nickel	26.1	29.1	-10.3%

Gross profit decreased to \$34.9 million, or 17.8% of net sales, for the three month period

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ended June 30, 2003, a 32.3% decrease compared to \$51.7 million, or 28.3% of net sales, for the same period in 2002. The decrease in gross profit was primarily due to the negative impact of the strengthened euro against the dollar on the Company's manufacturing expenses in Finland; increased raw material costs; LIFO charges in 2003 compared to benefits in 2002; and lower nickel production volumes at the Company's facility in Harjavalta, Finland due to a planned maintenance shut-down. The effects were partially offset by the positive impact of higher cobalt and nickel prices.

Selling, general and administrative expenses in 2003 increased as a percentage of sales, to 10.5% in 2003 compared to 10.0% in the 2002 period. This increase is primarily the result of the impact of the strengthened euro against the dollar in 2003 compared to 2002, partially offset by cost reductions from restructuring activities initiated in the fourth quarter of 2002. When the euro strengthens against the dollar, selling, general and administrative expenses at the Company's facilities in Europe are translated into dollars at a higher rate, resulting in higher dollar expenses. Other expense net was \$7.0 million for the three-month period ended June 30, 2003, compared to income of \$3.9 million for the same period in 2002, due primarily to higher interest

expense in 2003 compared to 2002 as a result of higher interest rates under the Company's December 2002 credit agreement and higher average outstanding borrowings, and smaller foreign exchange gains in 2003 (\$3.2 million) compared to 2002 (\$6.9 million). Income taxes as a percentage of income from continuing operations before income taxes and minority interests were 21.0% compared to 22.4% in the same period in 2002. These effective rates are lower than the statutory rate in the United States due primarily to significant income earned each period in Malaysia, where the Company has a tax holiday, and the allocation of a portion of interest expense in the United States to discontinued operations, which effectively shifted a portion of the U.S. net operating loss without a corresponding tax benefit to discontinued

operations. Loss from discontinued operations was \$2.9 million in 2003 compared to \$3.4 million in 2002. The improvement is due primarily to the sale of certain unprofitable operations on or before April 1, 2003, which therefore impacted 2002 but not 2003, partially offset by higher interest expense as a result of higher interest rates in the current year period. Net income for the three-month period ended June 30, 2003 was \$4.4 million, compared to net income of \$25.5 million for the corresponding period in 2002, due primarily to the aforementioned factors. *Six Months Ended June 30, 2003 Compared to Six Months Ended June 30, 2002* Net sales for the six months ended June 30, 2003 were \$406.1 million, an increase of 16.3% compared to the same period in 2002. The increase was the result of higher metal market prices



for cobalt and nickel, resulting in higher selling prices for the Company's products. This increase was partially offset by lower metal-contained sales volumes, due primarily to lower nickel volumes for the period. The following information summarizes market prices of the primary raw materials used by the Company:

	Market Price Ranges per Pound Six Months Ended June 30,	
	2003	2002
Cobalt - 99.3% Grade	\$6.45 to \$9.45	\$6.40 to \$8.45
Nickel	\$3.28 to \$4.25	\$2.63 to \$3.33

The following information summarizes the physical volumes of metals sold:

(in millions of pounds)	Six Months Ended June 30,		Percentage Change
	2003	2002	
Cobalt	10.0	9.0	11.1%
Nickel	57.0	59.5	-4.2%

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Gross profit decreased to \$70.4 million, or 17.3% of net sales, for the six-month period ended June 30, 2003, a 28.8% decrease compared to \$98.9 million, or 28.3% of net sales, for the same period in 2002. The decrease in gross profit was primarily due to the negative impact of the strengthened euro against the dollar on the Company's manufacturing expenses in Finland; LIFO charges in 2003 compared to benefits in 2002; and lower nickel production volumes at the Company's facility in Harjavalta, Finland due to a planned maintenance shut-down. The effects were partially offset by the positive impact of higher cobalt and nickel prices and healthy demand in certain key end-markets.

Selling, general and administrative expenses in 2003 remained flat at 10.9% of sales compared to the 2002 period. These amounts were impacted positively in 2003 by cost reductions from restructuring activities initiated in the fourth quarter of 2002, which were offset by the impact of the strengthened euro against the dollar in 2003 compared to 2002, and additional restructuring charges of \$3.8 million recorded in the first quarter of 2003. Other expense net was \$19.2 million for the six-month period ended June 30, 2003, compared to \$3.1 million for the same period in 2002, due primarily to higher interest expense in 2003 compared to 2002 as a result of higher interest rates under the

Company's  
December 2002  
credit  
agreement and  
higher average  
outstanding  
borrowings, and  
smaller foreign  
exchange gains  
in 2003  
(\$0.7 million)  
compared to  
2002  
(\$6.6 million).  
Income taxes as  
a percentage of  
income from  
continuing  
operations  
before income  
taxes and  
minority  
interests were  
21.7%  
compared to  
29.2% in the  
same period in  
2002. These  
effective rates  
are lower than  
the statutory  
rate in the  
United States  
due primarily to  
significant  
income earned  
each period in  
Malaysia, where  
the Company  
has a tax  
holiday, and the  
allocation of a  
portion of  
interest expense  
in the United  
States to  
discontinued  
operations,  
which  
effectively  
shifted a portion  
of the U.S. net  
operating loss  
without a  
corresponding  
tax benefit to  
discontinued  
operations. The  
lower rate in  
2003 compared  
to 2002 is due  
primarily to

higher earnings in the tax holiday country of Malaysia. Loss from discontinued operations, net of income taxes was \$10.3 million in 2003 compared to income of \$8.0 million in 2002, due primarily to restructuring changes taken in 2003, higher interest expense as a result of higher interest rates, and higher tax expense.

Net loss for the six-month period ended June 30, 2003 was \$3.4 million, compared to net income of \$48.9 million for the corresponding period in 2002, due primarily to the aforementioned factors.

**Liquidity and Capital**

**Resources**

During the six-month period ended June 30, 2003, the Company's net working capital increased by approximately \$40.7 million. This increase was primarily the result of a decrease in accounts payable of \$30.9 million due to prepayments made by the Company for

certain raw materials during the quarter, and an increase in accounts receivable of \$14.3 million due to higher sales in the second quarter of 2003 compared to the fourth quarter of 2002. Capital expenditures in 2003 were \$2.2 million and primarily related to ongoing projects to maintain current operating levels. During the six months ended June 30, 2003, the Company's total debt balances decreased to \$1.153 billion from \$1.194 billion. This decrease represents primarily cash repayments using the net proceeds from the sale of SCM Metal Products, Inc. on April 1, 2003 (See Note B). Subsequent to June 30, the Company completed the sale of its Precious Metals business to Umicore for cash proceeds of \$814 million, before transaction costs, taxes and expenses (See Note B). The gross proceeds were used to repay the Company's

outstanding indebtedness under its Senior Credit facilities. The Company's \$400 million Senior Subordinated Notes remain outstanding. The net proceeds from the sale are expected to be approximately \$730 million, after transaction costs and expenses and taxes. During June 2003, the Company received a commitment for a new \$150 million revolving credit facility. The new facility, which closed on August 7, 2003, bears interest at an interest rate of LIBOR plus 2.00% to 3.00% or PRIME plus 0.25% to 1.25%, matures in August 2006 and includes covenants that are less restrictive than those in the previous Senior facility.

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**Critical Accounting Policies** The consolidated financial statements include accounts of the company and all majority-owned subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. Application of these 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. There has been no change in the company's critical accounting policies as disclosed in Form 10-K filed for the year ended December 31, 2002, except that policies associated with the divested Precious Metals business are no longer applicable. In addition, no new critical accounting policies have been adopted in the first six months of 2003, except for the adoption of SFAS No. 123, as amended by SFAS No. 148, effective January 1, 2003, related to stock-based employee compensation (See Note H).

**Forward  
Looking  
Statements**

The Company is making this statement in order to satisfy the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995. This report contains statements that the Company believes 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 phrases such as believe, expect, anticipate, intend, plan, foresee or other words or phrases of similar import. Similarly, statements that describe the Company's 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 the Company's control and could cause actual results to differ materially from those currently anticipated. Factors that could materially affect these forward-looking statements can be found in this report. Important facts that may affect the Company's expectations, estimates or projections include:

the price and supply of raw materials, particularly cobalt and nickel; the demand for metal-based specialty chemicals and products in the Company's markets; the effect of fluctuations in currency exchange rates on the Company's international operations; the effect of non-currency risks of investing in and conducting operations in foreign countries, including political, social, economic and regulatory factors; the impact of the Company's restructuring program on its continuing operations; the potential impact of the Company being named in a 2002 United Nations panel report focusing on companies and individuals operating in the Democratic Republic of Congo; the potential impact of an adverse result of the shareholder class action lawsuits filed against the Company and the named executives; the general level of global economic activity and demand for the Company's

products.

The Company does not assume any obligation to update these forward-looking statements.

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**Item 3**

**Quantitative  
and Qualitative  
Disclosures**

**About Market**

**Risk A**

discussion of  
market risk  
exposures is  
included in Part  
II, Item 7a,

Qualitative and  
Quantitative  
Disclosure

About Market

Risk , of the

Company s 2002

Annual Report

on Form 10-K.

There have been

no material

changes during

the six months

ended June 30,

2003, except

that risks

associated with

the divested

Precious Metals

business are no

longer

applicable.

**Item 4**

**Controls and**

**Procedures (a)**

Evaluation of

Disclosure

Controls and

Procedures The

Company

carried out an

evaluation under

the supervision

and with the

participation of

the Company s

management,

including the

Company s Chief

Executive

Officer and

Chief Financial

Officer, of the

effectiveness of

the design and

operation of the

Company s

disclosure

controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 30, 2003. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that material information relating to the Company is made known to them by others within the Company. (b) Changes in Internal Controls There were no significant changes in the Company's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.

**Part II Other Information**

**Item 4**

**Submission of Matters to a Vote of Security Holders**

The annual meeting of stockholders

of OM Group, Inc. was held on May 6, 2003. An election of Directors was held at which John E. Mooney and Markku Toivanen were nominated and elected for terms which expire in the year 2006. The following votes were cast with respect to each nominee:

Director	For	Withheld Authority
John E. Mooney	24,999,380	382,596
Markku Toivanen	25,089,246	292,730

Ernst & Young LLP was re-elected as independent auditors: For - 24,887,181; against 421,837; abstain 72,958.

**Item 6**

**Exhibits and Reports on Form 8-K**

EXHIBITS  
(12)  
Computation  
of Ratio of  
Earnings to  
Fixed  
Charges

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**SIGNATURE**

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.

August 11, 2003

OM GROUP, INC.

/s/ Thomas R. Miklich

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Thomas R. Miklich  
Chief Financial Officer  
(Duly authorized signatory of OM Group, Inc.)