

OM GROUP INC  
Form 10-Q/A  
December 24, 2003

**Table of Contents**

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q/A**

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.

**TABLE OF CONTENTS**

Part I Financial Information

Item 1 Financial Statements

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3 Quantitative and Qualitative Disclosures About Market Risk

Item 4 Controls and Procedures

Part II Other Information

Item 6 Exhibits and Reports on Form 8-K

SIGNATURE

EX-12 Computation of Ratio Per Earning

EX-31.1 302 Certification

EX-31.2 302 Certification

EX-32.1 906 Certification

EX-32.2 906 Certification

---

**Table of Contents**

**Part I Financial Information**  
**Item 1 Financial Statements**

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

	<b>June 30, 2003</b>	<b>December 31, 2002</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$19,295	\$11,650
Accounts receivable	113,098	99,632
Inventories	305,838	304,654
Other current assets	69,452	90,365
<hr/>		
<i>Total Current Assets</i>		
	507,683	506,301
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	5,567	5,420
Buildings and improvements	181,049	178,373
Machinery and equipment	512,392	507,185
Furniture and fixtures	15,968	15,822
<hr/>		
	714,976	706,800
Less accumulated depreciation	228,252	201,571
<hr/>		

---

486,724 505,229  
OTHER ASSETS

Goodwill and other intangible assets  
191,155 189,178  
Other assets  
96,477 91,451  
Assets of discontinued operations  
1,073,058 1,046,977

---



---

TOTAL ASSETS  
\$2,355,097 \$2,339,136

---



---

**LIABILITIES AND  
STOCKHOLDERS EQUITY**

CURRENT LIABILITIES

Current portion of long-term debt  
\$7,000 \$6,750  
Accounts payable  
64,690 95,685  
Other accrued expenses  
47,292 53,519

---



---

*Total Current Liabilities*  
118,982 155,954

LONG -TERM LIABILITIES

Long-term debt  
1,145,776 1,187,650  
Deferred income taxes  
63,024 64,136  
Minority interests and other long-term  
liabilities  
66,220 64,820  
Liabilities of discontinued operations  
442,132 396,691

STOCKHOLDERS EQUITY

Preferred stock, \$0.01 par value:

Edgar Filing: OM GROUP INC - Form 10-Q/A

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  
(22,412) (17,943)

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

Accumulated other comprehensive  
income  
55,095 2,008

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

---

---

*Total Stockholders Equity*  
518,963 469,885

---

---

TOTAL LIABILITIES AND  
STOCKHOLDERS EQUITY  
\$2,355,097 \$2,339,136

---

---

*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 OPERATIONS**  
 (Thousands of dollars, except per share data)  
 (Unaudited)

	<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 sales	\$200,795	\$187,918	\$414,582	\$359,940
Cost of products sold				
170,261 135,624 353,611 258,460				
<hr/>				
<hr/>				
<hr/>				
<hr/>				
30,534 52,294 60,971 101,480				
Selling, general and administrative expenses				
21,246 20,257 46,908 42,322				
<hr/>				
<hr/>				
<hr/>				
<hr/>				
INCOME FROM OPERATIONS				
9,288 32,037 14,063 59,158				
OTHER INCOME (EXPENSE)				
Interest expense				
(10,679) (5,800) (20,890) (12,487)				
Foreign exchange gain				
3,202 6,894 741 6,595				
Investment income and other, net				
598 2,753 1,031 2,700				
<hr/>				
<hr/>				

---

---

(6,879) 3,847 (19,118) (3,192)

---

---

---

---

INCOME (LOSS) FROM CONTINUING  
OPERATIONS BEFORE INCOME TAXES AND  
MINORITY INTERESTS

2,409 35,884 (5,055) 55,966

Income tax expense (benefit)  
675 8,328 (1,297) 16,834

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

---

---

---

---

INCOME (LOSS) FROM CONTINUING  
OPERATIONS

3,163 27,531 (2,391) 39,153

INCOME (LOSS) FROM DISCONTINUED  
OPERATIONS, NET OF INCOME TAXES  
(1,009) (2,030) (2,078) 9,716

---

---

---

---

NET INCOME (LOSS)

\$2,154 \$25,501 \$(4,469) \$48,869

---



---



---



---

Net income (loss) per common share basic

Continuing operations  
 \$0.11 \$0.97 \$(0.09) \$1.41  
 Discontinued operations  
 (0.03) (0.07) (0.07) 0.35

---



---



---



---

Net income (loss)  
 \$0.08 \$0.90 \$(0.16) \$1.76  
 Net income (loss) per common share assuming  
 dilution

Continuing operations  
 \$0.11 \$0.96 \$(0.09) \$1.39  
 Discontinued operations  
 (0.03) (0.07) (0.07) 0.35

---



---



---



---

Net income (loss)  
 \$0.08 \$0.89 \$(0.16) \$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>		
(Loss) income from continuing operations	\$(2,391)	\$39,153
Items not affecting cash:		
Depreciation and amortization	30,612	26,461
Foreign exchange gain	(741)	(6,595)
Minority interests	(1,367)	(21)
Restructuring and other charges, less cash spent	9,462	
Changes in operating assets and liabilities	(41,184)	(64,057)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(5,609)</b>	<b>(5,059)</b>
<b>INVESTING ACTIVITIES</b>		
Expenditures for property, plant and equipment, net	(2,280)	(41,570)
Investments in unconsolidated joint venture	(994)	

NET CASH USED IN  
 INVESTING ACTIVITIES  
 (2,280) (42,564)  
 FINANCING ACTIVITIES

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

---



---

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

---



---

Cash used in continuing operations  
 (49,513) (62,874)  
 Cash provided by discontinued  
 operations (See Note B)  
 56,607 60,503  
 Effect of exchange rate changes on  
 cash and cash equivalents  
 551 977

---



---

Increase (decrease) in cash and cash  
 equivalents  
 7,645 (1,394)  
 Cash and cash equivalents at  
 beginning of period  
 11,650 18,680

---



---

Cash and cash equivalents at end of  
 period

\$19,295 \$17,286

---

---

*See notes to condensed Consolidated Financial Statements*

---

**Table of Contents**

**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. This Form 10-Q/A amends the Form 10-Q related to the second quarter of 2003 as filed by the Company on August 11, 2003. During the third quarter of 2003, the Company determined that certain restructuring and other charges of \$5.9 million, representing the continuation of its worldwide restructuring program that commenced in the fourth quarter of 2002, more appropriately

relate to the second quarter of 2003. In addition, the Company made adjustments to charges taken during 2002 of a net \$1.0 million decrease, resulting in a net second quarter charge of \$4.9 million. Therefore, the condensed consolidated financial statements contained herein have been amended to reflect these changes. In addition, during the fourth quarter of 2002, the Company shut down the U.S. manufacturing operations of the Fidelity electroless nickel business in Newark, New Jersey, and accounted for it as a discontinued operation. During the third quarter of 2003, the Company concluded that the revenue streams for this business have sufficiently continued through tolling arrangements with outside processors, and accordingly has reclassified these results to continuing

operations for all periods presented in this Form 10-Q/A. The operating results of this business are summarized as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net sales	\$4.1	\$5.4	\$8.5	\$10.9
Operating loss(a) (1.7) (1.3) (5.0) (1.7)				

(a) - Operating loss for the three and six months ended June 30, 2003 includes restructuring and other charges of \$0.9 million and \$2.5 million, respectively. **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):

---

**Table of Contents**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net sales	\$ 937.8	\$ 1,073.7	\$ 2,073.1	\$ 2,090.4
Operating income	23.2	22.9	40.9	47.8
Interest expense allocated	14.0	12.5	29.1	23.4
Income taxes	2.7	2.0	2.7	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	\$ 871.1	\$ 816.8
Property, plant and equipment	180.8	187.8
Other long-term assets	21.2	42.3
<b>Total assets of discontinued operations</b>	<b>\$ 1,073.1</b>	<b>\$ 1,046.9</b>
Current liabilities, including accounts payable and other accrued expenses	\$ 254.3	\$ 272.2
Long-term liabilities	187.8	124.5
<b>Total liabilities of discontinued operations</b>	<b>\$ 442.1</b>	<b>\$ 396.7</b>

Current assets include primarily accounts receivable and inventories.

**Note C**

**Restructuring and Other Charges**

During the three months ended June 30, 2003, the Company recorded restructuring (\$3.0 million) and other (\$2.9 million) charges relating to its continuing operations of \$5.9 million, representing the continuation of its worldwide restructuring program that commenced in the fourth quarter of 2002. In addition, the Company made adjustments to charges taken during 2002 of a net \$1.0 million decrease, resulting in a net second quarter charge of \$4.9 million. The net charges are included in both Cost of products sold (\$5.9 million) and Selling, general and administrative expenses (net credit of \$1.0 million) in the Condensed Statements of Consolidated Operations. The \$5.9 million of charges related to the current period are

asset impairments and facility exit costs, including inventory write-downs in connection with reduced inventory levels at certain operating facilities. Restructuring liabilities for continuing operations at December 31, 2002, charges taken in 2003, and amounts utilized in 2003 to date are summarized as follows (in millions):

	Number of Employees	Workforce Reductions	Asset write-downs	Facility Exit and Other	Total
Balance at 12/31/02	68	\$5.2	\$ 0	\$ 2.0	\$7.2
Adjustments to amounts recorded in 2002:					
Increase					
1.4	1.4				
Decrease					
(2.4)	(2.4)				
Charges in first quarter 2003					
11	0.7	2.2	1.6	4.5	
Charges in second quarter 2003					
3.0	3.0				
Utilized in 2003					
(74)	(2.6)	(2.8)	(1.4)	(6.8)	
_____					
_____					
_____					
_____					
_____					

Balance at 6/30/03  
5 \$4.7 \$0 \$2.2 \$6.9

---

---

---

---

---

---

**Table of Contents**

**Note D Inventories**

Inventories consist of the following:

	June 30, 2003	December 31, 2002
Raw materials and supplies	\$ 144,303	\$ 138,840
Finished goods		
124,996	122,853	
<hr/>		
<hr/>		
269,299	261,693	
LIFO reserve		
36,539	42,961	
<hr/>		
<hr/>		
Total inventories	\$305,838	\$304,654
<hr/>		
<hr/>		

**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. In November 2002, the Company received notice that shareholder class action lawsuits were filed against it related to the decline in the

Company's stock price after the third quarter 2002 earnings announcement. The lawsuits allege virtually identical claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 against the Company, certain executive officers and the Board of Directors. Plaintiffs seek damages in an unspecified amount to compensate persons who purchased the Company's stock between November 2001 and October 2002 at allegedly inflated market prices. While the ultimate outcome of this litigation cannot be determined at this time, management believes that these matters will not have a material adverse effect upon the Company's financial condition or results of operations. In addition, the named executive officers, the Board of Directors and

the Company have Directors & Officers and Corporate Liability Insurance available for such matters. In October 2002, the Company was mentioned in a report issued by a United Nations panel focusing on companies and individuals operating in the Democratic Republic of Congo (DRC) and their alleged exploitation of the natural resources and other forms of wealth of the DRC. OM Group is not among the companies cited for financial sanctions in the report. As noted in the report, the Company's business in the DRC is comprised of a smelter plant, which is 55%-owned through a joint venture (Groupement Pour Le Traitement Du Terril De Lubumbashi) with the DRC state mining company (Gecamines) and a third party; as well as contractual arrangements and discussions

with Gecamines and the third party with respect to the joint venture partners' rights to various feedstocks related to the smelter project. While the ultimate impact of this report cannot be determined at this time, management believes that this matter will not result in a material adverse effect upon the Company's financial condition or results of operations. **Note**

**F  
Computation  
of Net Income  
(Loss) Per  
Common**

**Share** The following table 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)	\$ 2,154	\$ 25,501	\$ (4,469)	\$ 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		

---

---

---

---

Weighted average number of shares  
outstanding assuming dilution  
28,308 28,706 28,305 28,151

---

---

---

---

Net income (loss) per common share  
\$0.08 \$0.90 \$(0.16) \$1.76

---

---

---

---

Net income (loss) per common share assuming  
dilution  
\$0.08 \$0.89 \$(0.16) \$1.74

---

---

---

---

**Table of Contents**

**Note G Comprehensive Income**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net income (loss)	\$2,154	\$25,501	\$(4,469)	\$48,869
Unrealized loss on available-for-sale securities (2,869) (901)				
Foreign currency translation 42,164 4,363 51,665 9,121				
Unrealized gain on cash flow hedges 578 1,233 332 4,346				
Additional minimum pension liability 1,090 1,090				
<hr/>				
<hr/>				
<hr/>				
<hr/>				
Total comprehensive income	\$45,986	\$28,228	\$48,618	\$61,435
<hr/>				
<hr/>				
<hr/>				
<hr/>				

**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 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net income (loss) as reported	\$2,154	\$25,501	\$(4,469)	\$48,869



Add: Stock-based employee compensation  
 expense included in net income, net of tax  
 236 951 460 1,254  
 Deduct: Total stock-based employee  
 compensation expense using the fair value  
 method for all awards, net of tax  
 (282) (1,816) (578) (2,843)

---



---



---



---

Pro forma  
 \$2,108 \$24,636 \$(4,587) \$47,280

---



---



---



---

Basic net income (loss) per share

As reported  
 \$0.08 \$0.90 \$(0.16) \$1.76

Pro forma  
 \$0.07 \$0.87 \$(0.16) \$1.71

Diluted net income (loss) per share

As reported  
 \$0.08 \$0.89 \$(0.16) \$1.74

Pro forma  
 \$0.07 \$0.86 \$(0.16) \$1.68

**Table of Contents**

**Note I**

**Income Taxes**

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 a benefit of 25.7% compared to expense of 30.1% 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. **Note**

**J Business Segment Information**

In connection with the sale of the Precious Metals business, which was comprised of its Precious Metal Chemistry and Metal Management segments, the Company reorganized how it manages and evaluates its operations. As a result of this change, the Company has two reportable segments: the Cobalt Group and the Nickel Group. Formerly, these two segments comprised the Company's Base Metals reportable segment under its prior organizational structure. The information for the second quarter of 2003 and prior periods reflected in this Form 10-Q/A has been reclassified to conform to this new segment presentation. The Cobalt Group derives

revenues from cobalt and other metal-based organic, inorganic, powder and metal products. The Nickel Group derives revenues from nickel-based organics, powders and metal products. Transactions between segments, which are not material, are made on a basis intended to reflect the current market value of material. Differences between the reportable segments operating results and net assets and the Company's consolidated financial statements relate primarily to items held at the Corporate level. Segment financial information is as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net Sales				
Cobalt Group	\$ 90.6	\$ 91.9	\$ 179.1	\$ 174.9
Nickel Group	110.2	96.0	235.5	185.0
<i>Total Net Sales</i>	<u>\$ 200.8</u>	<u>\$ 187.9</u>	<u>\$ 414.6</u>	<u>\$ 359.9</u>

Edgar Filing: OM GROUP INC - Form 10-Q/A

Operating Profit				
Cobalt Group	\$ 8.7	\$ 23.2	\$ 12.4	\$ 42.3
Nickel Group	8.5	16.2	17.6	30.2
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<i>Total Operating Profit</i>	17.2	39.4	30.0	72.5
Interest expense	(10.7)	(5.8)	(20.9)	(12.5)
Corporate expenses	(7.9)	(7.3)	(15.9)	(13.3)
Foreign exchange gain and investment and other income, net	3.8	9.6	1.8	9.3
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Income (loss) from continuing operations before income taxes and minority interests	\$ 2.4	\$ 35.9	\$ (5.0)	\$ 56.0
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Cobalt Group operating profit for the three months and six months ended June 30, 2003 includes restructuring and other charges of \$2.6 million and \$10.2 million, respectively. Nickel Group operating profit for the three months and six months ended June 30, 2003 includes restructuring and other charges of \$0.9 million and \$2.5 million, respectively. Corporate expenses for the three months and six months ended June 30, 2003 include restructuring and other charges of \$1.4 million.

**Note K**

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

**Guarantor and Non-Guarantor Subsidiary Information**

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	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Combined Total
<b>Assets</b>					
Current assets:					
Cash	\$2,003	\$2,398	\$14,894		\$19,295
Accounts receivable	731,220	80,531	431,005	\$(1,129,658)	113,098
Inventories	34,756	271,082	305,838		
Other current assets	18,572	3,833	47,047		69,452
<hr/>					
<hr/>					
<hr/>					
<hr/>					
<hr/>					
Total current assets	751,795	121,518	764,028	(1,129,658)	507,683
Property, plant and equipment, net	47,936	438,788	486,724		
Goodwill and other intangible assets	75,830	59,521	55,804	191,155	
Intercompany receivables	188,604	23,400	1,154,524	(1,366,528)	
Investment in subsidiaries	712,486	360,631	1,443,640	(2,516,757)	
Other assets	25,584	7,914	62,979		96,477
Assets of discontinued operations	94,683	978,375	1,073,058		
<hr/>					

---



---



---



---

Total assets  
 \$1,754,299 \$715,603 \$4,898,138 \$(5,012,943) \$2,355,097

---



---



---



---



---

**Liabilities and stockholders equity**

Current liabilities:

Current portion of long-term debt  
 \$7,000 \$7,000  
 Accounts payable  
 40,881 \$351,788 \$403,516 \$(731,495) 64,690  
 Other accrued expenses  
 (3,782) 15,490 35,584 47,292

---



---



---



---



---

Total current liabilities  
 44,099 367,278 439,100 (731,495) 118,982  
 Long-term debt  
 1,145,776 1,145,776  
 Deferred income taxes  
 35,297 27,727 63,024  
 Minority interests and other long-term liabilities  
 10,164 (9,690) 65,746 66,220  
 Intercompany payables  
 407,729 1,341,600 (1,749,329)  
 Liabilities of discontinued operations  
 50,218 391,914 442,132  
 Stockholders equity

Edgar Filing: OM GROUP INC - Form 10-Q/A

518,963 (99,932) 2,632,051 (2,532,119) 518,963

---

---

---

---

---

Total liabilities and stockholders' equity  
\$1,754,299 \$715,603 \$4,898,138 \$(5,012,943) \$2,355,097

---

---

---

---

---

---



**Table of Contents**

Balance Sheet Data	December 31, 2002				
	Combined The Guarantor Company	Combined Not-guarantor Subsidiaries	Combined Not-guarantor Subsidiaries	Elimination	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$667	\$1,780	\$9,203	\$11,650	
Accounts receivable	752,800	89,181	404,084	\$(1,146,433)	99,632
Inventories	38,389	266,265	304,654		
Other current assets	26,553	4,890	58,922	90,365	
<hr/>					
<hr/>					
<hr/>					
<hr/>					
<hr/>					
Total current assets	780,020	134,240	738,474	(1,146,433)	506,301
Property, plant and equipment, net	48,711	456,518	505,229		
Goodwill and other intangible assets	135,503	53,675	189,178		
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	10,517	59,703	91,451	
Assets of discontinued operations	188,261	858,716	1,046,977		
<hr/>					
<hr/>					
<hr/>					
<hr/>					
<hr/>					
<hr/>					
Total assets					

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

---



---



---



---



---

**Liabilities and stockholders equity**

Current liabilities:

Current portion of long-term debt  
 \$6,750 \$6,750  
 Accounts payable  
 65,917 \$384,198 \$373,228 \$(727,658) 95,685  
 Other accrued expenses  
 (7,681) 4,058 57,142 53,519

---



---



---



---

Total Current liabilities  
 64,986 388,256 430,370 (727,658) 155,954  
 Long-term debt  
 1,187,650 1,187,650  
 Deferred income taxes  
 35,320 (131) 28,947 64,136  
 Minority interests and other long-term liabilities  
 2,161 62,659 64,820  
 Intercompany payables  
 557,894 1,230,175 (1,788,069)  
 Liabilities of discontinued operations  
 73,090 323,601 396,691  
 Shareholder s equity  
 469,885 18,901 2,506,060 (2,524,961) 469,885

---



---



---

---

---

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

---

---

---

---

---

---

**Table of Contents**

					Three Months Ended June 30, 2003					
Income Statement Data					The Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total	
Net sales						\$41,028	\$219,488	\$(59,721)	\$200,795	
Cost of products sold										
	29,936	200,046	(59,721)	170,261						
	11,092	19,442	30,534							
Selling, general and administrative expenses										
	11,671	9,575	21,246							
Income from operations										
	(579)	9,867	9,288							
Interest expense										
	\$(8,655)	(45)	(20,555)	18,576	(10,679)					
Foreign exchange gain (loss)										
	450	(54)	2,806	3,202						
Investment income and other, net										
	4,866	(172)	14,480	(18,576)	598					

---

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

(3,339) (850) 6,598 2,409

Income taxes

675 675

Minority interests

(1,429) (1,429)

---

---

---

---

---

Income (loss) from continuing operations

(3,339) (850) 7,352 3,163

Income (loss) from discontinued operations

(14,004) (6,724) 19,719 (1,009)

---

---

---

---

---

Net income (loss)

\$(17,343) \$(7,574) \$27,071 \$2,154

---

---

---

---

---

Table of Contents

Income Statement Data	Three Months Ended June 30, 2002				
	The Company	Combined Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
Net sales		\$42,237	\$207,417	\$(61,736)	\$187,918
Cost of products sold					
30,076	167,284	(61,736)		135,624	
12,161	40,133	52,294			
Selling, general and administrative expenses					
10,935	9,322	20,257			
Income from operations					
1,226	30,811	32,037			
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	(124)	14,695	(15,365)	2,753	

---

Income (loss) from continuing operations before income

taxes and minority interests

(1,664) (2,907) 40,455 35,884

Income tax (benefit) expense

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

Minority interests

25 25

---

---

---

---

---

---

Income (loss) from continuing operations

755 (1,751) 28,527 27,531

Income (loss) from discontinued operations

(11,700) (948) 10,618 (2,030)

---

---

---

---

---

---

Net income (loss)

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

---

---

---

---

---

---

**Table of Contents**

Six Months Ended June 30, 2003

Income Statement Data	Combined The Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	\$86,505	\$442,681		\$(114,604)	\$414,582
Cost of products sold					
65,668	402,547	(114,604)	353,611		
20,837	40,134	60,971			
Selling, general and administrative expenses					
32,673	14,235	46,908			
Income (loss) from operations					
(11,836)	25,899	14,063			
Interest expense					
\$(18,149)	(5,386)	(37,041)	39,686	(20,890)	
Foreign exchange gain (loss)					
524	(8)	225	741		
Investment income and other, net					
10,293	379	30,045	(39,686)	1,031	



---

Income (loss) from continuing operations before income

taxes and minority interests  
(7,332) (16,851) 19,128 (5,055)  
Income tax expense (benefit)  
7 (1,304) (1,297)  
Minority interests  
(1,367) (1,367)

---

---

---

---

---

---

Income (loss) from continuing operations  
(7,332) (16,858) 21,799 (2,391)  
Income (loss) from discontinued operations  
(28,100) (2,641) 28,663 (2,078)

---

---

---

---

---

---

Net income (loss)  
\$(35,432) \$(19,499) \$50,462 \$(4,469)

---

---

---

---

---

---

**Table of Contents**

					Six Months Ended June 30, 2002				
Income Statement Data					Combined The Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
Net sales					\$82,220	\$385,439	\$(107,719)	\$359,940	
Cost of products sold									
	54,832	311,347	(107,719)	258,460					
	27,388	74,092	101,480						
Selling, general and administrative expenses									
	23,943	18,379	42,322						
Income from operations									
	3,445	55,713	59,158						
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	92	27,809	(33,365)	2,700				

---

Income (loss) from continuing operations before income

taxes and minority interests

(3,381) (4,389) 63,736 55,966

Income tax (benefit) expense

(6,794) (1,896) 25,524 16,834

Minority interests

(21) (21)

---

---

---

---

---

---

Income (loss) from continuing operations

3,413 (2,493) 38,233 39,153

Income (loss) from discontinued operations

(21,900) (1,933) 33,549 9,716

---

---

---

---

---

---

Net income (loss)

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

---

---

---

---

---

---

**Table of Contents**

Cash Flow Data	Six Months Ended June 30, 2003				
	The Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
Net cash provided by (used in) operating activities	\$42,960	\$(7,443)	\$(41,126)	\$	\$(5,609)
Investing activities:					
Expenditures for property, plant and equipment, net	(704)	(1,576)	(2,280)		
Net cash used in investing activities	(704)	(1,576)	(2,280)		
Financing activities:					
Payments of long-term debt	(41,624)	(41,624)			
Net cash used in financing activities	(41,624)	(41,624)			

Cash provided by (used in) continuing operations  
 1,336 (8,147) (42,702) (49,513)  
 Cash provided by discontinued operations  
 8,765 47,842 56,607  
 Effect of exchange rate changes on cash and cash equivalents  
 551 551

---



---



---



---



---

Increase in cash and cash equivalents  
 1,336 618 5,691 7,645  
 Cash and cash equivalents at beginning of the period  
 667 1,780 9,203 11,650

---



---



---



---



---

Cash and cash equivalents at end of the period  
 \$2,003 \$2,398 \$14,894 \$19,295

---



---



---



---



---

Six Months Ended June 30, 2002

Combined Data	Combined Guarantor	Combined Non-Guarantor	Cash Flow Company Subsidiaries	Cash Flow Subsidiaries	Cash Flow Eliminations	Total
---------------	--------------------	------------------------	--------------------------------	------------------------	------------------------	-------

---



---

---

---

---

Net cash provided by (used in) operating activities  
\$15,694 \$3,142 \$(23,895) \$(5,059)

Investing activities:

Expenditures for property, plant and equipment, net  
(1,179) (40,391) (41,570)  
Investments in unconsolidated joint venture  
(994) (994)

---

---

---

---

---

---

Net cash used in investing activities  
(1,179) (41,385) (42,564)

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

---

---

---

---

---

---

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

---

---



**Item 2**

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

On July 31, 2003, the Company completed the sale of its Precious Metals business (PMG business) to Umicore for 697 million (approximately \$814 million) in cash. The PMG business was comprised of the Precious Metal Chemistry and Metal Management reportable segments, which were acquired by the Company from Degussa in August 2001. On April 1, 2003, the Company completed the sale of its copper powders business, SCM Metal Products, Inc., for cash proceeds of \$65 million less costs and expenses. The PMG business and copper powders business each had been classified as a discontinued operation prior to the sale, and the accompanying financial statements for the second quarter of 2003 and prior periods have been restated, where applicable, to reflect these businesses as



discontinued operations. The continuing operations of the Company represent the historical base metals business and are organized into two segments: the Cobalt Group and the Nickel Group. The Nickel Group includes the results of the Company's Fidelity electroless nickel business, which has been reclassified from discontinued operations to continuing operations during the third quarter of 2003, for all periods presented (See Note A). *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 \$200.8 million, an increase of 6.9% 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 \$30.5 million, or 15.2% of net sales, for the three month period

**Table of Contents**

ended June 30, 2003, a 41.6% decrease compared to \$52.3 million, or 27.8% of net sales, for the same period in 2002. The decrease in gross profit was primarily due to restructuring and other charges of \$5.9 million; 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 decreased as a percentage of sales, to 10.6% in 2003 compared to 10.8% in the 2002 period. This decrease is primarily the result of cost reductions from restructuring activities initiated in the fourth quarter of 2002, partially offset by the impact of the strengthened euro against the dollar in 2003 compared to 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 \$6.9 million for the three-month period ended June 30, 2003, compared to income of \$3.8 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 28.0% compared to 23.2% 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. Loss from

discontinued operations was \$1.0 million in 2003 compared to \$2.0 million in 2002. The improvement is due primarily to the closure of certain unprofitable operations as of December 31, 2002, 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 \$2.2 million, compared to \$25.5 million for the corresponding period in 2002, due primarily to the aforementioned factors. Cobalt Group Net sales for the three months ended June 30, 2003 decreased to \$90.6 million compared to \$91.9 million for the same period in 2002. The decrease is primarily due to changes in product mix, partially offset by higher volumes and metal pricing. Operating profit for the period was \$8.7 million compared to \$23.2 million in the 2002 period. The amount in 2003 includes restructuring and

other charges of \$2.6 million. Before these charges, operating profit decreased by \$11.9 million due primarily to the negative impact of the euro and higher LIFO charges. Nickel Group Net sales for the three months ended June 30, 2003 were \$110.2 million compared to \$96.0 million for the same period in 2002, due primarily to higher metal market prices for nickel, resulting in higher selling prices for the Company's products. This increase was partially offset by a 10.3% decline in nickel-contained sales volumes. Operating profit for the period was \$8.5 million compared to \$16.2 million in the 2002 period. The amount in 2003 includes restructuring and other charges of \$0.9 million. Before these charges, operating profit decreased by \$6.8 million due primarily to the negative impact of the euro, higher LIFO charges, and higher cost raw material feedstocks. *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 \$414.6  
million, an  
increase of  
15.2% 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	

Edgar Filing: OM GROUP INC - Form 10-Q/A

Cobalt	10.0	9.0	11.1%
Nickel	57.0	59.5	-4.2%

---



**Table of Contents**

Gross profit decreased to \$61.0 million, or 14.7% of net sales, for the six-month period ended June 30, 2003, a 39.9% decrease compared to \$101.5 million, or 28.2% of net sales, for the same period in 2002. The decrease in gross profit was primarily due to restructuring and other charges of \$10.6 million; 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 decreased to 11.3% of sales compared to 11.8% in the 2002 period. The decrease was due primarily to cost reductions from restructuring activities initiated in the fourth quarter of 2002 primarily offset by restructuring and other charges of \$3.5 million in 2003 and the impact of the strengthened euro against the dollar in 2003 compared to 2002. Other expense net was \$19.1 million for the six-month period ended June 30, 2003, compared to \$3.2 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 a benefit of 25.7% compared to expense of 30.1% 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 \$2.1 million in 2003 compared to income of \$9.7 million in 2002, due primarily to restructuring changes taken in 2003 and higher interest expense as a result of higher interest rates. Net loss for the six-month period ended June 30, 2003 was \$4.5 million, compared to net income of \$48.9 million for the corresponding period in 2002, due primarily to the aforementioned factors. Cobalt Group Net sales for the six months ended June 30, 2003 were \$179.1 million compared to \$174.9 million for the same period in 2002, due primarily to higher metal market prices for cobalt, resulting in higher selling prices for the Company's products. This increase was also due to an 11.1% increase in cobalt-contained sales volumes. Operating profit for the period was \$12.4 million compared to \$42.3 million in the 2002 period. The amount in 2003 includes restructuring and other charges of

\$10.2 million.  
Before these charges, operating profit decreased by \$19.7 million due primarily to the negative impact of the euro and higher LIFO charges. Nickel Group Net sales for the six months ended June 30, 2003 were \$235.5 million compared to \$185.0 million for the same period in 2002, due primarily to higher metal market prices for nickel, resulting in higher selling prices for the Company's products. This increase was partially offset by a 4.2% decline in nickel-contained sales volumes. Operating profit for the period was \$17.6 million compared to \$30.2 million in the 2002 period. The amount in 2003 includes restructuring and other charges of \$2.5 million. Before these charges, operating profit decreased by \$10.1 million due primarily the negative impact of the euro and higher LIFO charges.

**Liquidity and Capital Resources**

During the six-month period ended June 30, 2003, the Company's net working capital increased by approximately \$38.4 million. This increase was primarily the result of a decrease in accounts payable of \$31.0 million due to prepayments made by the Company for certain raw materials during the quarter, and an increase in accounts receivable of \$13.5 million due to higher sales in the second quarter of 2003 compared to the fourth quarter of 2002. Capital expenditures in 2003 were \$2.3 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.

---

**Table of Contents**

**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. 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.



**Table of Contents**

**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.

**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 that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company and its consolidated subsidiaries that is required to be included in the Company's SEC filings. (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 6 Exhibits and Reports on Form 8-K**  
EXHIBITS

(12)  
Computation of Ratio of Earnings to Fixed Charges



**Table of Contents**

---



**Table of Contents**

**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.

December 23, 2003

OM GROUP, INC.

/s/ Thomas R. Miklich

---

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