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	52-1736882
(state or other jurisdiction of incorporation or organization)	(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 __X__ 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 __X__ 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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OM GROUP, INC.

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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Part I Financial Information
Item 1 Financial Statements

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

	June 30, 2003	December 31, 2002
ASSETS		
CURRENT ASSETS		
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
Total Current Assets	506,053	493,914
PROPERTY, PLANT AND EQUIPMENT		
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
	706,816	695,698
Less accumulated depreciation	223,375	196,920

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

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)
Total Stockholders Equity	521,256	469,885
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$2,363,309	$2,339,136

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
	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		
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

	(6,991)	3,877	(19,193)	(3,080)
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)
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
NET INCOME (LOSS)	$4,375	$25,501	$(3,389)	$48,869

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

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

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

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Part I Financial Information
Item 1 Financial Statements

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

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
OPERATING ACTIVITIES		
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)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	2,720	(6,659)
INVESTING ACTIVITIES		
Expenditures for property, plant and equipment, net	(2,182)	(41,054)
Investments in unconsolidated joint venture		(994)
NET CASH USED IN INVESTING ACTIVITIES	(2,182)	(42,048)
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	(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
Increase (decrease) in cash and cash equivalents	7,761	(1,936)
Cash and cash equivalents at beginning of period	11,757	18,852
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)

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

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:

	June 30, 2003	December 31, 2002
Raw materials and supplies	$ 144,303	$ 133,015
Finished goods	126,123	119,975
	270,426	252,990
LIFO reserve	36,539	42,961
Total inventories	$306,965	$295,951

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 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

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

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

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	
Total comprehensive income	$49,417	$28,228	$50,908	$61,435

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	**2002**	**2003**	**2002**

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**

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. **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:

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

		30,070	276,895		306,965
Other current assets	18,572	3,834	47,044		69,450
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
Total assets	$1,756,593	$717,408	$4,902,252	$(5,012,944)	$2,363,309

Liabilities and stockholders equity

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
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
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** **The Company**	**Combined Guarantor Subsidiaries**	**Combined Non-guarantor Subsidiaries**	**Eliminations**	**Total**
Assets					
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
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
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	$382,699	$373,228	$(727,658)	94,186
Other accrued expenses	(7,681)	5,742	57,142		55,203
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

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

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Income Statement Data	Three Months Ended June 30, 2003				
	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

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)
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)
Net income (loss)	$(17,338)	$832	$20,881	$4,375

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Income Statement Data	The Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
	Three Months Ended June 30, 2002				
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

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		
Income (loss) from continuing operations	755	(395)	28,527	28,887
Loss from discontinued operations	(11,700)	(2,304)	10,618	(3,386)
Net income (loss)	$(10,945)	$(2,699)	$39,145	$25,501

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Income Statement Data	Six Months Ended June 30, 2003				
	The Company	Combined Guarantor Subsidiaries	Combined 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

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)
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)
Net income (loss)	$(35,432)	$(16,296)	$48,339	$(3,389)

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Income Statement Data	The Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
	Six Months Ended June 30, 2002				
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

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)	
Income (loss) from continuing operations	3,413)	(731)	38,233	40,915
Loss from discontinued operations	(21,900)	(3,695)	33,549	7,954
Net income (loss)	$(18,487)	$(4,426)	$71,782	$48,869

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	Six Months Ended June 30, 2003				
Cash Flow Data	**The Company**	**Combined Guarantor Subsidiaries**	**Combined Non-Guarantor Subsidiaries**	**Eliminations**	**Total**
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)

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

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

Cash and cash equivalents at end of the period
$2,003 $2,621 $14,894 $19,518

Six Months Ended June 30, 2002

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

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)

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

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

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			977	977
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
Cash and cash equivalents at end of the period	$1,093	$1,676	$14,147	$16,916

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, 2003	2002	Percentage Change
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 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:

	Six Months Ended June 30,		
(in millions of pounds)	2003	2002	Percentage Change
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
	Thomas R. Miklich Chief Financial Officer (Duly authorized signatory of OM Group, Inc.)