

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

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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.

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SIGNATURE

EX-12 Computation of Ratio Per Earning

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**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/>		
<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/>		
<hr/>		
	714,976	706,800
Less accumulated depreciation	228,252	201,571
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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

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

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**LIABILITIES AND  
STOCKHOLDERS EQUITY**

CURRENT LIABILITIES

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

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*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:

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

Common stock, \$0.01 par value:

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

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

Retained deficit  
(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)

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*Total Stockholders Equity*  
518,963 469,885

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

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*See notes to condensed Consolidated Financial Statements*

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**Part I Financial Information**

**Item 1 Financial Statements**

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

	<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				
_____				
_____				
_____				
_____				
30,534 52,294 60,971 101,480				
Selling, general and administrative expenses				
21,246 20,257 46,908 42,322				
_____				
_____				
_____				
_____				
<b>INCOME FROM OPERATIONS</b>				
9,288 32,037 14,063 59,158				
<b>OTHER INCOME (EXPENSE)</b>				
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				
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(6,879) 3,847 (19,118) (3,192)

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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)

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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

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NET INCOME (LOSS)

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

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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

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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

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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*

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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)

	<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</b>		
<b>OPERATING ACTIVITIES</b>	(5,609)	(5,059)
<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

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

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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

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

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Cash and cash equivalents at end of  
 period

\$19,295 \$17,286

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*See notes to condensed Consolidated Financial Statements*

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**Part I Financial Information**

**Item 1 Financial Statements**

**OM GROUP, INC.  
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):

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	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
Total assets of discontinued operations	\$ 1,073.1	\$ 1,046.9
Current liabilities, including accounts payable and other accrued expenses	\$ 254.3	\$ 272.2
Long-term liabilities	187.8	124.5
Total liabilities of discontinued operations	\$ 442.1	\$ 396.7

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):

	<b>Number of Employees</b>	<b>Workforce Reductions</b>	<b>Asset write-downs</b>	<b>Facility Exit and Other</b>	<b>Total</b>
Balance at 12/31/02	68	\$ 5.2	\$ 0	\$ 2.0	\$ 7.2
Adjustments to amounts recorded in 2002:					
Increase					
1.4		1.4			