

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 March 31, 2001  
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  
3800 Terminal Tower  
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 the number of shares outstanding of each of the issuer's classes of common stock, as of March 31, 2001: Common Stock, \$.01 Par Value - 23,923,891 shares.

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OM GROUP, INC.**

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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)

| <b><u>ASSETS</u></b>  | March 31,<br><u>2001</u>  | December 31,<br><u>2000</u> |
|---|---------------------------|-----------------------------|
| <b>CURRENT ASSETS</b>   |                           |                             |
| Cash and cash equivalents   | \$ 7,790                  | \$ 13,482                   |
| Accounts receivable   | 140,534                   | 147,618                     |
| Inventories   | 393,389                   | 393,849                     |
| Other current assets  | <u>60,062</u>             | <u>56,792</u>               |
| <i>Total Current Assets</i>   | 601,775                   | 611,741                     |
| <br><b>PROPERTY, PLANT AND EQUIPMENT</b>                                      |                           |                             |
| Land  | 6,741                     | 6,794                       |
| Buildings and improvements  | 131,359                   | 128,152                     |
| Machinery and equipment   | 499,966                   | 481,548                     |
| Furniture and fixtures  | <u>12,862</u>             | <u>12,860</u>               |
|   | 650,928                   | 629,354                     |
| Less accumulated depreciation   | <u>152,879</u>            | <u>144,002</u>              |
|   | 498,049                   | 485,352                     |
| <br><b>OTHER ASSETS</b>   |                           |                             |
| Goodwill and other intangible assets  | 195,307                   | 192,063                     |
| Other assets  | 71,940                    | 68,306                      |
| <br><b>TOTAL ASSETS</b>   | <u><u>\$1,367,071</u></u> | <u><u>\$1,357,462</u></u>   |
| <br><b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>                        |                           |                             |
| <b>CURRENT LIABILITIES</b>  |                           |                             |
| Current portion of long-term debt   | \$ 22,110                 | \$ 20,865                   |
| Accounts payable  | 80,079                    | 103,570                     |
| Other accrued expenses  | <u>78,921</u>             | <u>82,820</u>               |
| <i>Total Current Liabilities</i>  | 181,110                   | 207,255                     |
| <br><b>LONG TERM LIABILITIES</b>  |                           |                             |
| Long-term debt  | 571,153                   | 551,079                     |
| Deferred income taxes   | 29,383                    | 29,116                      |
| Other long-term liabilities   | 16,094                    | 14,333                      |
| Minority interest   | 50,172                    | 49,549                      |
| <br><b>STOCKHOLDERS' EQUITY</b>   |                           |                             |
| 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 23,959,346 shares                        | 240                       | 240                         |
| Capital in excess of par value  | 258,937                   | 258,913                     |
| Retained earnings   | 269,669                   | 256,183                     |
| Treasury stock (35,455 shares in 2001<br>and 105,065 shares in 2000, at cost) | (1,817)                   | (4,853)                     |
| Accumulated other comprehensive loss  | (7,512)                   | (3,967)                     |
| Unearned compensation   | <u>(358)</u>              | <u>(386)</u>                |
| <i>Total Stockholders' Equity</i>   | 519,159                   | 506,130                     |
| <br><b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                         | <u><u>\$1,367,071</u></u> | <u><u>\$1,357,462</u></u>   |

*See notes to condensed Consolidated Financial Statements*

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

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

|   | Three Months Ended<br>March 31, |                  |
|---|---------------------------------|------------------|
|   | <u>2001</u>                     | <u>2000</u>      |
| Net sales                                       | \$235,642                       | \$148,285        |
| Cost of products sold                           | <u>175,618</u>                  | <u>106,283</u>   |
|   | 60,024                          | 42,002           |
| Selling, general and administrative expenses    | <u>21,229</u>                   | <u>14,961</u>    |
| INCOME FROM OPERATIONS                          | 38,795                          | 27,041           |
| OTHER INCOME (EXPENSE)                          |                                 |                  |
| Interest expense                                | (11,558)                        | (5,452)          |
| Interest income                                 | 500                             | 105              |
| Foreign exchange loss                           | <u>(548)</u>                    | <u>(72)</u>      |
|   | (11,606)                        | (5,419)          |
| INCOME BEFORE INCOME TAXES                      | 27,189                          | 21,622           |
| Income taxes                                    | <u>7,557</u>                    | <u>6,472</u>     |
| NET INCOME                                      | <u>\$ 19,632</u>                | <u>\$ 15,150</u> |
| Net income per common share                     | \$0.82                          | \$0.63           |
| Net income per common share - assuming dilution | \$0.81                          | \$0.63           |
| Weighted average shares outstanding (000)       |                                 |                  |
| Net income per common share                     | 23,889                          | 23,876           |
| Net income per common share - assuming dilution | 24,336                          | 24,210           |
| Dividends paid per common share                 | \$0.13                          | \$0.11           |

*See notes to condensed Consolidated Financial Statements*

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

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

|  | Three Months Ended<br>March 31, |                 |
|--|---------------------------------|-----------------|
|  | <u>2001</u>                     | <u>2000</u>     |
| <b>OPERATING ACTIVITIES</b>                                  |                                 |                 |
| Net income   | \$19,632                        | \$15,150        |
| Items not affecting cash:                                    |                                 |                 |
| Depreciation and amortization                                | 11,652                          | 7,525           |
| Foreign exchange loss  | 548                             | 72              |
| Deferred income taxes  | 267                             | 1,912           |
| Changes in operating assets and liabilities                  | <u>(34,179)</u>                 | <u>(29,899)</u> |
| NET CASH USED IN OPERATING ACTIVITIES                        | (2,080)                         | (5,240)         |
| <b>INVESTING ACTIVITIES</b>                                  |                                 |                 |
| Expenditures for property, plant and equipment, net          | <u>(21,574)</u>                 | <u>(9,358)</u>  |
| NET CASH USED IN INVESTING ACTIVITIES                        | (21,574)                        | (9,358)         |
| <b>FINANCING ACTIVITIES</b>                                  |                                 |                 |
| Dividend payments  | (3,109)                         | (2,622)         |
| Long-term borrowings   | 21,319                          | 50              |
| Short-term borrowings  |                                 | 11,000          |
| Payments of long-term debt                                   |                                 | (25)            |
| Purchase of treasury stock                                   | (3,059)                         | (728)           |
| Proceeds from exercise of stock options                      | <u>2,534</u>                    | <u>2,962</u>    |
| NET CASH PROVIDED BY FINANCING ACTIVITIES                    | 17,685                          | 10,637          |
| Effect of exchange rate changes on cash and cash equivalents | <u>277</u>                      | <u>(11)</u>     |
| Decrease in cash and cash equivalents                        | (5,692)                         | (3,972)         |
| Cash and cash equivalents at beginning of period             | <u>13,482</u>                   | <u>9,433</u>    |
| Cash and cash equivalents at end of period                   | <u>\$ 7,790</u>                 | <u>\$ 5,461</u> |

*See notes to condensed Consolidated Financial Statements*

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

**OM GROUP, INC.**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
March 31, 2001  
(Thousands of dollars, except 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. For further information refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

**Note B**      **Change in Method of Accounting**

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivatives and Hedging Activities" (SFAS No. 133), as amended. SFAS No. 133 requires that derivatives be recognized in the balance sheet and measured at fair value. The Company's derivatives consist of interest rate swaps and commodity and foreign currency forward contracts.

**Note C**      **Inventories**

Inventories consist of the following:

|                            | March 31,<br>2001 | December 31,<br>2000 |
|----------------------------|-------------------|----------------------|
| Raw materials and supplies | \$172,526         | \$168,750            |
| Finished goods             | 148,447           | 156,159              |
|                            | 320,973           | 324,909              |
| LIFO reserve               | 72,416            | 68,940               |
| Total inventories          | <u>\$393,389</u>  | <u>\$393,849</u>     |

**Note D**      **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 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 E Computation of Earnings per Share

The following table sets forth the computation of net income per common share and net income per common share - assuming dilution (shares in thousands):

|  | Three Months Ended<br>March 31, |                 |
|--|---------------------------------|-----------------|
|  | 2001                            | 2000            |
| Net income   | <u>\$19,632</u>                 | <u>\$15,150</u> |
| Weighted average number of shares outstanding                        | 23,889                          | 23,876          |
| Dilutive effect of stock options                                     | <u>447</u>                      | <u>334</u>      |
| Weighted average number of shares outstanding -<br>assuming dilution | <u>24,336</u>                   | <u>24,210</u>   |
| Net income per common share  | <u>\$0.82</u>                   | <u>\$0.63</u>   |
| Net income per common share - assuming dilution                      | <u>\$0.81</u>                   | <u>\$0.63</u>   |

#### Note F Comprehensive Income

Total comprehensive income consists of the following:

|   | Three Months Ended<br>March 31, |                 |
|---|---------------------------------|-----------------|
|   | 2001                            | 2000            |
| Net income  | \$19,632                        | \$15,150        |
| Foreign currency translation                        | 246                             | 64              |
| Cumulative effect of change in method of accounting | (1,558)                         | --              |
| Change in fair value of derivatives                 | (2,233)                         | --              |
| Total comprehensive income                          | <u>\$16,087</u>                 | <u>\$15,214</u> |

The components of accumulated other comprehensive loss are as follows:

|  | March 31,<br>2001 | December<br>31,<br>2000 |
|--|-------------------|-------------------------|
| Foreign currency translation adjustments   | \$(3,721)         | \$(3,967)               |
| Fair value of derivatives                  | (3,791)           | --                      |
| Total accumulated other comprehensive loss | <u>\$(7,512)</u>  | <u>\$(3,967)</u>        |

#### Note G Subsequent Event

On April 23, 2001, the Company agreed to acquire Degussa Metals Catalysts Cerdec (dmc<sup>2</sup>), a leading worldwide provider of metal-based functional materials for a wide variety of high-growth end markets based in Hanau, Germany, for a cash purchase price of 1,200 million euro. The purchase price is anticipated to be financed with a combination of debt, equity and the subsequent sale of certain acquired assets. The final purchase price is subject to adjustment based on the application of several provisions at the closing date which is

anticipated on or about June 30, 2001. The acquisition, which is not reflected in the accompanying financial statements, will be accounted for by the purchase method of accounting.

The Company intends to divest the electronic materials, performance pigments, glass systems and Cerdec ceramic divisions of dmc<sup>2</sup> as soon as practicable and is currently in advanced discussions with another strategic party, proceeds of approximately 600 million euro are anticipated from these divestitures. Following these divestitures, the Company expects to own the metals management, automotive catalysts, fuel cells, precious metals chemistry, technical materials and jewelry and electroplating businesses of dmc<sup>2</sup>. Annual sales and operating profit in fiscal 2000 for the businesses the Company intends to keep were approximately 5,800 million euro and 55 million euro, respectively.

## Item 2 Results of Operations

### *Three Months Ended March 31, 2001 Compared to Three Months Ended March 31, 2000*

Net sales for the three months ended March 31, 2001 were \$235.6 million, an increase of 58.9% compared to the same period for 2000. The increase in sales resulted principally through an increase in physical volume of products sold, due primarily to the acquisition of Outokumpu Nickel Oy (OKN) in April 2000.

The following table summarizes market price fluctuations on the primary raw materials used by the Company in manufacturing its products:

|                      | Market Price Ranges per Pound<br>Three Months Ended March 31, |                    |
|----------------------|---|--------------------|
|                      | 2001  | 2000               |
| Cobalt - 99.3% Grade | \$10.16 to \$12.35  | \$11.91 to \$15.25 |
| Nickel               | \$ 2.71 to \$ 3.28  | \$ 3.69 to \$ 4.74 |
| Copper               | \$ .77 to \$ .85  | \$ .78 to \$ .87   |

The following table sets forth the pounds of organics, inorganics, powders and metals sold during each period:

| (in millions of pounds) | Three Months Ended March 31, |             | Percentage<br>Change |
|-------------------------|------------------------------|-------------|----------------------|
|                         | 2001                         | 2000        |                      |
| Organics                | 18.6                         | 19.5        | -4.6%                |
| Inorganics              | 26.0                         | 27.0        | -3.7%                |
| Powders                 | 12.2                         | 12.1        | .8%                  |
| Metals                  | <u>30.0</u>                  | <u>0.0</u>  | --                   |
|                         | <u>86.8</u>                  | <u>58.6</u> | 48.1%                |

The decrease in physical volume of organic products sold was primarily due to softness in the U.S. markets for plastic additives, coatings and tire applications. The decrease in physical volume of inorganic products sold was primarily attributable to general softness in the U.S. markets and volume declines in electroplating applications. The increase in physical volume of powders sold reflects increases in cobalt briquettes and extra-fine powders, offsetting a decrease in sales of copper powders to the automotive industry. The increase in physical volume of metal products sold is a result of the acquisition of OKN and the resulting strong sales of nickel briquettes and cathodes to the European steel industry.

Gross profit increased to \$60.0 million for the three month period ended March 31, 2001, a 42.9% increase over the same period in 2000. The increase in gross profit was due primarily to the acquisition of OKN and the resulting increased volumes of product sold. Cost of products sold increased to 74.5% for the three months ended March 31, 2001 from 71.7% of



net sales during the same period of 2000 primarily as a result of the acquisition of OKN with lower value added nickel products and higher sales of lower value added cobalt-containing products.

Selling, general and administrative expenses increased by \$6.3 million in the three month period ended March 31, 2001, from the same period in 2000, resulting primarily from general increases in administrative costs due to the Company's growth and the OKN acquisition. Due to the relatively low incremental selling, general and administrative expenses to support OKN, selling, general and administrative expenses decreased to 9.0% of net sales for the first quarter of 2001 compared to 10.1% of net sales for the same period in 2000.

Other expense - net in the first quarter of 2001 was \$11.6 million compared to \$5.4 million in 2000, due primarily to increased interest expense on higher outstanding borrowings as a result of the OKN acquisition.

Income taxes as a percentage of income before income taxes decreased to 27.8% for the first quarter of 2001 from 29.9% in the same period in 2000. The lower effective tax rate was due primarily to a higher percentage of income earned in the relatively low statutory tax country of Finland and a tax holiday in Malaysia.

Net income for the three-month period ended March 31, 2001 was \$19.6 million, an increase of \$4.5 million from the same period in 2000, due to the aforementioned factors.

### **Liquidity and Capital Resources**

During the three month period ended March 31, 2001, the Company's net working capital increased by approximately \$16.2 million, compared to December 31, 2000. This increase was primarily the result of reductions of current liabilities, through cash generated by operations. Capital expenditures in 2001 were primarily related to the capacity expansions at the Company's facilities in Finland and the remaining smelter construction costs for the project in Lubumbashi, Democratic Republic of Congo which became operational during the first quarter 2001. These capital expenditures were funded through cash generated by operations as well as additional borrowings under the Company's revolving credit facility.

The Company believes that it will have sufficient cash generated by operations and through its credit facilities to provide for its future working capital and capital expenditure requirements and to pay quarterly dividends on its common stock, subject to the Board's discretion. Subject to several limitations in its credit facilities, the Company may incur additional borrowings under this line to finance working capital and certain capital expenditures, including, without limitation, the purchase of additional raw materials.

### **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. The foregoing discussion includes forward-looking statements relating to the business of the Company. Such forward-looking statements are subject to uncertainties and factors relating to the Company's operations and business environment, all of which are difficult to predict and many of which are beyond the control of the Company, that could cause actual results of the Company to differ materially from those matters expressed in or implied by such forward-looking statements. The Company believes that the following factors, among others, could affect its future performance and cause actual results of the Company to differ materially from those expressed in or implied by forward-looking statements made by or on behalf of the Company: (a) the price and supply of raw materials, particularly cobalt, copper and nickel; (b) demand for metal-based specialty chemicals and products in the markets served; (c) the effect of non-currency risks of investing in and conducting operations in foreign countries, including those

relating to political, social, economic and regulatory factors, together with fluctuations in currency exchange rates upon the Company's international operations; and (d) the ability to identify suitable acquisition candidates, or finance (through available cash flow and/or additional debt or equity financing), consummate or assimilate such acquisitions.

**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 2000 Annual Report on Form 10-K. There have been no material changes during the three months ended March 31, 2001.

**Part II      Other Information**

**Item 6      Exhibits and Reports on Form 8-K**

The following exhibits are included herein:

Exhibit (15.1) Independent Accountants' Review Report  
Exhibit (15.2) Letter re: Unaudited Interim Financial Information

There were no reports on Form 8-K filed during the three months ended March 31, 2001.

## **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.

May 10, 2001

OM GROUP, INC.

/s/ James M. Materna

James M. Materna

Chief Financial Officer

(Duly authorized signatory of OM Group, Inc.)

## Independent Accountants' Review Report

Stockholders and Board of Directors  
OM Group, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of OM Group, Inc. as of March 31, 2001, and the related condensed statements of consolidated income and cash flows for the three-month periods ended March 31, 2001 and 2000. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of OM Group, Inc. as of December 31, 2000, and the related statements of consolidated income, stockholders' equity, and cash flows for the year then ended, not presented herein, and in our report dated February 9, 2001, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2000 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived

/s/ Ernst & Young LLP

Cleveland, Ohio  
May 10, 2001

## Acknowledgment of Independent Accountants

Stockholders and Board of Directors  
OM Group, Inc.

We are aware of the incorporation by reference in the following Registration Statements of OM Group, Inc. of our report dated May 10, 2001, relating to the unaudited condensed consolidated interim financial statements of OM Group, Inc. that are included in its Form 10-Q for the quarter ended March 31, 2001.

| <u>Registration<br/>Number</u> | <u>Description</u>   | <u>Filing Date</u> |
|--------------------------------|--|--------------------|
| 33-74674                       | OM Group, Inc. Long-Term Incentive Compensation Plan --<br>Form S-8 Registration Statement -- 1,015,625 Shares     | January 27, 1994   |
| 333-07529                      | OMG Americas, Inc. Employees' Profit Sharing Plan --<br>Form S-8 Registration Statement -- 250,000 Shares          | July 3, 1996       |
| 333-07531                      | OM Group, Inc. Non-Employees Directors' Equity Plan --<br>Form S-8 Registration Statement -- 250,000 Shares        | July 3, 1996       |
| 333-47230                      | OM Group, Inc. 1998 Long-Term Incentive Compensation<br>Plan-- Form S-8 Registration Statement -- 2,000,000 shares | October 3, 2000    |

/s/ Ernst & Young LLP

Cleveland, Ohio  
May 10, 2001