

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 March 31, 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 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 March 31, 2003: Common Stock, \$.01 Par Value — 28,354,804 shares.

Part I Financial Information
Item 1 Financial Statements

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

| | March 31, 2003 | December 31, 2002 |
|---|--------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 14,026 | \$ 11,650 |
| Accounts receivable | 121,150 | 99,632 |
| Inventories | 308,820 | 304,654 |
| Other current assets | 75,935 | 90,365 |
| <i>Total Current Assets</i> | 519,931 | 506,301 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Land | 5,437 | 5,420 |
| Buildings and improvements | 178,950 | 178,373 |
| Machinery and equipment | 497,781 | 507,185 |
| Furniture and fixtures | 15,809 | 15,822 |
| | 697,977 | 706,800 |
| Less accumulated depreciation | 210,196 | 201,571 |
| | 487,781 | 505,229 |
| OTHER ASSETS | | |
| Goodwill and other intangible assets | 188,872 | 189,178 |
| Other assets | 99,970 | 91,451 |
| Assets of discontinued operations | 1,045,955 | 1,046,977 |
| TOTAL ASSETS | \$2,342,509 | \$2,339,136 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Current portion of long-term debt | \$ 7,000 | \$ 6,750 |
| Accounts payable | 102,759 | 95,685 |
| Other accrued expenses | 59,644 | 53,519 |
| <i>Total Current Liabilities</i> | 169,403 | 155,954 |
| LONG-TERM LIABILITIES | | |
| Long-term debt | 1,167,800 | 1,187,650 |
| Deferred income taxes | 62,986 | 64,136 |
| Other long-term liabilities and minority interests | 61,240 | 64,820 |
| Liabilities of discontinued operations | 408,339 | 396,691 |
| 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 | (24,566) | (17,943) |
| Treasury stock (47,359 shares in 2003 and 2002, at cost) | (2,255) | (2,255) |
| Accumulated other comprehensive income | 11,263 | 2,008 |
| Unearned compensation | (2,726) | (2,950) |
| <i>Total Stockholders' Equity</i> | 472,741 | 469,885 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$2,342,509 | \$2,339,136 |

See notes to condensed Consolidated Financial Statements

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

| | Three Months Ended March 31, | |
|--|---------------------------------|----------------|
| | 2003 | 2002 |
| Net sales | \$213,787 | \$172,022 |
| Cost of products sold | 183,350 | 122,836 |
| | <u>30,437</u> | <u>49,186</u> |
| Selling, general and administrative expenses | 25,662 | 22,065 |
| | <u>4,775</u> | <u>27,121</u> |
| INCOME FROM OPERATIONS | | |
| OTHER INCOME (EXPENSE) | | |
| Interest expense | (10,211) | (6,687) |
| Foreign exchange loss | (2,461) | (299) |
| Investment and other income, net | 433 | (53) |
| | <u>(12,239)</u> | <u>(7,039)</u> |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTERESTS | (7,464) | 20,082 |
| Income tax (benefit) expense | (1,972) | 8,506 |
| Minority interests | 62 | (46) |
| | <u>(5,554)</u> | <u>11,622</u> |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | | |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX | (1,069) | 11,746 |
| | <u>(6,623)</u> | <u>23,368</u> |
| NET INCOME (LOSS) | \$ (6,623) | \$ 23,368 |
| Net income (loss) per common share — basic | | |
| Continuing operations | \$ (0.20) | \$ 0.43 |
| Discontinued operations | \$ (0.03) | \$ 0.43 |
| | <u>(0.23)</u> | <u>0.86</u> |
| Net income (loss) | \$ (0.23) | \$ 0.86 |
| Net income (loss) per common share — assuming dilution | | |
| Continuing operations | \$ (0.20) | \$ 0.42 |
| Discontinued operations | \$ (0.03) | \$ 0.43 |
| | <u>(0.23)</u> | <u>0.85</u> |
| Net income (loss) | \$ (0.23) | \$ 0.85 |
| Weighted average shares outstanding (000) | | |
| Basic | 28,303 | 27,109 |
| Assuming dilution | 28,303 | 27,567 |
| Dividends paid per common share | \$ — | \$ 0.14 |

See notes to condensed Consolidated Financial Statements

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

| | Three Months Ended March 31, | |
|--|---------------------------------|------------------|
| | 2003 | 2002 |
| OPERATING ACTIVITIES | | |
| Income (loss) from continuing operations | \$ (5,554) | \$ 11,622 |
| Items not affecting cash: | | |
| Depreciation and amortization | 14,927 | 14,028 |
| Foreign exchange loss | 2,461 | 299 |
| Minority interests | 62 | (46) |
| Restructuring and other charges, less cash spent | 6,664 | |
| Changes in operating assets and liabilities | (11,311) | (6,542) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 7,249 | 19,361 |
| INVESTING ACTIVITIES | | |
| Expenditures for property, plant and equipment, net | (1,295) | (22,550) |
| NET CASH USED IN INVESTING ACTIVITIES | (1,295) | (22,550) |
| FINANCING ACTIVITIES | | |
| Payments of long-term debt | (19,600) | (225,805) |
| Dividend payments | | (3,946) |
| Long-term and short-term borrowings | | 9,112 |
| Proceeds from exercise of stock options | | 1,354 |
| Proceeds from sale of common shares | | 225,805 |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | (19,600) | 6,520 |
| Cash (used in) provided by continuing operations | (13,646) | 3,331 |
| Cash provided by (used in) discontinued operations | 14,453 | (4,361) |
| Effect of exchange rate changes on cash and cash equivalents | 1,569 | (1,298) |
| Increase (decrease) in cash and cash equivalents | 2,376 | (2,328) |
| Cash and cash equivalents at beginning of period | 11,650 | 18,681 |
| Cash and cash equivalents at end of period | \$ 14,026 | \$ 16,353 |

See notes to condensed Consolidated Financial Statements

OM GROUP, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 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 first quarter of 2003 as filed by the Company on May 14, 2003 for the following matters. 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 segments, which were acquired by the Company from Degussa in August 2001. The PMG business was reported as a continuing operation in the Form 10-Q for the first quarter of 2003, as filed on May 14, 2003. In June 2003, the PMG business met the criteria for a discontinued operation under SFAS No. 144 and, accordingly, the results of the business were reclassified to discontinued operations in the Form 10-Q for the 2003 second quarter. On July 29, 2003, the Company filed a Form 8-K with Statements of Consolidated Operations for each of the quarterly periods included in the year ended December 31, 2002 and the six months ended June 30, 2003, reclassified to present the results of the PMG business as a discontinued operation for all periods. Accordingly, this Form 10-Q/A also presents the PMG business as a discontinued operation, since the quarterly results contained herein have previously been presented in such fashion in such Form 8-K

During the third quarter of 2003, the Company determined that certain restructuring and other charges of \$4.7 million more appropriately relate to the first quarter of 2003, and 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 March 31, | |
|-------------------|---------------------------------|--------|
| | 2003 | 2002 |
| Net sales | \$ 4.4 | \$ 5.5 |
| Operating loss(a) | (3.3) | (0.3) |

(a) — Operating loss for the three months ended March 31, 2003 includes restructuring and other charges of \$1.6 million.

Note B Restructuring and Other Charges and Discontinued Operations

During the first quarter of 2003, the Company recorded restructuring (\$4.5 million) and other (\$4.7 million) charges related to continuing operations of \$9.2 million. These charges, which represent the continuation of the Company’s restructuring plan that commenced in the fourth quarter of 2002, are recorded in Cost of products sold (\$4.7 million) and Selling, general and administrative expenses (\$4.5 million) in the Condensed Statement of Consolidated Operations.

Restructuring liabilities at December 31, 2002 related to continuing operations, 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 | 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 | 2.2 | 1.6 | 4.5 |
| Utilized in 2003 | (74) | (2.6) | (2.2) | (1.2) | (6.0) |
| Balance at 3/31/03 | 5 | \$ 3.3 | \$ 0 | \$ 2.4 | \$ 5.7 |

In connection with the first quarter 2003 restructuring activities, the Company also recorded charges of \$5.6 million related to discontinued operations — primarily to adjust these operations to their estimated net realizable value upon disposal.

Results of discontinued operations include the base metals businesses and facilities that were identified in 2002 as discontinued through sale or shut-down -- the SCM Metal Products business, and manufacturing facilities in St. George, Utah (tungsten reclamation/cobalt recycling) and Midland, Michigan (tungsten carbide fine powders). In addition, as discussed in Note A, the Company’s Precious Metals business, which was sold on July 31, 2003, has also been presented as a discontinued operation in the accompanying financial statements. Operating results for discontinued operations for the respective periods ended March 31, which are included in Income (Loss) from Discontinued Operations on the Condensed Statements of Consolidated Operations, are summarized as follows (in millions):

| | 2003 | 2002 |
|------------------------------|-----------|-----------|
| Net sales | \$1,135.7 | \$1,016.8 |
| Operating income | 17.7 | 26.3 |
| Interest expense - allocated | 15.1 | 10.9 |
| Income tax benefit | (0.1) | — |

Note CInventories

| | March 31, 2003 | December 31, 2002 |
|----------------------------|-------------------|----------------------|
| Raw materials and supplies | \$147,140 | \$138,840 |
| Finished goods | 121,334 | 122,853 |
| | 268,474 | 261,693 |
| LIFO reserve | 40,346 | 42,961 |
| Total inventories | \$308,820 | \$304,654 |

Note DContingent 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 EComputation 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 March 31, | |
|---|---------------------------------|----------|
| | 2003 | 2002 |
| Net income (loss) | \$ (6,623) | \$23,368 |
| Weighted average number of shares outstanding | 28,303 | 27,109 |
| Dilutive effect of stock options | — | 458 |
| Weighted average number of shares outstanding — assuming dilution | 28,303 | 27,567 |
| Net income (loss) per common share | \$ (0.23) | \$ 0.86 |
| Net income (loss) per common share — assuming dilution | \$ (0.23) | \$ 0.85 |

Note F

Comprehensive Income

| | Three Months Ended March 31, | |
|--|---------------------------------|----------|
| | 2003 | 2002 |
| Net income (loss) | \$(6,623) | \$23,368 |
| Unrealized gain on available-for-sale securities | | 1,968 |
| Foreign currency translation | 9,501 | 4,758 |
| Unrealized (loss) gain on cash flow hedges | (246) | 3,113 |
| Total comprehensive income | \$ 2,632 | \$33,207 |

Note G

Stock Compensation-Adoption of SFAS No. 128

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 three months ended March 31, 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 March 31, | |
|---|---------------------------------|----------|
| | 2003 | 2002 |
| Net income (loss) as reported | \$(6,623) | \$23,368 |
| Add: Stock-based employee compensation expense included in net income, net of tax | 224 | 303 |
| Deduct: Total stock-based employee compensation expense using the fair value method for all awards, net of tax | (296) | (1,027) |
| Pro forma | \$(6,695) | \$22,644 |
| Basic net income (loss) per share | | |
| As reported | \$ (0.23) | \$ 0.86 |
| Pro forma | \$ (0.24) | \$ 0.84 |
| Diluted net income (loss) per share | | |
| As reported | \$ (0.23) | \$ 0.85 |
| Pro forma | \$ (0.24) | \$ 0.82 |

Note H

Income Taxes

The effective income tax rate for the three months ended March 31, 2003 was a benefit of 26.4% compared to expense of 42.4% in the same period in 2002. The lower rate in 2003 is due primarily to valuation allowances related to losses in the United States.

Note I

Subsequent Event

On April 1, 2003, in connection with its restructuring program, the Company completed the sale of its copper powders business — SCM Metal Products, Inc. — for proceeds of \$65 million less expenses. The results of this business unit, which had net sales of \$22 million for the three months ended March 31, 2003, are included in Loss from Discontinued Operations in the Company’s Condensed Statements of Consolidated Operations for each period.

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 first quarter of 2003 and the corresponding 2002 period 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 March 31, | |
|-------------------------------|---------------------------------|----------------|
| | 2003 | 2002 |
| Net Sales | | |
| Cobalt Group | \$ 88.5 | \$ 83.0 |
| Nickel Group | 125.3 | 89.0 |
| <i>Total Net Sales</i> | <i>\$213.8</i> | <i>\$172.0</i> |
| Operating Profit | | |
| Cobalt Group | \$ 3.7 | \$ 19.1 |
| Nickel Group | 9.1 | 14.0 |
| <i>Total Operating Profit</i> | <i>12.8</i> | <i>33.1</i> |
| Interest expense | (10.2) | (6.7) |
| Corporate expenses | (8.0) | (6.0) |

| | | |
|---|-------------------|-------------------|
| Foreign exchange loss and investment and other income, net | (2.0) | (0.3) |
| | <u> </u> | <u> </u> |
| Income (loss) from continuing operations before income taxes and minority interests | \$ (7.4) | \$ 20.1 |
| | <u> </u> | <u> </u> |

Operating profit for the Cobalt Group and Nickel Group for the three months ended March 31, 2003 includes restructuring and other charges of \$7.6 million and \$1.6 million, respectively.

Note K

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:

| | MARCH 31, 2003 | | | | |
|--|----------------|---------------------------------------|---|---------------|-------------|
| | THE COMPANY | COMBINED GUARANTOR SUBSIDIARIES | COMBINED NON-GUARANTOR SUBSIDIARIES | ELIMINATIONS | TOTAL |
| Balance Sheet Data | | | | | |
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 1,950 | \$ 582 | \$ 11,494 | | \$ 14,026 |
| Accounts receivable | 742,953 | 98,850 | 457,600 | \$(1,178,253) | 121,150 |
| Inventories | | 38,429 | 270,391 | | 308,820 |
| Other current assets | 24,624 | 3,939 | 47,372 | | 75,935 |
| | | | | | |
| Total current assets | 769,527 | 141,800 | 786,857 | (1,178,253) | 519,931 |
| Property, plant and equipment, net | | 48,016 | 439,765 | | 487,781 |
| Goodwill and other intangible assets | 11,724 | 58,412 | 118,736 | | 188,872 |
| Intercompany receivables | 284,369 | | 1,150,605 | (1,434,974) | |
| Investment in subsidiaries | 673,241 | 522,939 | 1,249,518 | (2,445,698) | |
| Other assets | 20,468 | 9,959 | 69,543 | | 99,970 |
| Assets of discontinued operations | | 235,242 | 810,713 | | 1,045,955 |
| | | | | | |
| Total assets | \$1,759,329 | \$1,016,368 | \$4,625,737 | \$(5,058,925) | \$2,342,509 |
| | | | | | |
| Liabilities and stockholders' equity | | | | | |
| Current liabilities: | | | | | |
| Short-term debt and current portion of long-term debt | \$ 7,000 | | | | \$ 7,000 |
| Accounts payable | 71,666 | \$ 399,603 | \$ 379,993 | \$ (748,503) | 102,759 |
| Other accrued expenses | 4,802 | 18,237 | 36,605 | | 59,644 |
| | | | | | |
| Total current liabilities | 83,468 | 417,840 | 416,598 | (748,503) | 169,403 |
| Long-term debt | 1,167,800 | | | | 1,167,800 |
| Deferred income taxes | 35,320 | | 27,666 | | 62,986 |
| Minority interests and other long-term liabilities | | 140 | 61,100 | | 61,240 |
| Intercompany payables | | 407,010 | 1,441,991 | (1,849,001) | |
| Liabilities of discontinued operations | | 162,941 | 245,398 | | 408,339 |
| Stockholders' equity | 472,741 | 28,437 | 2,432,984 | (2,461,421) | 472,741 |
| | | | | | |
| Total liabilities and stockholders' equity | \$1,759,329 | \$1,016,368 | \$4,625,737 | \$(5,058,925) | \$2,342,509 |
| | | | | | |

| 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 | \$ 1,780 | \$ 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 |
| 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 |
| 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 |

| THREE MONTHS ENDED MARCH 31, 2003 | | | | | |
|--|----------------|---------------------------------------|---|--------------|------------|
| Income Statement Data | THE COMPANY | COMBINED GUARANTOR SUBSIDIARIES | COMBINED NON-GUARANTOR SUBSIDIARIES | ELIMINATIONS | TOTAL |
| Net sales | | \$ 45,477 | \$223,193 | \$(54,883) | \$213,787 |
| Cost of products sold | | 35,732 | 202,501 | (54,883) | 183,350 |
| | | 9,745 | 20,692 | | 30,437 |
| Selling, general and administrative expenses | | 21,002 | 4,660 | | 25,662 |
| Income (loss) from operations | | (11,257) | 16,032 | | 4,775 |
| Interest expense | \$ (9,494) | (5,341) | (16,486) | 21,110 | (10,211) |
| Foreign exchange gain (loss) | 74 | 46 | (2,581) | | (2,461) |
| Investment and other income, net | 5,427 | 551 | 15,565 | (21,110) | 433 |
| Income (loss) from continuing operations before income taxes and minority interests | (3,993) | (16,001) | 12,530 | | (7,464) |
| Income taxes | | 7 | (1,979) | | (1,972) |
| Minority interests | | | 62 | | 62 |
| Income (loss) from continuing operations | (3,993) | (16,008) | 14,447 | | (5,554) |
| Income (loss) from discontinued operations, net of tax | (14,100) | 4,083 | 8,948 | | (1,069) |
| Net income (loss) | \$(18,093) | \$(11,295) | \$ 23,395 | \$ | \$ (6,623) |

| THREE MONTHS ENDED MARCH 31, 2002 | | | | | |
|--|----------------|---------------------------------------|---|--------------|-----------|
| Income Statement Data | THE COMPANY | COMBINED GUARANTOR SUBSIDIARIES | COMBINED NON-GUARANTOR SUBSIDIARIES | ELIMINATIONS | TOTAL |
| Net sales | | \$ 39,983 | \$178,022 | \$(45,983) | \$172,022 |
| Cost of products sold | | 24,756 | 144,063 | (45,983) | 122,836 |
| | | 15,227 | 33,959 | | 49,186 |
| Selling, general and administrative expenses | | 13,008 | 9,057 | | 22,065 |
| Income from operations | | 2,219 | 24,902 | | 27,121 |
| Interest expense | \$ (6,130) | (3,696) | (14,861) | 18,000 | (6,687) |
| Foreign exchange gain (loss) | (205) | (222) | 128 | | (299) |
| Investment and other income, net | 4,617 | 216 | 13,114 | (18,000) | (53) |
| Income (loss) from continuing operations before income taxes and minority interests | (1,718) | (1,483) | 23,283 | | 20,082 |
| Income tax (benefit) expense | (4,375) | (740) | 13,621 | | 8,506 |
| Minority interests | | | (46) | | (46) |
| Income (loss) from continuing operations | 2,657 | (743) | 9,708 | | 11,622 |
| Income (loss) from discontinued operations, net of tax | (10,200) | (985) | 22,931 | | 11,746 |
| Net income (loss) | \$ (7,543) | \$ (1,728) | \$ 32,639 | \$ | \$ 23,368 |

| Cash Flow Data | THREE MONTHS ENDED MARCH 31, 2003 | | | | |
|--|--------------------------------------|---------------------------------------|---|--------------|-----------|
| | THE COMPANY | COMBINED GUARANTOR SUBSIDIARIES | COMBINED NON-GUARANTOR SUBSIDIARIES | ELIMINATIONS | TOTAL |
| Net cash provided by (used in) operating activities | \$ 20,883 | \$(4,432) | \$ (9,202) | \$ | \$ 7,249 |
| Investing activities: | | | | | |
| Expenditures for property plant and equipment — net | | (230) | (1,065) | | (1,295) |
| Net cash used in investing activities | | (230) | (1,065) | | (1,295) |
| Financing activities: | | | | | |
| Payments of long-term debt | (19,600) | | | | (19,600) |
| Net cash used in financing activities | (19,600) | | | | (19,600) |
| Cash provided by (used in) continuing operations | 1,283 | (4,662) | (10,267) | | (13,646) |
| Cash provided by discontinued operations | | 3,464 | 10,989 | | 14,453 |
| Effect of exchange rate changes on cash and cash equivalents | | | 1,569 | | 1,569 |
| Increase (decrease) in cash and cash equivalents | 1,283 | (1,198) | 2,291 | | 2,376 |
| 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 | \$ 1,950 | \$ 582 | \$ 11,494 | \$ | \$ 14,026 |

| Cash Flow Data | THREE MONTHS ENDED MARCH 31, 2002 | | | | |
|--|--------------------------------------|---------------------------------------|---|--------------|-----------|
| | THE COMPANY | COMBINED GUARANTOR SUBSIDIARIES | COMBINED NON-GUARANTOR SUBSIDIARIES | ELIMINATIONS | TOTAL |
| Net cash provided by operating activities | \$ 604 | \$ 4,086 | \$ 14,671 | \$ | \$ 19,361 |
| Investing activities: | | | | | |
| Expenditures for property, plant and equipment — net | | (1,747) | (20,803) | | (22,550) |
| Net cash used in investing activities | | (1,747) | (20,803) | | (22,550) |
| Financing activities: | | | | | |
| Payments of long-term and short-term debt | (225,805) | | | | (225,805) |
| Dividend payments | (3,946) | | | | (3,946) |
| Long-term and short-term borrowings | 9,112 | | | | 9,112 |
| Proceeds from exercise of stock options | 1,354 | | | | 1,354 |
| Proceeds from sale of common shares | 225,805 | | | | 225,805 |
| Net cash provided by financing activities | 6,520 | | | | 6,520 |
| Cash provided by (used in) continuing operations | 7,124 | 2,339 | (6,132) | | 3,331 |
| Cash used in discontinued operations | | (1,142) | (3,219) | | (4,361) |
| Effect of exchange rate changes on cash and cash equivalents | | | (1,298) | | (1,298) |
| Increase (decrease) in cash and cash equivalents | 7,124 | 1,197 | (10,649) | | (2,328) |
| Cash and cash equivalents at beginning of the period | 638 | 1,647 | 16,936 | | 18,681 |
| Cash and cash equivalents at end of the period | \$ 7,762 | \$ 2,844 | \$ 5,747 | \$ | \$ 16,353 |

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 first quarter of 2003 and the corresponding 2002 period 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 March 31, 2003 Compared to Three Months Ended March 31, 2002 — Continuing Operations

Net sales for the three months ended March 31, 2003 were \$213.8 million, an increase of 24.3% compared to the same period in 2002. The increase was primarily the result of higher cobalt and nickel market prices resulting in higher selling prices and a 15.9% increase in cobalt sales volumes.

The following information summarizes market prices of the primary raw materials used by the Company:

| | Market Price Ranges per Pound Three Months Ended March 31, | |
|----------------------|---|------------------|
| | 2003 | 2002 |
| Cobalt - 99.3% Grade | \$6.45 to \$8.60 | \$6.40 to \$7.30 |
| Nickel | \$3.28 to \$4.07 | \$2.63 to \$3.03 |

The following information summarizes the physical volumes of cobalt and nickel products sold by the Company:

| (in millions of pounds) | Three Months Ended March 31, | | Percentage Change |
|-------------------------|------------------------------|------|----------------------|
| | 2003 | 2002 | |
| Cobalt | 5.1 | 4.4 | 15.9% |
| Nickel | 30.9 | 30.4 | 1.6% |

Gross profit decreased to \$30.4 million for the three-month period ended March 31, 2003, a 38.1% decrease compared to \$49.2 million for the same period in 2002. The decrease in gross profit was primarily due to restructuring and other charges of \$4.7 million in 2003; the negative impact of lower production in 2003; the negative impact of the strengthening euro against the dollar; a LIFO charge associated with the cobalt and nickel businesses; and the negative impact of the nickel salts plant operating below capacity. This decrease was partially offset by the positive impact of higher cobalt and nickel prices, which results in higher gross profit dollars due to higher selling prices.

Selling, general and administrative expenses in 2003 declined as a percentage of sales, to 12.0% in 2003 compared to 12.8% in the 2002 period. This decline was primarily the result of higher sales and cost reductions from restructuring activities initiated in the fourth quarter of 2002, partially offset restructuring and other charges of \$4.5 million and the strengthening euro against the dollar.

Other expense — net was \$12.2 million for the three-month period ended March 31, 2003, compared to \$7.0 million for the same period in 2002, due primarily to increased interest expense as a result of higher borrowing rates under the Company’s amended credit facilities. In addition, the Company had foreign exchange losses in 2003 of \$2.5 million, compared to \$0.3 million in 2002.

Income taxes as a percentage of income before income taxes, minority interests and equity income were a benefit of 26.4% compared to expense of 42.4% in the same period in 2002. The lower rate in 2003 is due primarily to valuation allowances related to losses in the United States.

Loss from continuing operations for the three-month period ended March 31, 2003 was \$5.6 million, compared to income of \$11.6 million for the corresponding period in 2002, due to the aforementioned factors.

Loss from discontinued operations was \$1.1 million compared to income of \$11.7 million in 2002, due primarily to restructuring charges of \$5.6 million in 2003 and higher interest expense in 2003 due to higher interest rates.

Net loss for the 2003 period was \$6.6 million, compared to net income of \$23.4 million for the corresponding period in 2002, due primarily to the aforementioned factors.

Cobalt Group

Net sales for the three months ended March 31, 2003 were \$88.5 million compared to \$83.0 million for the same period in 2002, due primarily to higher metal market prices, resulting in higher selling prices for the Company’s products and a 15.9% increase in sales volumes.

Operating profit for the period was \$3.7 million compared to \$19.1 million in the 2002 period. The amount in 2003 includes restructuring and other charges of \$7.6 million. Before these charges, operating profit decreased by \$7.8 million due primarily to the negative impact of the euro and higher LIFO charges.

Nickel Group

Net sales for the three months ended March 31, 2003 were \$125.3 million compared to \$89.0 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.

Operating profit for the period was \$9.1 million compared to \$14.0 million in the 2002 period. The amount in 2003 includes restructuring and other charges of \$1.6 million. Before these charges, operating profit decreased by \$3.3 million due primarily the negative impact of the euro and higher LIFO charges.

Liquidity and Capital Resources

During the three-month period ended March 31, 2003, the Company's net working capital increased by approximately \$0.2 million due primarily to higher accounts receivable at March 31, 2003, as a result of higher sales in the first quarter of 2003 compared to the fourth quarter of 2002, partially offset by an increase in accounts payable and other accrued expenses due to timing of payments. Capital expenditures in 2003 were \$1.3 million and were funded primarily through cash flow from operations.

During the three months ended March 31, 2003, the Company's total debt balances decreased to \$1.175 billion from \$1.194 billion. This decrease represents cash repayments using cash flow from operations. Effective April 1, 2003, the Company completed the sale of its copper powders business — SCM Metal Products, Inc. — for cash proceeds of \$65 million before expenses. The net proceeds from this disposition have been used to further reduce the Company's bank borrowings during the second quarter of 2003.

The Company's credit facilities include covenants that require the Company to reduce its debt in relation to total capital, and its debt in relation to earnings before interest expense, income taxes, depreciation and amortization. The Company was in compliance with its debt covenants at March 31, 2003 and believes that it will have sufficient cash generated by operations and from divestitures to meet future covenant requirements through December 31, 2003. If the Company is unable to generate sufficient cash from operations and divestitures during 2003, the Company may be in default of its credit facilities, and the bank group may choose not to provide additional funding to the Company under the credit facilities. If that were the case, the Company might not have sufficient capital to meet the needs of the business. Under the existing credit agreements, certain financial covenants become more stringent each quarter, with the most stringent covenants applicable in the first quarter of 2004. Unless the Company's results of operations improve during the next twelve months compared to the preceding twelve months, the Company may need to renegotiate these covenants prior to March 31, 2004.

During the first quarter of 2003, as originally announced in the fourth quarter of 2002, the Company continued to explore strategic alternatives regarding a potential investor for some or all of its precious metals business.

Subsequent Events

On July 31, 2003, the Company sold its Precious Metals business to Umicore for cash proceeds of \$814 million. The net proceeds from the sale of this business were used to repay all of the Company's outstanding indebtedness under its then-existing Senior Credit Facilities. On August 7, 2003, the Company entered into a new \$150 million Senior Secured Credit Facility with a group of lending institutions, containing covenants that are more favorable to the Company than those in the previous Senior Credit Facility.

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 since December 31, 2002, 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 G).

Cautionary 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, nickel, copper, platinum, palladium, rhodium, gold and silver;
- the demand for metal-based specialty chemicals and products in the Company’s markets;
- the effect of non-currency risks of investing in and conducting operations in foreign countries, including political, social, economic and regulatory factors;
- the effects of the substantial debt we have incurred in connection with the Company’s acquisition of the operations of dmc2 and the Company’s ability to refinance or repay that debt;
- the effect of fluctuations in currency exchange rates on the Company’s international operations;
- the impact of the Company’s restructuring program on its continuing operations;
- the ability of the Company to identify potential buyers for its assets held for sale, and a potential investor for its precious metal chemistry business, which in turn may impact the Company’s ability to meet its debt covenants with respect to net proceeds from assets sales;
- 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 Company does not assume any obligation to update these forward-looking statements.

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 three months ended March 31, 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(c) and 15d-15(e)) as of March 31, 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
Item 6

Other Information
Exhibits and Reports on Form 8-K

EXHIBITS

- (12) Computation of Ratio of Earnings to Fixed Charges
- (31.1) Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 — Chief Executive Officer
- (31.2) Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 — Chief Financial Officer
- (32.1) Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 — Chief Executive Officer
- (32.2) Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 — Chief Financial Officer
- (99.3) Earnings Statement with respect to the twelve months ended March 31, 2003

REPORTS ON FORM 8-K

There were no reports on Form 8-K filed during the three months ended March 31, 2003.

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.)