

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 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  
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 the number of shares outstanding of each of the issuer's classes of common stock, as of June 30, 2001: Common Stock, \$.01 Par Value – 23,937,591 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>  | <u>June 30,</u><br><u>2001</u> | <u>December 31,</u><br><u>2000</u> |
|---|--------------------------------|------------------------------------|
| <b>CURRENT ASSETS</b>   |                                |                                    |
| Cash and cash equivalents   | \$ 9,347                       | \$ 13,482                          |
| Accounts receivable   | 135,853                        | 147,618                            |
| Inventories   | 399,912                        | 393,849                            |
| Other current assets  | <u>67,663</u>                  | <u>56,792</u>                      |
| <i>Total Current Assets</i>   | 612,775                        | 611,741                            |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>  |                                |                                    |
| Land  | 6,758                          | 6,794                              |
| Buildings and improvements  | 127,708                        | 128,152                            |
| Machinery and equipment   | 531,483                        | 481,548                            |
| Furniture and fixtures  | <u>12,835</u>                  | <u>12,860</u>                      |
|   | 678,784                        | 629,354                            |
| Less accumulated depreciation   | <u>162,019</u>                 | <u>144,002</u>                     |
|   | 516,765                        | 485,352                            |
| <b>OTHER ASSETS</b>   |                                |                                    |
| Goodwill and other intangible assets  | 194,041                        | 192,063                            |
| Other assets  | 87,102                         | 68,306                             |
| <b>TOTAL ASSETS</b>   | <b><u>\$1,410,683</u></b>      | <b><u>\$1,357,462</u></b>          |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>                            |                                |                                    |
| <b>CURRENT LIABILITIES</b>  |                                |                                    |
| Current portion of long-term debt   | \$ 24,407                      | \$ 20,865                          |
| Accounts payable  | 78,509                         | 103,570                            |
| Other accrued expenses  | <u>73,171</u>                  | <u>82,820</u>                      |
| <i>Total Current Liabilities</i>  | 176,087                        | 207,255                            |
| <b>LONG TERM LIABILITIES</b>  |                                |                                    |
| Long-term debt  | 593,965                        | 551,079                            |
| Deferred income taxes   | 30,056                         | 29,116                             |
| Other long-term liabilities   | 14,557                         | 14,333                             |
| Minority interest   | 61,178                         | 49,549                             |
| <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  | 258,961                        | 258,913                            |
| Retained earnings   | 285,764                        | 256,183                            |
| Treasury stock (21,755 shares in 2001<br>and 105,065 shares in 2000, at cost) | (1,422)                        | (4,853)                            |
| Accumulated other comprehensive loss  | (8,374)                        | (3,967)                            |
| Unearned compensation   | <u>(329)</u>                   | <u>(386)</u>                       |
| <i>Total Stockholders' Equity</i>   | 534,840                        | 506,130                            |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                             | <b><u>\$1,410,683</u></b>      | <b><u>\$1,357,462</u></b>          |

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 |                  | Six Months Ended |                  |
|---|--------------------|------------------|------------------|------------------|
|   | June 30,           |                  | June 30,         |                  |
|   | <u>2001</u>        | <u>2000</u>      | <u>2001</u>      | <u>2000</u>      |
| Net sales                                       | \$216,589          | \$273,522        | \$452,231        | \$421,807        |
| Cost of products sold                           | <u>155,896</u>     | <u>218,122</u>   | <u>331,514</u>   | <u>324,405</u>   |
|   | 60,693             | 55,400           | 120,717          | 97,402           |
| Selling, general and administrative expenses    | 22,073             | 18,488           | 43,302           | 33,449           |
| <b>INCOME FROM OPERATIONS</b>                   | <u>38,620</u>      | <u>36,912</u>    | <u>77,415</u>    | <u>63,953</u>    |
| <b>OTHER INCOME (EXPENSE)</b>                   |                    |                  |                  |                  |
| Interest expense                                | (10,990)           | (11,593)         | (22,548)         | (17,045)         |
| Interest income                                 | 305                | 880              | 805              | 985              |
| Foreign exchange loss                           | <u>(197)</u>       | <u>(167)</u>     | <u>(745)</u>     | <u>(239)</u>     |
|   | (10,882)           | (10,880)         | (22,488)         | (16,299)         |
| <b>INCOME BEFORE INCOME TAXES</b>               | <u>27,738</u>      | <u>26,032</u>    | <u>54,927</u>    | <u>47,654</u>    |
| Income taxes                                    | 7,573              | 7,604            | 15,130           | 14,076           |
| <b>NET INCOME</b>                               | <u>\$ 20,165</u>   | <u>\$ 18,428</u> | <u>\$ 39,797</u> | <u>\$ 33,578</u> |
| Net income per common share                     | \$0.84             | \$0.77           | \$1.66           | \$1.41           |
| Net income per common share - assuming dilution | \$0.83             | \$0.76           | \$1.63           | \$1.39           |
| Weighted average shares outstanding (000)       |                    |                  |                  |                  |
| Net income per common share                     | 23,938             | 23,833           | 23,931           | 23,855           |
| Net income per common share - assuming dilution | 24,440             | 24,277           | 24,405           | 24,244           |
| Dividends paid per common share                 | \$0.13             | \$0.11           | \$0.26           | \$0.22           |

*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)

|  | Six Months Ended<br>June 30, |                  |
|--|------------------------------|------------------|
|  | 2001                         | 2000             |
| <b>OPERATING ACTIVITIES</b>                                  |                              |                  |
| Net income   | \$ 39,797                    | \$ 33,578        |
| Items not affecting cash:                                    |                              |                  |
| Depreciation and amortization                                | 23,829                       | 18,499           |
| Foreign exchange loss  | 745                          | 239              |
| Deferred income taxes  | 33                           | (1,762)          |
| Changes in operating assets and liabilities                  | <u>(62,432)</u>              | <u>(25,604)</u>  |
| NET CASH PROVIDED BY OPERATING ACTIVITIES                    | 1,972                        | 24,950           |
| <b>INVESTING ACTIVITIES</b>                                  |                              |                  |
| Expenditures for property, plant and equipment, net          | (41,575)                     | (27,735)         |
| Acquisitions of businesses                                   | 0                            | (187,700)        |
| Investment in unconsolidated joint ventures                  | <u>(4,000)</u>               | <u>(4,620)</u>   |
| NET CASH USED IN INVESTING ACTIVITIES                        | (45,575)                     | (220,055)        |
| <b>FINANCING ACTIVITIES</b>                                  |                              |                  |
| Dividend payments  | (6,221)                      | (5,248)          |
| Long-term borrowings   | 56,178                       | 223,750          |
| Payments of long-term debt                                   | (9,750)                      | (17,252)         |
| Purchase of treasury stock                                   | (5,080)                      | (4,834)          |
| Proceeds from exercise of stock options                      | <u>4,517</u>                 | <u>3,808</u>     |
| NET CASH PROVIDED BY FINANCING ACTIVITIES                    | 39,644                       | 200,224          |
| Effect of exchange rate changes on cash and cash equivalents | <u>(176)</u>                 | <u>(423)</u>     |
| (Decrease) increase in cash and cash equivalents             | (4,135)                      | 4,696            |
| 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>\$ 9,347</u>              | <u>\$ 14,129</u> |

*See notes to condensed Consolidated Financial Statements*

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

**OM GROUP, INC.**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
June 30, 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.

Statements of Financial Accounting Standards (SFAS) No. 141 "Business Combinations" and No. 142 "Goodwill and Other Intangible Assets" were approved by the Financial Accounting Standards Board effective June 30, 2001. SFAS No. 141 eliminates the pooling-of-interests method for business combinations and requires use of the purchase method. SFAS No. 142 changes the accounting for goodwill from an amortization approach to a non-amortization (impairment) approach. The Statement requires amortization of goodwill recorded in connection with previous business combinations to cease upon adoption of the Statement by calendar year companies on January 1, 2002. The Company is currently studying the impact of the Statements on its financial position, results of operations and cash flows.

**Note B**      **Financial Instruments**

Effective January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivatives and Hedging Activities", 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:

|                            | June 30,<br><u>2001</u> | December 31,<br><u>2000</u> |
|----------------------------|-------------------------|-----------------------------|
| Raw materials and supplies | \$183,858               | \$168,750                   |
| Finished goods             | <u>138,260</u>          | <u>156,159</u>              |
|                            | 322,118                 | 324,909                     |
| LIFO reserve               | <u>77,794</u>           | <u>68,940</u>               |
| Total inventories          | <u>\$399,912</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 very difficult to quantify the potential impact of compliance with or liability under environmental protection laws, management believes that the ultimate aggregate cost to the Company of environmental remediation, as well as other legal proceedings arising out of operations in the normal course of business, will not result in a material adverse effect upon its financial condition or results of operations.

#### Note 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<br>Ended June 30, |                 | Six Months Ended<br>June 30, |                 |
|--|--------------------------------|-----------------|------------------------------|-----------------|
|  | 2001                           | 2000            | 2001                         | 2000            |
| Net income   | <u>\$20,165</u>                | <u>\$18,428</u> | <u>\$39,797</u>              | <u>\$33,578</u> |
| Weighted average number of shares<br>outstanding                     | 23,938                         | 23,833          | 23,931                       | 23,855          |
| Dilutive effect of stock options                                     | <u>502</u>                     | <u>444</u>      | <u>474</u>                   | <u>389</u>      |
| Weighted average number of shares<br>outstanding - assuming dilution | <u>24,440</u>                  | <u>24,277</u>   | <u>24,405</u>                | <u>24,244</u>   |
| Net income per common share  | <u>\$.84</u>                   | <u>\$.77</u>    | <u>\$1.66</u>                | <u>\$1.41</u>   |
| Net income per common share -<br>assuming dilution                   | <u>\$.83</u>                   | <u>\$.76</u>    | <u>\$1.63</u>                | <u>\$1.39</u>   |

#### Note F Comprehensive Income

Total comprehensive income consists of the following:

|  | Three Months<br>Ended June 30, |                 | Six Months Ended<br>June 30, |                 |
|--|--------------------------------|-----------------|------------------------------|-----------------|
|  | 2001                           | 2000            | 2001                         | 2000            |
| Net income   | \$20,165                       | \$18,428        | \$39,797                     | \$33,578        |
| Foreign currency translation                           | (251)                          | (473)           | (5)                          | (409)           |
| Cumulative effect of change in<br>method of accounting | --                             | --              | (1,558)                      | --              |
| Change in fair value of derivatives                    | (611)                          | --              | (2,844)                      | --              |
| Total comprehensive income                             | <u>\$19,303</u>                | <u>\$17,955</u> | <u>\$35,390</u>              | <u>\$33,169</u> |

The components of accumulated other comprehensive loss are as follows:

|  | June 30,<br>2001 | December 31,<br>2000 |
|--|------------------|----------------------|
| Foreign currency translation adjustments   | \$(3,972)        | \$(3,967)            |
| Fair value of derivatives                  | (4,402)          | --                   |
| Total accumulated other comprehensive loss | <u>\$(8,374)</u> | <u>\$(3,967)</u>     |

## Note G Pending Acquisition

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 1.2 billion 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 prior to August 31, 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 after the closing date and has an agreement in principle with another 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 5.8 billion euro and 55 million euro, respectively.

## Item 2 Results of Operations

### *Three Months Ended June 30, 2001 Compared to Three Months Ended June 30, 2000*

Net sales for the three months ended June 30, 2001 were \$216.6 million, a decrease of 20.8% compared to the same period for 2000. The decrease in sales resulted principally from lower cobalt, nickel and copper product selling prices, as cobalt, nickel and copper raw material market prices decreased compared to the same period in 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 |                    |
|----------------------|-------------------------------|--------------------|
|                      | Three Months Ended June 30,   |                    |
|                      | 2001                          | 2000               |
| Cobalt - 99.3% Grade | \$9.08 to \$12.09             | \$12.73 to \$15.15 |
| Nickel               | \$2.74 to \$ 3.35             | \$ 3.62 to \$ 4.75 |
| Copper               | \$0.70 to \$ 0.79             | \$ 0.75 to \$ 0.84 |

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

| (in millions of pounds) | Three Months Ended June 30, |             | Percentage<br>Change |
|-------------------------|-----------------------------|-------------|----------------------|
|                         | 2001                        | 2000        |                      |
| Organics                | 21.2                        | 20.4        | 3.9%                 |
| Inorganics              | 24.8                        | 26.1        | -5.0%                |
| Powders                 | 10.7                        | 11.4        | -6.1%                |
| Metals                  | <u>28.5</u>                 | <u>27.6</u> | 3.3%                 |
|                         | <u>85.2</u>                 | <u>85.5</u> | -0.4%                |

The increase in physical volume of organic products sold occurred primarily in Europe and Asia due to stronger cobalt catalyst sales to the synthetic fiber market. The decrease in physical volume of inorganic products sold was primarily in the electronics industry and other electroplating markets, which offset volume increases to the battery chemical, coatings and steel markets. The decrease in physical volume of powders sold reflected a decrease in copper powders used in automotive and other industrial applications, offsetting strong sales of cobalt extra fine to the hard metal markets and powders and briquettes to the rechargeable



battery market. The increase in physical volume of metal products sold was primarily due to copper cathode sales, resulting from the start-up of our copper refining process in Kokkola, Finland.

Gross profit increased to \$60.7 million for the three month period ended June 30, 2001, a 9.6% increase over the same period in 2000. The improvement in gross profit was due to a change in mix to selling more cobalt-containing products. Cost of products sold decreased to 72.0% of net sales for the three months ended June 30, 2001 from 79.7% of net sales during the same period of 2000 primarily as a result of lower cobalt, nickel and copper market prices and a change in product mix.

Selling, general and administrative expenses increased by \$3.6 million in the three month period ended June 30, 2001, from the same period in 2000, resulting primarily from general increases in administrative costs due to the Company's growth. Due to these general administrative cost increases and the relatively low cobalt, nickel and copper prices, selling, general and administrative expenses increased to 10.2% of net sales for the second quarter of 2001 compared to 6.8% of net sales for the same period in 2000.

Other expense – net was \$10.9 million for both the second quarter of 2001 and 2000, due primarily to decreased interest expense, offset by lower interest income, resulting from lower interest rates in the 2001 period.

Income taxes as a percentage of income before income taxes decreased to 27.3% for the second quarter of 2001 from 29.2% in the same period in 2000. The lower effective tax rate is due primarily to higher 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 June 30, 2001 was \$20.2 million, an increase of \$1.7 million from the same period in 2000, due to the aforementioned factors.

*Six Months Ended June 30, 2001 Compared to Six Months Ended June 30, 2000*

Net sales for the six months ended June 30, 2001 were \$452.2 million, an increase of 7.2% compared to the same period for 2000. The increase in sales resulted principally through an increase in physical volume of products sold, due 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 |                    |
|----------------------|-------------------------------|--------------------|
|                      | Six Months Ended June 30,     |                    |
|                      | 2001                          | 2000               |
| Cobalt – 99.3% Grade | \$9.08 to \$12.35             | \$11.91 to \$15.25 |
| Nickel               | \$2.71 to \$ 3.35             | \$ 3.62 to \$ 4.75 |
| Copper               | \$0.70 to \$ 0.85             | \$ 0.75 to \$ 0.87 |

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

| (in millions of pounds) | Six Months Ended June 30, |              | Percentage Change |
|-------------------------|---------------------------|--------------|-------------------|
|                         | 2001                      | 2000         |                   |
| Organics                | 39.7                      | 39.8         | -0.3%             |
| Inorganics              | 51.1                      | 53.3         | -4.1%             |
| Powders                 | 23.0                      | 23.4         | -1.7%             |
| Metals                  | 58.5                      | 27.6         | 112.0%            |
|                         | <u>172.3</u>              | <u>144.1</u> | 19.6%             |

The decrease in physical volume of organic products sold was primarily due to softness in the U.S. markets for plastic additives and tire applications, offset by stronger cobalt catalyst sales to the synthetic fiber markets in Europe and Asia. The decrease in physical volume of inorganic products was primarily in the electronics industry and other electroplating markets, which offset volume increases in the hard metal and battery chemicals markets. The decrease in physical volume of powders sold reflected a decrease in copper powder used in automotive applications, offsetting increases in the volume of cobalt powders and briquettes to the hard metal and diamond tool and rechargeable battery markets. The increase in physical volume of metal products sold was primarily a result of the acquisition of OKN and the resulting sales of nickel briquettes and cathodes to the European steel industry.

Gross profit increased to \$120.7 million for the six month period ended June 30, 2001, a 23.9% increase over the same period in 2000. The improvement in gross profit was due primarily to increased volumes of product sold and a change in mix to selling more cobalt-containing products. Cost of products sold decreased to 73.3% of net sales for the six months ended June 30, 2001 from 76.9% of net sales during the same period of 2000 primarily as a result of lower cobalt, nickel and copper prices and a change in product mix.

Selling, general and administrative expenses increased by \$9.8 million in the six month period ended June 30, 2001, from the same period in 2000, resulting primarily from general increases in administrative costs due to the Company's growth. Due to these general administrative cost increases and the relatively low cobalt, nickel and copper prices, selling, general and administrative expenses increased to 9.6% of net sales for the first six months of 2001 compared to 7.9% of net sales for the same period in 2000.

Other expense - net in 2001 was \$22.5 million compared to \$16.3 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 27.5% for the first six months of 2001 from 29.5% in the same period in 2000. The lower effective tax rate is due primarily to higher income earned in the relatively low statutory tax country of Finland and a tax holiday in Malaysia.

Net income for the six-month period ended June 30, 2001 was \$39.8 million, an increase of \$6.2 million from the same period in 2000, due to the aforementioned factors.

### **Liquidity and Capital Resources**

During the six month period ended June 30, 2001, the Company's net working capital increased by approximately \$32.2 million, compared to December 31, 2000. This increase was primarily the result of payments made on contracted nickel raw material that was funded primarily through additional long-term bank borrowings. Capital expenditures in 2001 were primarily related to 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 is resolving certain matters with the seller related to the net assets acquired in the OKN acquisition. Accordingly, the OKN purchase price is subject to revision, which is not expected to be material, based on the finalization of the purchase price.

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 six-months ended June 30, 2001.

### **Part II Other Information**

#### **Item 4 Submission of Matters to a Vote of Security Holders**

The annual meeting of stockholders of OM Group, Inc. was held on May 8, 2001. An election of Directors was held at which Frank E. Butler and Edward W. Kissel were nominated and elected for terms which expire in the year 2004. The following votes were cast with respect to each of the nominees:

| <u>Director</u>  | <u>For</u> | <u>Abstain</u> |
|------------------|------------|----------------|
| Frank E. Butler  | 21,408,919 | 771,696        |
| Edward W. Kissel | 16,719,038 | 5,461,577      |

Other directors whose terms of office will continue after the meeting are:

| <u>Director</u>   | <u>Term of Office Expires</u> |
|-------------------|-------------------------------|
| Lee R. Brodeur    | 2002                          |
| Thomas R. Miklich | 2002                          |
| James P. Mooney   | 2002                          |
| John E. Mooney    | 2003                          |
| Markku Toivanen   | 2003                          |

Ernst & Young LLP was re-elected as independent auditors: For – 21,853,278; against – 319,526; abstain – 7,811.

**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 June 30, 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.

August 8, 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 June 30, 2001, and the related condensed statements of consolidated income for the three-month and six-month periods ended June 30, 2001 and 2000, and the condensed statements of consolidated cash flows for the six-month periods ended June 30, 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 generally accepted auditing standards, 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  
August 8, 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 reports dated May 10, 2001 and August 8, 2001, relating to the unaudited condensed consolidated interim financial statements of OM Group, Inc. that are included in its Forms 10-Q for the quarters ended March 31, 2001 and June 30, 2001.

| <u>Registration Number</u> | <u>Description</u>   | <u>Filing Date</u> |
|----------------------------|--|--------------------|
| 33-74674                   | OM Group, Inc. Long-Term Incentive Compensation Plan -- Form S-8 Registration Statement -- 1,015,625 Shares      | January 27, 1994   |
| 333-07529                  | OMG Americas, Inc. Employees' Profit Sharing Plan -- Form S-8 Registration Statement -- 250,000 Shares           | July 3, 1996       |
| 333-07531                  | OM Group, Inc. Non-Employees Directors' Equity Plan -- Form S-8 Registration Statement -- 250,000 Shares         | July 3, 1996       |
| 333-47230                  | OM Group, Inc. 1998 Long-Term Incentive Compensation Plan-- Form S-8 Registration Statement -- 2,000,000 shares  | October 3, 2000    |
| 333-65852                  | OM Group, Inc. 1998 Long-Term Incentive Compensation Plan -- Form S-8 Registration Statement -- 2,000,000 shares | July 25, 2001      |

/s/ Ernst & Young LLP

Cleveland, Ohio  
August 8, 2001