

OM GROUP INC
Form 10-Q
May 14, 2003

Table of Contents

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, 2003
Commission File Number 0-22572

OM GROUP, INC.

(exact name of registrant as specified in its charter)

Delaware
(state or other jurisdiction of
incorporation or organization)

52-1736882
(I.R.S., Employer
Identification Number)

Tower City
50 Public Square
Suite 3500
Cleveland, Ohio 44113-2204
(Address of principal executive offices)
(zip code)

(216) 781-0083
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934)

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of March 31, 2003: Common Stock, \$.01 Par Value
28,354,804 shares.

TABLE OF CONTENTS

Part I Financial Information

Item 1 Financial Statements

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3 Quantitative and Qualitative Disclosures About Market Risk

Item 4 Controls and Procedures

Part II Other Information

Item 6 Exhibits and Reports on Form 8-K

SIGNATURE

MANAGEMENT CERTIFICATION Principal Executive Officer

MANAGEMENT CERTIFICATION Principal Financial Officer

EX-12 RE COMPUTATION OF RATIOS

EX-99.1 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

EX-99.2 CERTIFICATION OF CHIEF FINANCIAL OFFICER

EX-99.3 EARNINGS STATEMENT

Table of Contents

**INDEX
OM GROUP, INC.**

Part I. Financial Information

- Item 1. Financial Statements (Unaudited)
- Condensed consolidated balance sheets March 31, 2003 and December 31, 2002
 - Condensed statements of consolidated operations Three months ended March 31, 2003 and 2002
 - Condensed statements of consolidated cash flows Three months ended March 31, 2003 and 2002
 - Notes to condensed consolidated financial statements March 31, 2003
- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 3. Quantitative and Qualitative Disclosures about Market Risk
- Item 4. Controls and Procedures

Part II. Other Information

- Item 1. Legal Proceedings Not applicable
- Item 2. Changes in Securities Not applicable
- Item 3. Defaults upon Senior Securities Not applicable
- Item 4. Submission of Matters to a Vote of Security Holders Not applicable
- Item 5. Other information Not applicable
- Item 6. Exhibits and Reports on Form 8-K
- (a) Exhibits
 - (12) Computation of Ratio of Earnings to Fixed Charges
 - (99.1) Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Chief Executive Officer
 - (99.2) 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
 - (b) Reports on Form 8-K
 - There were no reports on Form 8-K filed during the three months ended March 31, 2003.
- Signature
- Certifications

Table of Contents**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

\$68,974 \$77,205

Accounts receivable

396,242 359,402

Inventories

686,736 685,602

Other current assets

137,185 140,128

Total Current Assets

1,289,137 1,262,337

**PROPERTY, PLANT AND
EQUIPMENT**

Land

17,609 17,127

Buildings and improvements

199,510 195,497

Machinery and equipment

621,923 612,733

Furniture and fixtures

38,300 36,422

877,342 861,779

Less accumulated depreciation

222,784 207,621

654,558 654,158
OTHER ASSETS

Goodwill and other intangible assets

198,954 198,014

Other assets

108,705 114,587

Assets of discontinued operations

95,892 110,040

TOTAL ASSETS

\$2,347,246 \$2,339,136

**LIABILITIES AND
STOCKHOLDERS EQUITY**

CURRENT LIABILITIES

Short-term debt and current portion of
long-term debt

\$23,724 \$31,097

Accounts payable

172,935 170,150

Other accrued expenses

231,393 212,766

Total Current Liabilities

428,052 414,013

LONG-TERM LIABILITIES

Long-term debt

1,167,800 1,187,650

Deferred income taxes

83,254 74,659

Other long-term liabilities

84,115 78,905

Minority interests

81,305 77,852

Liabilities of discontinued operations

31,120 36,172

STOCKHOLDERS EQUITY

Preferred stock, \$0.01 par value:

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

Common stock, \$0.01 par value:

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

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

Retained deficit
(25,707) (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)

Total Stockholders Equity
471,600 469,885

TOTAL LIABILITIES AND
STOCKHOLDERS EQUITY
\$2,347,246 \$2,339,136

See notes to condensed Consolidated Financial Statements

Table of Contents

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 | \$ 1,319,959 | \$ 1,159,152 |
| Cost of products sold | | |
| 1,217,868 1,048,163 | | |
| | | |
| | | |
| 102,091 110,989 | | |
| Selling, general and administrative expenses | | |
| 65,673 58,841 | | |
| Restructuring charges | | |
| 7,066 | | |
| | | |
| | | |
| INCOME FROM OPERATIONS | | |
| 29,352 52,148 | | |
| OTHER INCOME (EXPENSE) | | |
| Interest expense | | |
| (24,910) (17,887) | | |
| Foreign exchange loss | | |
| (1,913) (639) | | |
| Investment and other income, net | | |
| 425 1,732 | | |
| | | |
| | | |
| (26,398) (16,794) | | |
| | | |
| | | |

INCOME FROM CONTINUING
OPERATIONS BEFORE
INCOME TAXES, MINORITY
INTERESTS AND EQUITY
INCOME

2,954 35,354

Income taxes
3,858 8,532

Minority interests
3,453 2,773

Equity in loss (income) of affiliates
421 (621)

INCOME (LOSS) FROM
CONTINUING OPERATIONS

(4,778) 24,670

LOSS FROM DISCONTINUED
OPERATIONS, NET OF TAX
(2,986) (1,302)

NET INCOME (LOSS)

\$(7,764) \$23,368

Net income (loss) per common
share basic

Continuing operations
\$(0.17) \$0.91

Discontinued operations
\$(0.10) \$(0.05)

Net income (loss)
\$(0.27) \$0.86

Net income (loss) per common
share assuming dilution

Continuing operations
\$(0.17) \$0.89

Discontinued operations

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\$(0.10) \$(0.04)

Net income (loss)

\$(0.27) \$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

Table of Contents

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 | \$(4,778) | \$24,670 |
| Items not affecting cash: | | |
| Depreciation and amortization | 19,544 | 18,134 |
| Foreign exchange loss | 1,913 | 639 |
| Minority interests | 3,453 | 2,773 |
| Equity in loss (income) of affiliates | 421 | (621) |
| Restructuring charges, less cash spent | (3,871) | |
| Changes in operating assets and liabilities | 14,747 | (32,689) |
| | | |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 31,429 | 12,906 |
| INVESTING ACTIVITIES | | |
| Expenditures for property, plant and equipment, net | (12,782) | (31,780) |
| | | |
| NET CASH USED IN INVESTING ACTIVITIES | (12,782) | (31,780) |
| FINANCING ACTIVITIES | | |

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Payments of long-term and
short-term debt
(27,673) (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
(27,673) 6,520

Cash used in continuing operations
(9,026) (12,354)
Cash used in discontinued
operations
(774) (5,322)
Effect of exchange rate changes on
cash and cash equivalents
1,569 (1,298)

Decrease in cash and cash
equivalents
(8,231) (18,974)
Cash and cash equivalents at
beginning of period
77,205 76,507

Cash and cash equivalents at end of
period
\$68,974 \$57,533

See notes to condensed Consolidated Financial Statements

Table of Contents

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. **Note B Restructuring Charges and Discontinued Operations**

During the first quarter of 2003, the Company recorded restructuring charges related to continuing operations of \$7.0 million.

These charges, which represent the

continuation of the Company's restructuring

plan that commenced in the fourth quarter of 2002, are

recorded in a separate line in the Condensed Statement of Consolidated Operations.

These charges impacted the base metal chemistry (\$3.8 million) and precious metal

chemistry segments (\$3.2 million), respectively. 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 | 149 | \$20.3 | \$0 | \$2.0 | \$22.3 |
| Charges in 2003 | 32 | 2.3 | 1.5 | 3.2 | 7.0 |
| Utilized in 2003 | (176) | (9.7) | (1.5) | (1.2) | (12.4) |
| <hr/> | | | | | |
| <hr/> | | | | | |
| <hr/> | | | | | |
| <hr/> | | | | | |
| <hr/> | | | | | |
| Balance at 3/31/03 | 5 | \$12.9 | \$0 | \$4.0 | \$16.9 |
| <hr/> | | | | | |
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Workforce reductions in 2003 relate primarily to certain United States employees in the precious metals group.

In connection with the first quarter 2003 restructuring activities, the Company also recorded charges of \$3.1 million related to discontinued operations primarily to adjust these operations to their estimated net realizable value upon disposal. Operating results for discontinued operations for the respective periods ended March 31, which are included in Loss from Discontinued Operations on the Condensed Statements of Consolidated Operations, are summarized as follows (in millions):

| | <u>2003</u> | <u>2002</u> |
|-----------------|-------------|-------------|
| Net sales | \$ 29.1 | \$ 29.7 |
| Operating loss | | |
| \$(2.1) \$(0.2) | | |

Table of Contents

Note C Inventories

| | <u>March 31, 2003</u> | <u>December 31, 2002</u> |
|----------------------------|---------------------------|------------------------------|
| Raw materials and supplies | \$438,375 | \$310,134 |
| Finished goods | | |
| 221,498 347,251 | | |
| <hr/> | | |
| <hr/> | | |
| 659,873 657,385 | | |
| LIFO reserve | | |
| 26,863 28,217 | | |
| <hr/> | | |
| <hr/> | | |
| Total inventories | | |
| \$686,736 \$685,602 | | |
| <hr/> | | |
| <hr/> | | |

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 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

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assuming
dilution
(shares in
thousands):

| | Three Months Ended March 31, | |
|--|---------------------------------|----------|
| | 2003 | 2002 |
| Net income (loss) | \$ (7,764) | \$23,368 |
| Weighted average number of shares outstanding | 28,303 | 27,109 |
| Dilutive effect of stock options 458 | | |
| <hr/> | | |
| <hr/> | | |
| Weighted average number of shares outstanding assuming dilution | 28,303 | 27,567 |
| <hr/> | | |
| <hr/> | | |
| Net income (loss) per common share | \$(0.27) | \$0.86 |
| <hr/> | | |
| <hr/> | | |
| Net income (loss) per common share assuming dilution | \$(0.27) | \$0.85 |
| <hr/> | | |
| <hr/> | | |

Table of Contents

Note F Comprehensive Income

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2003 | 2002 |
| Net income (loss) | \$(7,764) | \$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 | | |
| <hr/> | | |
| <hr/> | | |
| Total comprehensive income \$1,491 \$33,207 | | |
| <hr/> | | |
| <hr/> | | |

Note G Business Segment Information

The Company operates in three business segments: base metal chemistry, precious metal chemistry and metal management.

| | Three Months Ended March 31, | |
|-----------|---|-------------|
| | 2003 | 2002 |
| Net Sales | | |

| | | |
|--------------------------|-----------|--|
| Base metal chemistry | | |
| \$209,340 | \$166,554 | |
| Precious metal chemistry | | |
| 432,988 | 382,940 | |
| Metal management | | |
| 763,238 | 666,734 | |
| Inter-Segment | | |
| (85,607) | (57,076) | |

| | | |
|-----------------|-------------|--|
| Total Net Sales | | |
| \$1,319,959 | \$1,159,152 | |

Operating Profit

| | | |
|--------------------------|----------|--|
| Base metal chemistry | | |
| \$19,851 | \$33,425 | |
| Precious metal chemistry | | |
| 15,371 | 20,499 | |
| Metal management | | |
| 2,041 | 4,204 | |

| | | |
|------------------------|--------|--|
| Total Operating Profit | | |
| 37,263 | 58,128 | |

| | | |
|---|----------|--|
| Interest expense | | |
| (24,910) | (17,887) | |
| Foreign exchange, investment and other income, net | | |
| (1,488) | 1,093 | |
| Corporate | | |
| (7,911) | (5,980) | |

| | | |
|---|--------|--|
| Income From Continuing Operations Before Income Taxes, Minority Interests And Equity Income | | |
| 2,954 | 35,354 | |
| Income taxes | | |
| 3,858 | 8,532 | |
| Minority interests | | |

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3,453 2,773
Equity in loss (income) of affiliates
421 (621)

Income (Loss) From Continuing
Operations
\$(4,778) \$24,670

Table of Contents

Note H Stock Compensation

The Company grants stock options for a fixed number of shares to certain employees with an exercise price equal to the fair value of the shares at the date of grant and accounts for stock options using the intrinsic value method. Accordingly, compensation expense is not recognized for the stock option grants.

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. As allowed by SFAS No. 148,

the Company has adopted the disclosure-only provisions of the Standard and does not recognize expense for stock options granted to employees. If the Company had elected to adopt the provisions of SFAS No. 148 and thereby record compensation expense related to these grants, pro forma net income (loss) per diluted share would have been as follows:

| | Three Months Ended March 31, | |
|-----------------------------------|---------------------------------|----------|
| | 2003 | 2002 |
| Net income (loss) | | |
| As reported | | |
| | \$(7,764) | \$23,368 |
| <hr/> | | |
| <hr/> | | |
| Pro forma | | |
| | \$(7,836) | \$22,644 |
| <hr/> | | |
| <hr/> | | |
| Basic net income (loss) per share | | |
| As reported | | |
| | \$(0.27) | \$0.86 |
| <hr/> | | |

Pro forma
\$(0.28) \$0.84

Diluted net income (loss) per
share

As reported
\$(0.27) \$0.85

Pro forma
\$(0.28) \$0.82

The fair value of these options was estimated at the date of grant using a Black-Scholes options pricing model with the following weighted-average assumptions:

| | Three Months Ended March 31, | |
|---|---------------------------------|------|
| | 2003 | 2002 |
| Risk-free interest rate | 5.0% | 5.0% |
| Dividend yield | | 1.2% |
| Volatility factor of Company common stock | .67 | .24 |
| Weighted-average expected option life (years) | 5 | 5 |

Note I Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents also include euro deposits of 9.4 million at March 31, 2003 and December 31, 2002, which are restricted.

Note J Income Taxes

The effective income tax rate for the three months ended March 31, 2003 was 130.6% compared to 24.1% in the same period in 2002. The higher rate in 2003 is due primarily to the impact of the \$7.0 million restructuring charge for continuing operations, which resulted in a corresponding tax benefit of \$0.2 million, or 2.1%. This calculated rate of 2.1% is lower than the statutory rate in the United States due to the recognition of a valuation allowance (approximately \$2.3 million) against the portion of the benefit that relates to the United States. Before the impact of the charge, the effective

rate for the 2003 first quarter was 40.0%. This rate is higher than the corresponding rate in 2002 due primarily to losses in the United States with no corresponding tax benefit in 2003.

Note K

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 through the effective date of sale.

Subsequent Event

Note L

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:

Table of Contents

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 | \$ 1,378 | \$ 65,646 | | \$ 68,974 |
| Accounts receivable | 742,953 | 109,054 | 722,488 | \$(1,178,253) | 396,242 |
| Inventories | | 66,622 | 620,114 | | 686,736 |
| Other current assets | 24,624 | 8,673 | 103,888 | | 137,185 |
| Total current assets | 769,527 | 185,727 | 1,512,136 | (1,178,253) | 1,289,137 |
| Property, plant and equipment, net | | 54,629 | 599,929 | | 654,558 |
| Goodwill and other intangible assets | 11,724 | 124,583 | 62,647 | | 198,954 |
| Intercompany receivables | 284,369 | | 1,150,605 | (1,434,974) | |
| Investment in subsidiaries | 672,100 | 546,833 | 1,226,765 | (2,445,698) | |
| Other assets | 20,468 | 9,606 | 78,631 | | 108,705 |
| Assets of discontinued operations | | 95,892 | | | 95,892 |
| Total assets | \$ 1,758,188 | \$ 1,017,270 | \$ 4,630,713 | \$ (5,058,925) | \$ 2,347,246 |
| Liabilities and stockholders equity | | | | | |
| Current liabilities: | | | | | |
| Short-term debt and current portion of long-term debt | \$ 7,000 | | \$ 16,724 | | \$ 23,724 |
| Accounts payable | 71,666 | \$ 405,547 | 444,225 | \$ (748,503) | 172,935 |
| Other accrued expenses | 4,802 | 12,190 | 214,401 | | 231,393 |
| Total current liabilities | 83,468 | 417,737 | 675,350 | (748,503) | 428,052 |
| Long-term debt | 1,167,800 | | | | 1,167,800 |
| Deferred income taxes | 35,320 | | 47,934 | | 83,254 |
| Minority interests and other long-term liabilities | | 1,531 | 163,889 | | 165,420 |
| Intercompany payables | | 537,544 | 1,311,457 | (1,849,001) | |
| Liabilities of discontinued operations | | 31,120 | | | 31,120 |
| Stockholders equity | 471,600 | 29,338 | 2,432,083 | (2,461,421) | 471,600 |
| Total liabilities and stockholders equity | \$ 1,758,188 | \$ 1,017,270 | \$ 4,630,713 | \$ (5,058,925) | \$ 2,347,246 |

Table of Contents

DECEMBER 31, 2002

| | THE COMPANY | COMBINED GUARANTOR SUBSIDIARIES | COMBINED NON-GUARANTOR SUBSIDIARIES | ELIMINATIONS | TOTAL |
|---|----------------|---------------------------------------|---|----------------|--------------|
| Balance Sheet Data | | | | | |
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 667 | \$ 2,180 | \$ 74,358 | | \$ 77,205 |
| Accounts receivable | 752,800 | 103,417 | 649,618 | \$(1,146,433) | 359,402 |
| Inventories | | 70,538 | 615,064 | | 685,602 |
| Deferred income taxes and other current assets | 26,553 | 7,935 | 105,640 | | 140,128 |
| Total current assets | 780,020 | 184,070 | 1,444,680 | (1,146,433) | 1,262,337 |
| Property, plant and equipment net | | 55,717 | 598,441 | | 654,158 |
| Goodwill and other intangible assets | | 136,099 | 61,915 | | 198,014 |
| Intercompany receivables | 300,768 | | 1,146,191 | (1,446,959) | |
| Investment in subsidiaries | 655,822 | 544,000 | 1,247,474 | (2,447,296) | |
| Other assets | 21,231 | 10,245 | 83,111 | | 114,587 |
| Assets of discontinued operations | | 110,040 | | | 110,040 |
| Total assets | \$ 1,757,841 | \$ 1,040,171 | \$ 4,581,812 | \$ (5,040,688) | \$ 2,339,136 |
| Liabilities and stockholders equity | | | | | |
| Current liabilities: | | | | | |
| Short-term debt and current portion of long-term debt | \$ 6,750 | | \$ 24,347 | | \$ 31,097 |
| Accounts payable | 65,917 | \$ 392,588 | 439,303 | \$ (727,658) | 170,150 |
| Other accrued expenses | (7,681) | 9,056 | 211,391 | | 212,766 |
| Total current liabilities | 64,986 | 401,644 | 675,041 | (727,658) | 414,013 |
| Long-term debt | 1,187,650 | | | | 1,187,650 |
| Deferred income taxes | 35,320 | (131) | 39,470 | | 74,659 |
| Minority interests and other long-term liabilities | | 3,394 | 153,363 | | 156,757 |
| Intercompany payables | | 557,894 | 1,230,175 | (1,788,069) | |
| Liabilities of discontinued operations | | 36,172 | | | 36,172 |
| Stockholders equity | 469,885 | 41,198 | 2,483,763 | (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 |

Table of Contents**THREE MONTHS ENDED
MARCH 31, 2003**

| Income Statement Data | THE COMPANY | COMBINED GUARANTOR SUBSIDIARIES | COMBINED NON-GUARANTOR SUBSIDIARIES | ELIMINATIONS | TOTAL |
|--|------------------------|--|--|---------------------|--------------|
| Net sales | | \$ 201,812 | \$ 1,173,030 | \$ (54,883) | \$ 1,319,959 |
| Cost of products sold | | 189,477 | 1,083,274 | (54,883) | 1,217,868 |
| | | 12,335 | 89,756 | | 102,091 |
| Selling, general and administrative expenses | | 20,028 | 45,645 | | 65,673 |
| Restructuring charges | | 2,894 | 4,172 | | 7,066 |
| Income (loss) from operations | | (10,587) | 39,939 | | 29,352 |
| Interest expense | \$(23,594) | (3,702) | (18,724) | 21,110 | (24,910) |
| Foreign exchange gain (loss) | 74 | 12 | (1,999) | | (1,913) |
| Investment and other income, net | 5,427 | 144 | 15,964 | (21,110) | 425 |
| Income (loss) from continuing operations before income taxes, minority interests and equity income | (18,093) | (14,133) | 35,180 | | 2,954 |
| Income taxes | | 7 | 3,851 | | 3,858 |
| Minority interests | | | 3,453 | | 3,453 |
| Equity in loss of affiliates | | | 421 | | 421 |
| Income (loss) from continuing operations | (18,093) | (14,140) | 27,455 | | (4,778) |
| Loss from discontinued operations, net of tax | | (2,986) | | | (2,986) |
| Net income (loss) | \$(18,093) | \$ (17,126) | \$ 27,455 | \$ | \$ (7,764) |

Table of Contents**THREE MONTHS ENDED
MARCH 31, 2002**

| Income Statement Data | THE COMPANY | COMBINED GUARANTOR SUBSIDIARIES | COMBINED NON-GUARANTOR SUBSIDIARIES | ELIMINATIONS | TOTAL |
|--|------------------------|--|--|---------------------|--------------|
| Net sales | | \$ 383,689 | \$ 821,446 | \$ (45,983) | \$ 1,159,152 |
| Cost of products sold | | 368,057 | 726,089 | (45,983) | 1,048,163 |
| | | 15,632 | 95,357 | | 110,989 |
| Selling, general and administrative expenses | | 14,269 | 44,572 | | 58,841 |
| Income from operations | | 1,363 | 50,785 | | 52,148 |
| Interest expense | \$(16,330) | (3,709) | (15,848) | 18,000 | (17,887) |
| Foreign exchange gain (loss) | (205) | 547 | (981) | | (639) |
| Investment and other income, net | 4,617 | 633 | 14,482 | (18,000) | 1,732 |
| Income (loss) from continuing operations before income taxes, minority interests and equity income | (11,918) | (1,166) | 48,438 | | 35,354 |
| Income taxes | (4,375) | (740) | 13,647 | | 8,532 |
| Minority interests | | | 2,773 | | 2,773 |
| Equity in income of affiliates | | | (621) | | (621) |
| Income (loss) from continuing operations | (7,543) | (426) | 32,639 | | 24,670 |
| Loss from discontinued operations, net of tax | | (1,302) | | | (1,302) |
| Net income (loss) | \$ (7,543) | \$ (1,728) | \$ 32,639 | \$ | \$ 23,368 |

Table of Contents

| Cash Flow Data | THREE MONTHS ENDED MARCH 31, 2003 | | | | TOTAL |
|---|--------------------------------------|-----------------------|----------------------------|--------------|----------|
| | THE COMPANY | COMBINED SUBSIDIARIES | NON-GUARANTOR SUBSIDIARIES | ELIMINATIONS | |
| Net cash provided by operating activities | \$21,333 | \$ 191 | \$ 9,905 | \$ | \$31,429 |
| Investing activities: | | | | | |
| Expenditures for property plant and equipment net | (219) | (12,563) | (12,782) | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| Net cash used in investing activities | (219) | (12,563) | (12,782) | | |
| Financing activities: | | | | | |
| Payments of long-term debt and short-term debt | (20,050) | (7,623) | (27,673) | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| Net cash used in financing activities | (20,050) | (7,623) | (27,673) | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Cash provided by (used in) continuing operations
1,283 (28) (10,281) (9,026)
Cash used in discontinued operations
(774) (774)
Effect of exchange rate changes on cash and cash
equivalents
1,569 1,569

Increase (decrease) in cash and cash equivalents
1,283 (802) (8,712) (8,231)
Cash and cash equivalents at beginning of the
period
667 2,180 74,358 77,205

Cash and cash equivalents at end of the period
\$1,950 \$1,378 \$65,646 \$ \$68,974

Table of Contents

| Cash Flow Data | THREE MONTHS ENDED MARCH 31, 2002 | | | | TOTAL |
|--|--------------------------------------|-----------------------|----------------------------|-----------------------|-----------|
| | THE COMPANY | COMBINED SUBSIDIARIES | NON-GUARANTOR SUBSIDIARIES | COMBINED ELIMINATIONS | |
| Net cash provided by operating activities | \$ 604 | \$ 6,894 | \$ 5,408 | \$ | \$ 12,906 |
| Investing activities: | | | | | |
| Expenditures for property, plant and equipment net | (1,060) | (30,720) | (31,780) | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| Net cash used in investing activities | (1,060) | (30,720) | (31,780) | | |
| 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 5,834 (25,312) (12,354)
Cash used in discontinued operations
(5,322) (5,322)
Effect of exchange rate changes on cash and cash
equivalents
(23) (1,275) (1,298)

Increase (decrease) in cash and cash equivalents
7,124 489 (26,587) (18,974)
Cash and cash equivalents at beginning of the
period
638 3,006 72,863 76,507

Cash and cash equivalents at end of the period
\$7,762 \$3,495 \$46,276 \$ 57,533

Table of Contents

Item 2

Management's Discussion and Analysis of Financial Condition and Results of Operations

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 \$1.320 billion, an increase of 13.9% compared to the same period in 2002. The increase was primarily the result of higher sales volumes of cobalt products; higher cobalt and nickel market prices resulting in higher selling prices; increased sales in the auto catalyst business; and the favorable impact of the euro in 2003 compared to the same period in 2002. Gross profit decreased to \$102.1 million for the three-month period ended March 31, 2003, an 8.0% decrease compared to \$111.0 million for the same period in 2002. The decrease in gross profit was primarily due to the negative impact of lower production in 2003 in the base metal segment; the negative impact of the strengthening euro against the dollar; a LIFO charge associated with the cobalt and nickel businesses; the negative impact of the

nickel salts plant operating below capacity; and a ramp-up in costs in the automotive catalyst business in the first quarter of 2003, in anticipation of expected new business in the second half of 2003. Cost of products sold increased to \$1.218 billion from \$1.048 billion in 2002, or to 92.3% from 90.4% of net sales, primarily as a result of the foregoing factors. Selling, general and administrative expenses in 2003 declined as a percentage of sales, from 5.0% in 2003 compared to 5.1% in the 2002 period. This decline was primarily the result of cost reductions from restructuring activities initiated in the fourth quarter of 2002, partially offset by the impact of the strengthening euro against the dollar. The increase in SG&A expenses of approximately \$6.8 million was due primarily to higher sales in 2003, as well as increased Corporate expenses incurred in connection with the various restructuring activities. During 2003, the Company recorded restructuring charges related to continuing operations of

\$7.0 million. These charges represent the continuation of the Company's restructuring program that commenced in the fourth quarter of 2002. (See Note B). Other expense net was \$26.4 million for the three-month period ended March 31, 2003, compared to \$16.8 million for the same period in 2002, due primarily to increased interest expense of \$7.0 million as a result of higher borrowing rates under the Company's amended credit facilities. In addition, the Company realized foreign exchange losses in 2003 of \$1.9 million, compared to \$0.6 million in 2002. Income taxes as a percentage of income before income taxes, minority interests and equity income were 130.6% compared to 24.1% in the same period in 2002. The higher rate in 2003 is due primarily to the impact of the \$7.0 million restructuring charge for continuing operations, which resulted in a corresponding income tax benefit of \$0.2 million, or 2.1%. This calculated rate of 2.1% is lower than

the statutory rate in the United States due to the recognition of a valuation allowance (approximately \$2.3 million) against the portion of the benefit that relates to the United States.

Before the impact of the charge, the effective rate for the 2003 first quarter was 40.0%. This rate is higher than the corresponding rate in 2002 due primarily to losses in the United States with no corresponding tax benefit in 2003.

Loss from continuing operations for the three-month period ended March 31, 2003 was \$4.8 million, compared to income of \$24.7 million for the corresponding period in 2002, due to the aforementioned factors.

Discontinued Operations In connection with the restructuring plan, certain businesses previously associated with the base metal chemistry segment were identified as discontinued operations in the fourth quarter of 2002. As discussed in Note K, effective April 1, 2003 the Company sold its copper powders business located in Research Triangle

Park, North Carolina and Johnstown, Pennsylvania. In addition, the Company also closed its manufacturing facilities and related businesses in St. George, Utah (tungsten reclamation/cobalt recycling); Midland, Michigan (tungsten carbide fine powders) and Newark, New Jersey (electroless nickel). These operations have been presented as discontinued operations for all periods presented. The 2003 results for discontinued operations include a charge of \$3.1 million associated with the planned disposal of these assets. Base metal chemistry segment The base metal chemistry segment includes the cobalt, nickel and other base metal chemistry manufacturing businesses. The following information summarizes market prices of the primary raw materials used by the base metal chemistry segment:

| | 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 |

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The following information summarizes the physical volumes of cobalt and nickel products sold by the base metal chemistry segment:

| (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% | | | |

Operating profit for the three months ended March 31, 2003 was \$19.9 million compared to \$33.4 million for the same period in 2002. The decline was primarily the result of restructuring charges of \$3.8 million in 2003; the negative impact of the strengthening euro against the dollar (approximately \$10 million); the negative impact of lower production in 2003 (approximately \$8 million, including a related LIFO charge of \$3.7 million); and the negative impact of the nickel salts plant operating below capacity (approximately \$2 million). These factors were partially offset by the favorable impact of higher metal prices and volume growth in the cobalt and nickel businesses (approximately \$6 million), and the cost savings realized in connection with the Company's restructuring program (approximately \$4 million).

Net sales for the period increased to \$209.3 million compared to \$166.6 million during the same period in 2002, due to an increase in physical volumes and the favorable impact of the higher average nickel and cobalt market prices, which resulted in increased selling prices.

Table of Contents

Precious metal chemistry segment

The precious metal chemistry segment includes the auto catalyst business and other precious metals manufacturing businesses. This segment develops, produces and markets specialty chemicals and related materials, predominantly from platinum group and precious metals such as platinum, palladium, rhodium, gold and silver. This segment also offers a variety of refining and processing services to users of precious metals. Operating profit was \$15.4 million for the period compared to \$20.5 million in 2002, due primarily to restructuring charges in 2003 of approximately \$3.2 million, as well as increased costs in 2003 for new business that is expected to come on-line in the second half of the year. Net sales were \$433.0 million in 2003

compared to \$382.9 million in 2002, due primarily to increased demand in the auto catalyst business. Metal management segment The metal management segment acts as a metal sourcing operation for both the Company's operations and customers, primarily procuring precious metals. Operating profit was \$2.0 million in 2003 compared to \$4.2 million in 2002, primarily because less capital was available to this business unit for trading activities due to the Company's current financial condition. Net sales for the period were \$763.2 million compared to \$666.7 million in 2002.

Liquidity and Capital Resources

During the three-month period ended March 31, 2003, the Company's net working capital increased by approximately \$12.8 million. This increase was primarily the result of an increase in accounts receivable due

to higher sales in the first quarter of 2003 compared to the fourth quarter of 2002, partially offset by an increase in accrued expenses due primarily to the timing of payments related to accrued interest on borrowings. Capital expenditures in 2003 were \$12.8 million and primarily related to capacity expansions at various precious metal chemistry locations. These capital expenditures were funded primarily through cash flow from operations. During the three months ended March 31, 2003, the Company's total debt balances decreased to \$1.192 billion from \$1.219 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.

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. 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 is 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. **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

Table of Contents

critical accounting policies have been adopted in the first three months of 2003.

**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

Table of Contents

disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) within 90 days prior to the filing date of this Form 10-Q. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. (b) Changes in Internal Controls There were no significant changes in the Company's internal controls or in other factors that could significantly affect our internal controls subsequent to the date of the

most recent
evaluation,
including
corrective
actions with
regard to
significant
deficiencies and
material
weaknesses.

**Part
II Other
InformationItem 6**

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

EXHIBITS

(12)

Computation of
Ratio of
Earnings to
Fixed Charges
(99.1)

Certification
pursuant to
Section 906 of
the
Sarbanes-Oxley
Act of 2002
Chief Executive
Officer (99.2)

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.

Table of Contents

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 14, 2003

OM GROUP, INC.

/s/ Thomas R. Miklich

Thomas R. Miklich
Chief Financial Officer
(Duly authorized signatory of OM Group, Inc.)

MANAGEMENT CERTIFICATION Principal Executive Officer

I, James P. Mooney, certify that:

1. I have reviewed this quarterly report on Form 10-Q of OM Group, Inc.;
 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
-

Table of Contents

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 14, 2003

/s/ James P. Mooney

James P. Mooney
Chairman and Chief Executive Officer

MANAGEMENT CERTIFICATION Principal Financial Officer

I, Thomas R. Miklich, certify that:

1. I have reviewed this quarterly report on Form 10-Q of OM Group, Inc.;
 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
-

Table of Contents

- b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 14, 2003

/s/ Thomas R. Miklich

Thomas R. Miklich
Chief Financial Officer
