

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-07-12** | Period of Report: **1995-05-31**
SEC Accession No. **0000950131-95-001860**

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FILER

MATERIAL SCIENCES CORP

CIK: **755003** | IRS No.: **952673173** | State of Incorporation: **DE** | Fiscal Year End: **0228**
Type: **10-Q** | Act: **34** | File No.: **005-08803** | Film No.: **95553402**
SIC: **3470** Coating, engraving & allied services

Business Address
2300 E PRATT BLVD
ELK GROVE VILLAGE IL 60007
7084398270

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 May 31, 1995
Commission File Number 1-8803

MATERIAL SCIENCES CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

95-2673173
(IRS employer identification
number)

2300 East Pratt Boulevard
Elk Grove Village, Illinois
(Address of principal
executive offices)

60007
(Zip code)

Registrant's telephone number, including area code: (708) 439-8270

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

As of July 11, 1995, there were outstanding 15,308,791 shares of common stock, \$.02 par value.

MATERIAL SCIENCES CORPORATION

FORM 10-Q

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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- (a) Financial statements of Material Sciences Corporation and Subsidiaries
 - (b) Summarized income statement information for Walbridge Coatings, An Illinois Partnership

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
Material Sciences Corporation and Subsidiaries

<TABLE>
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(In thousands, except per share data)	Three Months Ended	
	1995	1994
	May 31,	
	1995	1994
-----	-----	-----
<S>	<C>	<C>
NET SALES (1)	\$60,406	\$58,822
Cost of Sales	43,869	43,772
	-----	-----
Gross Profit	\$16,537	\$15,050
Selling, General and Administrative Expenses	8,934	8,824
	-----	-----
Income from Operations	\$ 7,603	\$ 6,226
	-----	-----
Other (Income) and Expense:		
Interest Income	(93)	(173)
Interest Expense	46	18
Equity in Results of Partnership	(100)	(77)
Other, Net	(160)	(125)
	-----	-----
Total Other Income, Net	\$ (307)	\$ (357)
	-----	-----

Income Before Income Taxes	\$ 7,910	\$ 6,583
Income Taxes	3,044	2,502
	-----	-----
NET INCOME	\$ 4,866	\$ 4,081
	=====	=====
Net Income Per Common and Common Equivalent Share (2)	\$ 0.32	\$ 0.27
	=====	=====
Weighted Average Number of Common and Common Equivalent Shares Outstanding (2)	15,407	15,240

</TABLE>

The accompanying notes are an integral part of these statements.

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CONSOLIDATED BALANCE SHEETS
Material Sciences Corporation and Subsidiaries

<TABLE>

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(In thousands, except share data)	May 31, 1995	February 28, 1995
<S>	<C>	<C>
ASSETS:	(Unaudited)	
Current Assets:		
Cash and Cash Equivalents	\$ 3,916	\$ 5,816
Receivables:		
Trade, Less Reserves of \$3,508 and \$3,628, Respectively(3)	27,038	24,518
Current Portion of Partnership Note	859	792
Income Taxes	-	2,319
Prepaid Expenses	3,778	2,343
Inventories	26,074	23,765
Prepaid Taxes	2,246	2,246
	-----	-----
Total Current Assets	\$ 63,911	\$ 61,799
	-----	-----
Gross Property, Plant and Equipment	\$162,855	\$158,129
Accumulated Depreciation and Amortization	(68,116)	(65,216)

Net Property, Plant and Equipment	\$ 94,739	\$ 92,913
Other Assets:		
Investment in Partnership	\$ 11,275	\$ 10,917
Partnership Note Receivable,		
Less Current Portion	1,871	1,871
Intangible Assets, Net	3,143	3,193
Other	1,649	1,664
Total Other Assets	\$ 17,938	\$ 17,645
TOTAL ASSETS	\$176,588	\$172,357
	=====	=====
LIABILITIES:		
Current Liabilities:		
Current Portion of Long-Term Debt	\$ 1,926	\$ 1,903
Accounts Payable	17,677	22,521
Accrued Expenses	11,987	14,669
Total Current Liabilities	\$ 31,590	\$ 39,093
Long-Term Liabilities:		
Deferred Income Taxes	\$ 10,671	\$ 10,750
Long-Term Debt, Less Current Portion	12,740	6,933
Accrued Superfund Liability	4,159	4,198
Other	6,089	5,979
Total Long-Term Liabilities	\$ 33,659	\$ 27,860
SHAREHOLDERS' EQUITY:		
Preferred Stock(4)	\$ -	\$ -
Common Stock(5)	318	317
Additional Paid-In Capital	43,844	42,776
Treasury Stock at Cost(6)	(3,380)	(3,380)
Retained Earnings	70,557	65,691
Total Shareholders' Equity	\$111,339	\$105,404
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$176,588	\$172,357
	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
 Material Sciences Corporation and Subsidiaries
 <TABLE>
 <CAPTION>

(In thousands)	Three Months Ended May 31,	
<S>	1995	1994
<S>	<C>	<C>
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Net Income	\$ 4,866	\$ 4,081
Adjustments to Reconcile Net Income to Net		
Cash Used In Operating Activities:		
Depreciation and Amortization	3,004	2,380
Provision (Benefit) for Deferred		
Income Taxes	(79)	4
Compensatory Effect of Stock Plans	162	161
Other, Net	(100)	(77)
	-----	-----
Operating Cash Flow Prior to Changes in		
Assets and Liabilities	\$ 7,853	\$ 6,549
	-----	-----
Changes in Assets and Liabilities:		
Receivables	(2,587)	(4,255)
Income Taxes Receivable	2,319	-
Prepaid Expenses	(1,435)	(1,198)
Inventories	(2,309)	740
Accounts Payable	(4,844)	(4,076)
Accrued Expenses	(2,682)	1,143
Other, Net	71	28
	-----	-----
Cash Flow from Changes in Assets and Liabilities	\$ (11,467)	\$ (7,618)
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	\$ (3,614)	\$ (1,069)
	-----	-----
INVESTING ACTIVITIES:		
Capital Expenditures, Net	(4,780)	(2,930)
Investment in Partnership	(258)	(395)
Other Long-Term Assets	15	67
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	\$ (5,023)	\$ (3,258)
	-----	-----

FINANCING ACTIVITIES:		
Proceeds of Debt	20,241	36
Payments to Settle Debt	(14,411)	(352)
Sale of Common Stock, Net of Repurchase	907	316
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	\$ 6,737	\$ -
	-----	-----
NET DECREASE IN CASH	\$ (1,900)	\$ (4,327)
Cash and Cash Equivalents at Beginning of Period	5,816	11,930
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 3,916	\$ 7,603
	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MATERIAL SCIENCES CORPORATION

The data for the three months ended May 31, 1995 and 1994 have not been examined by independent public accountants but, in the opinion of the Company, reflect all adjustments (consisting of only normal, recurring adjustments) necessary for a fair presentation of the information at those dates and for those periods. The financial information contained in this report should be read in conjunction with the Company's 1995 Annual Report to Shareholders and Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform with the fiscal 1996 presentation.

- (1) During the three month periods ending May 31, 1995 and 1994, the Company derived approximately 23.7% and 21.0%, respectively, of its net sales from fees billed to the Partnership by a subsidiary of the Company for operating the Walbridge, Ohio facility.
- (2) On June 16, 1994 the Board of Directors of the Company declared a stock dividend of one-half share per share of the Company's Common Stock, which was paid on July 28, 1994 to shareholders of record at the close of business on June 30, 1994. All share and per share data has been restated to retroactively reflect this stock dividend.

- (3) Includes trade receivables due from the Partnership of \$1,092 at May 31, 1995 and \$799 at February 28, 1995.
- (4) Preferred Stock, \$1.00 Par Value; 10,000,000 Shares Authorized, 7,500,000 Designated Series A Junior Participating Preferred; None Issued.
- (5) Common Stock, \$.02 Par Value; 20,000,000 Shares Authorized; 15,935,264 Shares Issued and 15,246,616 Shares Outstanding at May 31, 1995 and 15,839,074 Shares Issued and 15,150,426 Shares Outstanding at February 28, 1995.
- (6) Treasury Stock at Cost; 688,648 Shares at May 31, 1995 and February 28, 1995.

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SUMMARIZED INCOME STATEMENT INFORMATION (UNAUDITED)
Walbridge Coatings, An Illinois Partnership

<TABLE>
<CAPTION>

(In thousands)	Three Months Ended	
	May 31,	
	1995	1994
<S>	<C>	<C>
Net Revenues	\$17,256	\$15,443
Gross Profit	\$ 969	\$ 1,230
Income from Operations	\$ 363	\$ 645
Net Income (Loss)	\$ (127)	\$ 1

</TABLE>

NOTE: The Net Income (Loss) shown above does not directly correlate to the Equity in results of Partnership shown in the Company's Statements of Income due to certain contractual allocation requirements of the Partnership. The Company's primary financial benefit from participation in the Partnership is in the form of revenues from operating the Walbridge, Ohio facility. These revenues are included in the Company's net sales.

MATERIAL SCIENCES CORPORATION

FORM 10-Q

For The Quarter Ended May 31, 1995

PART I. FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

Material Sciences Corporation ("MSC" or "Company") operates in one business segment comprised of the following four product groups: laminates and composites, metallizing and coating, coil coating, and electrogalvanizing. The following table provides a summary of net sales and the percent of net sales of MSC's product groups.

<TABLE>
<CAPTION>

Net Sales Summary -----	Quarter Ended May 31,			
	1995		1994	
Product Group:	Dollars	Percent	Dollars	Percent
<S>	<C>	<C>	<C>	<C>
Laminates and Composites	\$13,930	23.1%	13,071	22.2%
Metallizing and Coating	5,760	9.5%	7,161	12.2%
Coil Coating	26,394	43.7%	26,251	44.6%
Electrogalvanizing	14,322	23.7%	12,339	21.0%
	-----	-----	-----	-----
	\$60,406	100.0%	\$58,822	100.0%
	=====	=====	=====	=====

</TABLE>

RESULTS OF OPERATIONS

NET SALES

Net sales in the first quarter of fiscal 1996 increased 2.7% over the first quarter of fiscal 1995. Sales of laminates and composites grew 6.6%; coil coating 0.5%; and electrogalvanizing 16.1%; while metallizing and coating sales

were down 19.6%.

LAMINATES AND COMPOSITES

Laminates and composites sales during the first quarter grew by 6.6% over the same period of fiscal 1995. This increase was primarily the result of higher sales of Polycore Composites(R), due, in part, to new product applications and market expansion activities. The overall Polycore Composites increase was offset, in part, by somewhat lower sales of disc brake noise damper material and Specular+(R).

METALLIZING AND COATING

Sales of metallizing and coating products decreased 19.6% in the first quarter of fiscal 1996 as compared to the same period in fiscal 1995. This decrease was due primarily to solar control window film sales, which are usually strong in warmer weather but were depressed in the first quarter of fiscal 1996 by the unusually cold and damp spring season in North America. International sales of solar control window film remained strong during the first quarter.

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COIL COATING

Coil coating sales were flat compared to the previous year's first quarter. Customers built up hedge inventories, anticipating that MSC's Middletown, Ohio facility's 52-day shutdown in last fiscal year's fourth quarter would run longer than planned. The shutdown was accomplished on schedule but sales were slowed by customer inventory adjustments, particularly in the areas of lighting, heating and air conditioning, and fuel tanks.

ELECTROGALVANIZING

MSC participates in the electrogalvanizing market through Walbridge Coatings (the "Partnership"), a partnership among subsidiaries of MSC, Bethlehem Steel Corporation ("Bethlehem") and Inland Steel Industries, Inc. ("Inland"). MSC's net sales for electrogalvanizing consist of various fees charged to the Partnership for operating the facility. Bethlehem and Inland are primarily responsible for the sales and marketing activities of the Partnership. The Company's primary financial benefits from the Partnership are the revenues billed to Walbridge Coatings for operating the facility. These revenues represent 23.7% and 21.0% of the Company's net sales in the first quarters of fiscal 1996 and 1995, respectively. The profitability for operating the facility is comparable to the Company's overall operating results. Under the equity method of accounting, the Company includes its portion of the Partnership net income (loss) in Equity in Results of Partnership shown in the Consolidated Statements of Income. The amounts do not directly correlate to the Company's 50% ownership interest due to contractual allocation requirements of the Partnership agreement.

MSC's electrogalvanizing sales increased 16.1%, while electrogalvanizing volume increased 5.6% to 120,623 tons in the first quarter of fiscal 1996 from 114,188

tons in the prior fiscal year period. The increase in sales over the previous fiscal year resulted from a strong demand for new autos and trucks, a continuing shift to higher value-added electrogalvanized and coil coated materials, and price increases. MSC increased the capacity of the facility by approximately 5% in the third quarter of fiscal 1995 which also contributed to the increase in sales and volume over the prior year's first quarter.

The sales and marketing responsibilities of the Partnership are split between Bethlehem and Inland at 75% and 25%, respectively. During the first quarter of fiscal 1996, Inland utilized only 18% of available production line time rather than its full 25%. Bethlehem and other customers utilized this additional available line time. Inland is reviewing its future involvement in the Partnership, and therefore, there is no assurance that Inland will utilize its full 25% of available line time on a long-term basis. The Company believes that any short-term disruption in volume that might be caused by a reduction in Inland's line time requirements could be replaced by additional volume from Bethlehem and other customers.

GROSS PROFIT

MSC's gross profit margin was 27.4% in the first quarter of fiscal 1996 versus 25.6% in the previous year. This improvement was due to a higher value-added product mix, improving manufacturing efficiencies, and continuing productivity gains resulting from capital expenditures.

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SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (SG&A) expenses decreased to 14.8% of sales in the first quarter of fiscal 1996 from 15.0% of sales in the same period last fiscal year. This decrease was due to larger sales volume over the prior fiscal year's first quarter and lower administrative costs offset, in part, by increased expenditures for strategic purposes such as high-growth product marketing, research and development, and international marketing efforts.

TOTAL OTHER (INCOME) EXPENSE, NET AND INCOME TAXES

Total other (income) expense, net was income of \$.3 million in the first quarter of fiscal 1996 versus income of \$.4 million for the first quarter of fiscal 1995. MSC's effective income tax rate was approximately 38.5% during the first quarter of fiscal 1996 versus 38.0% in the first quarter of the prior fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

During the first quarter of fiscal 1996, MSC's operating activities utilized \$3.6 million of cash versus \$1.1 million of cash utilized during the first quarter last year. The increase in cash utilization is due mainly to increased seasonal inventory and the payment of certain accrued expenses during the first

three months of fiscal 1996.

MSC's capital expenditures during the first quarter of fiscal 1996 were \$4.8 million versus \$2.9 million during the same period of fiscal 1995. The cash flow from investment in partnership, net of distributions, was comparable in the first quarter of fiscal 1996 to the first quarter of the prior fiscal year.

During the first quarter of fiscal 1996 MSC's long-term debt, less current portion increased by \$5.8 million to \$12.7 million due to borrowings on MSC's unsecured line of credit offset, in part, by normally scheduled debt amortization. The Company maintains a \$25 million unsecured line of credit which expires August 31, 1997. There was \$6.1 million outstanding under this line of credit at May 31, 1995 versus no balance outstanding at February 28, 1995. The Company has executed letters of credit totalling \$4.9 million against this line leaving an available line of credit of \$14.0 million at May 31, 1995. The Company believes that its cash flow from operations, together with available financing (including an increase in the line of credit if required), and cash on hand will be sufficient to fund its working capital needs, capital expenditure program, and debt amortization.

The Company has a capital lease obligation, which was \$8.0 million as of May 31, 1995, relating to a facility which the Company subleases to the Partnership. In addition, throughout the term of the Partnership, the Company is contingently responsible for 50% of the Partnership's financing requirements, including the Company's share (approximately \$5.1 million) of \$10.3 million in Partnership financing loans from third parties at May 31, 1995.

MSC continues to participate in the implementation of settlements with the government for clean-up of various Superfund sites. For additional information, refer to MSC'S Form 10-K for the fiscal year ended February 28, 1995.

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MATERIAL SCIENCES CORPORATION

FORM 10-Q

For the Quarter Ended May 31, 1995

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) (27) Financial Data Schedule

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter for which this report is filed.

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SIGNATURES

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, in Elk Grove Village, State of Illinois, on the 11th day of July, 1995.

MATERIAL SCIENCES CORPORATION

By: /s/ G. Robert Evans

G. Robert Evans
Chairman and Chief Executive Officer

By: /s/ William H. Vrba

William H. Vrba
Senior Vice President, Chief
Financial Officer, and Secretary

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MATERIAL SCIENCES CORPORATION

Quarterly Report on Form 10-Q

Index to Exhibits

Exhibit Number	Description of Exhibit	Sequentially Numbered Page
-----	-----	-----
(27)	Financial Data Schedule	

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

This schedule contains summary financial information extracted from the Consolidated Statements of Income and Consolidated Balance Sheets and is qualified in its entirety by reference to such financial statements.

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