

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2013-01-14** | Period of Report: **2012-11-30**  
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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.: **001-08803** | Film No.: **13527003**  
SIC: **3470** Coating, engraving & allied services

Mailing Address

2200 E. PRATT BLVD.  
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60007

Business Address

2200 E. PRATT BLVD.  
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8474399800

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-Q

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

For the quarterly period ended November 30, 2012

Commission File Number 1-8803

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# MATERIAL SCIENCES CORPORATION

(Exact name of Registrant as specified in its charter)

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Delaware

(State or other jurisdiction of  
incorporation or organization)

95-2673173

(IRS employer  
identification number)

2200 East Pratt Boulevard

Elk Grove Village, Illinois

(Address of principal executive offices)

60007

(Zip code)

Registrant's telephone number, including area code: (847) 439-2210

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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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of January 7, 2013, there were 10,187,759 outstanding shares of common stock, \$0.02 par value.

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**MATERIAL SCIENCES CORPORATION**

**FORM 10-Q**

**For the Quarter Ended November 30, 2012**

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

- (a) Condensed financial statements of Material Sciences Corporation and Subsidiaries

## Condensed Consolidated Statements of Operations (Unaudited)

Material Sciences Corporation and Subsidiaries

(In thousands, except per share data)	Three Months Ended		Nine Months Ended	
	November 30,		November 30,	
	2012	2011	2012	2011
Net Sales	\$30,387	\$34,009	\$95,148	\$104,462
Cost of Sales	23,149	24,702	72,802	77,982
Gross Profit	7,238	9,307	22,346	26,480
Selling, General and Administrative Expenses	4,949	5,614	15,392	15,890
Gain on Sale of Assets	–	–	3,216	–
Restructuring Expenses	–	–	–	345
Income from Operations	2,289	3,693	10,170	10,245
Other Income, Net:				
Interest Income, Net	4	3	10	35
Equity in Results of Joint Venture	89	198	204	461
Rental Income	6	283	635	827
Other, Net	8	(23 )	(26 )	21
Total Other Income, Net	107	461	823	1,344
Income from Operations Before Provision for Income Taxes	2,396	4,154	10,993	11,589
Provision for Income Taxes	225	428	3,351	685
Net Income	<u>\$2,171</u>	<u>\$3,726</u>	<u>\$7,642</u>	<u>\$10,904</u>
Basic Net Income Per Share	<u>\$0.21</u>	<u>\$0.35</u>	<u>\$0.74</u>	<u>\$0.94</u>
Diluted Net Income Per Share	<u>\$0.21</u>	<u>\$0.34</u>	<u>\$0.73</u>	<u>\$0.93</u>
Weighted Average Number of Common Shares Outstanding Used for Basic Net				
Income Per Share	10,213	10,786	10,334	11,605
Dilutive Shares	134	87	123	91
Weighted Average Number of Common Shares Outstanding Plus Dilutive Shares	<u>10,347</u>	<u>10,873</u>	<u>10,457</u>	<u>11,696</u>
Outstanding Common Stock Options Having No Dilutive Effect	<u>207</u>	<u>339</u>	<u>416</u>	<u>324</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Condensed Consolidated Statements of Comprehensive Income (Unaudited)**

Material Sciences Corporation and Subsidiaries

	Three Months Ended		Nine Months Ended	
	November 30,		November 30,	
	2012	2011	2012	2011
Net Income	\$2,171	\$3,726	\$7,642	\$10,904
Other Comprehensive Income:				
Foreign Currency Translation	322	99	(714 )	437
Pension/Postretirement Adjustments, Net of Benefit for Income Taxes of \$72, \$0, \$215 and \$0, Respectively	116	(832 )	348	(190 )
Comprehensive Income	<u>\$2,609</u>	<u>\$2,993</u>	<u>\$7,276</u>	<u>\$11,151</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Condensed Consolidated Balance Sheets**  
Material Sciences Corporation and Subsidiaries

(In thousands)	November 30, 2012 (unaudited)	February 29, 2012 (audited)
<b>Assets:</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 36,094	\$ 28,201
Receivables, Less Reserves and Allowances of \$495 and \$696, Respectively	20,322	20,136
Income Taxes Receivable	1,482	141
Prepaid Expenses	790	674
Inventories	23,933	20,758
Short Term Deferred Tax Assets	3,590	4,313
Total Current Assets	<u>86,211</u>	<u>74,223</u>
Property, Plant and Equipment	118,779	127,952
Accumulated Depreciation	(90,274 )	(93,217 )
Net Property, Plant and Equipment	<u>28,505</u>	<u>34,735</u>
Other Assets:		
Investment in Joint Venture	2,787	2,955
Long Term Deferred Tax Assets	9,942	13,024
Other	146	159
Total Other Assets	<u>12,875</u>	<u>16,138</u>
Total Assets	<u>\$ 127,591</u>	<u>\$ 125,096</u>
<b>Liabilities:</b>		
Current Liabilities:		
Accounts Payable	\$ 13,007	\$ 13,364
Accrued Payroll Related Expenses	2,982	3,113
Accrued Expenses	5,131	5,289
Total Current Liabilities	<u>21,120</u>	<u>21,766</u>
Long-Term Liabilities:		
Pension and Postretirement Liabilities	7,200	8,500
Long-Term Incentives	3,163	3,420
Other	2,720	3,430
Total Long-Term Liabilities	<u>13,083</u>	<u>15,350</u>
Commitments and Contingencies	-	-
<b>Shareowners' Equity:</b>		
Preferred Stock	-	-
Common Stock	381	381
Additional Paid-In Capital	80,904	80,440
Treasury Stock at Cost	(76,756 )	(74,423 )
Retained Earnings	91,695	84,052
Accumulated Other Comprehensive Income (Loss)	(2,836 )	(2,470 )
Total Shareowners' Equity	<u>93,388</u>	<u>87,980</u>
Total Liabilities and Equity	<u>\$ 127,591</u>	<u>\$ 125,096</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.



**Condensed Consolidated Statements of Cash Flows (Unaudited)**

Material Sciences Corporation and Subsidiaries

	Nine Months Ended	
	November 30,	
	2012	2011
(In thousands)		
<b>Cash Flows From:</b>		
<b>Operating Activities:</b>		
Net Income	\$7,642	\$10,904
<b>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</b>		
Depreciation, Amortization and Accretion	3,546	3,679
Equity in Results of Joint Venture	(204 )	(461 )
Deferred Income Taxes	3,462	–
Gain on Sales of Assets	(3,216)	–
Compensatory Effect of Stock Plans	460	221
Other, Net	–	(48 )
<b>Changes in Assets and Liabilities:</b>		
Receivables	(391 )	4,451
Income Taxes Receivable	(1,341)	295
Prepaid Expenses	(112 )	(411 )
Inventories	(3,254)	(1,883 )
Accounts Payable	(273 )	(2,213 )
Accrued Expenses	(90 )	158
Other, Net	(1,705)	242
Net Cash Provided by Operating Activities	<u>4,524</u>	<u>14,934</u>
<b>Investing Activities:</b>		
Capital Expenditures	(3,465)	(5,457 )
Proceeds from Sale of Assets	9,180	–
Net Cash Provided by (Used In) Investing Activities	<u>5,715</u>	<u>(5,457 )</u>
<b>Financing Activities:</b>		
Purchases of Treasury Stock	(2,333)	(16,879)
Issuance of Common Stock	4	135
Net Cash Used in Financing Activities	<u>(2,329)</u>	<u>(16,744)</u>
Effect of Exchange Rate Changes on Cash	(17 )	(51 )
Net Increase (Decrease) in Cash and Cash Equivalents	7,893	(7,318 )
Cash and Cash Equivalents at Beginning of Period	<u>28,201</u>	<u>35,629</u>
Cash and Cash Equivalents at End of Period	<u>\$36,094</u>	<u>\$28,311</u>
<b>Non-Cash Transactions:</b>		
Capital Expenditures in Accounts Payable at End of Period	\$797	\$1,410
Treasury Stock Purchases in Accrued Liabilities at Period-End	\$–	\$6
<b>Supplemental Cash Flow Disclosures:</b>		
Interest Paid	\$24	\$27
Income Taxes Paid (Refunded), Net	\$1,818	\$326

The accompanying notes are an integral part of these condensed consolidated financial statements.



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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**MATERIAL SCIENCES CORPORATION and SUBSIDIARIES**

The financial information as of November 30, 2012, and for the three and nine months ended November 30, 2012 and 2011, has not been audited by our independent registered public accounting firm. In the opinion of Material Sciences Corporation and Subsidiaries (the "Company," "we," "our," "us" or "MSC"), the information reflects all adjustments (consisting of only normal, recurring adjustments) necessary for a fair presentation of the information at that date and for those periods. The financial information contained in this report should be read in conjunction with the Company's Annual Report on Form 10-K ("Form 10-K") filed with the Securities and Exchange Commission on May 4, 2012, for the fiscal year ended February 29, 2012. Reclassifications have been made to the prior years' consolidated financial statements to conform to the 2012 presentation—"Equity in Results of Joint Venture" was reclassified from "Other, Net" on the Condensed Consolidated Statements of Cash Flows and "Long-Term Incentives" was reclassified from "Other" within the Long-Term Liabilities section of the Condensed Consolidated Balance Sheets.

- (1) **Joint Venture.** In November 2000, a subsidiary of MSC formed a joint venture with Tekno S.A. ("Tekno") for the manufacture and sale of Quiet Steel® and disc brake noise damping material for the South American market. The Company includes its portion of the joint venture's results in the Condensed Consolidated Statements of Operations under Equity in Results of Joint Venture. The Equity in Results of Joint Venture was income of \$89,000 and \$204,000 for the three and nine months ended November 30, 2012, respectively, compared with \$198,000 and \$461,000 for the three and nine months ended November 30, 2011.
- (2) **Preferred Stock.** Preferred Stock, \$1.00 Par Value; 10,000,000 Shares Authorized; 1,000,000 Designated Series B Junior Participating Preferred; None Issued.
- (3) **Common Stock.** Common Stock, \$0.02 Par Value; 40,000,000 Shares Authorized; 19,053,051 Shares Issued and 10,187,205 Shares Outstanding as of November 30, 2012, and 19,030,983 Shares Issued and 10,470,199 Shares Outstanding as of February 29, 2012.
- (4) **Treasury Stock.** Our Board of Directors authorized the repurchase of 1,000,000 shares of the Company's common stock on September 14, 2011 and again on September 27, 2012. The shares may be repurchased from time-to-time on the open market, subject to market conditions and other factors, and generally will be funded with internally generated cash. The Company repurchased 283,388 shares under the September 2011 authorization during the nine months ended November 30, 2012. At November 30, 2012, there were 364,476 shares available for purchase under the September 2011 authorization and 1,000,000 available for purchase under the September 2012 authorization.

	Shares	Cost of Shares	
		Purchased (in thousands)	Average Price per Share
Treasury Stock as of February 29, 2012	8,540,784	\$ 74,423	\$ 8.71
Repurchases During the Nine Months Ended November 30, 2012	283,388	2,333	\$ 8.23
Treasury Stock as of November 30, 2012	8,824,172	\$ 76,756	\$ 8.70

On October 10, 2011, the Company entered into a written trading plan to purchase up to 1,000,000 shares under Rule 10b5-1 of the Exchange Act as part of the existing share repurchase program. The plan expired on July 16, 2012, when it was replaced by a new plan to purchase up to 551,853 shares. The new plan will expire on February 15, 2013, or when 551,853 shares have been repurchased, whichever occurs first. During the nine months ended November 30, 2012, MSC purchased 96,011 shares under the October 2011 plan and 187,377 under the July 2012 plan.

- (5) **Commodity Contracts.** MSC is exposed to certain risks related to ongoing business operations. We use derivative instruments with the objective of managing our financial and operational exposure arising from these risks: primarily commodity price risk. From time-to-time in the ordinary course of business, the Company enters into purchase contracts for procuring nickel carbonate, zinc shot and natural gas, which are commodities used in our manufacturing processes. MSC maintains a commodity forward purchase policy. This seeks to ensure that, at any time, the majority of the expected consumption over the next 12 months is secured under a purchase contract at a pre-determined price. When MSC enters into these contracts, it applies the Normal Purchase/Normal Sale election, which excludes the contracts from being accounted for as derivative instruments at fair value for as long as they qualify for the election.

At November 30, 2012, the Company did not have any commodity contracts that we accounted for at fair value.

- (6) **Indebtedness.** The Company has a \$7.5 million credit line (“Line”) with JPMorgan Chase Bank, N.A. Interest on the Line is at the bank’s prime rate (3.25% as of November 30, 2012) or Libor plus 1.50%, at the Company’s discretion. There are annual letter of credit fees of 1.50% on outstanding letters of credit and a 0.25% fee on the annual unused credit line. The Line is secured by a borrowing base equal to a specified percentage of accounts receivable and liens on other assets of the Company—including inventory, equipment, real property and intellectual property—reduced by outstanding letters of credit. The Line expires on May 13, 2013.

Due to the borrowing base limitations and outstanding letters of credit of \$1.1 million, the net amount available for borrowing at November 30, 2012, was \$3.9 million. The lender may, at its discretion subject to the terms of the Line, modify the advance rates used in computing the borrowing base, which may limit the amounts available for future borrowings. There were no borrowings outstanding under the Line at either November 30, 2012, or February 29, 2012, nor were any amounts borrowed during the nine months ended November 30, 2012, or November 30, 2011.

(7) **Inventory.** Inventories consist of the following:

(in thousands)	November 30, 2012	February 29, 2012
Raw Materials	\$ 10,173	\$ 9,019
Finished Goods	13,760	11,739
Total Inventories	\$ 23,933	\$ 20,758

(8) **Long-Term Incentives.** Long-Term Incentives consist of the following:

(in thousands)	November 30, 2012	February 29, 2012
Long-Term Incentives	\$ 508	\$ 822
Phantom Stock Liability	2,655	2,598
Total Long-Term incentives	\$ 3,163	\$ 3,420

Long-Term Incentives consist of deferred bonuses expected to be earned by certain members of management, based on the achievement of multi-year financial goals.

Phantom Stock Liability represents the value of long-term phantom stock units held by members of the Board of Directors. The units were awarded each quarter from June 2004 through June 2012 and are redeemed in cash after five years at the average of the closing prices of our stock for the preceding 30 trading days. The liability is adjusted to the current market value of our stock each quarter.

We also carry a current liability of \$1.4 million for the current portion of the management deferred bonuses, and a current liability of \$0.2 million (at the November 30, 2012 market value) for phantom stock units which will be redeemed within one year. These liabilities are included in Accrued Expenses within Current Liabilities

(9) **Significant Customers.** Due to the concentration in the automotive industry, management believes that sales to individual automotive customers—both Tier 1 and Tier 2 (including US Steel)—are significant. The following table shows sales to the Company's major customers as a percentage of consolidated net sales for the three and nine months ended November 30, 2012 and 2011.

Customer	% of Consolidated Net Sales for the Three Months Ended November 30,		% of Consolidated Net Sales for the Nine Months Ended November 30,	
	2012	2011	2012	2011
Chrysler	21 %	17 %	21 %	16 %
US Steel	17 %	18 %	16 %	22 %
Ford	5 %	14 %	8 %	12 %

The following table shows gross accounts receivable from the significant customers as a percentage of total consolidated gross accounts receivable as of November 30, 2012, and February 29, 2012.

Customer	% of Consolidated Gross Accounts Receivable			
	November 30, 2012		February 29, 2012	
Chrysler	19	%	18	%
US Steel	9	%	12	%
Ford	5	%	15	%

- (10) **Income Taxes.** The Company evaluates its deferred income taxes on a quarterly basis to determine if valuation allowances are required, in full or in part. This includes considering available positive and negative evidence, such as past operating results, the existence of cumulative losses in the most recent fiscal years and our forecast of future taxable income on a jurisdiction-by-jurisdiction basis. In determining future taxable income, we review the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. At November 30, 2012, MSC had valuation allowances relating to certain state net operating losses.

The Company does not anticipate that the total amount of unrecognized tax benefits of \$0.6 million at November 30, 2012, will significantly change during the next 12 months.

For the three and nine months ended November 30, 2012, MSC's effective income tax rate for continuing operations was an expense of 9.4% and 30.5%, respectively, compared with an expense of 10.3% and 5.9%, respectively in the same periods last year. The low rates in the periods ended November 30, 2011, are due to the utilization of deferred tax assets—principally AMT credits—while having a valuation allowance on the related deferred tax assets. The rate in the three months ended November 30, 2012, is lower than in the first two quarters of fiscal 2013 primarily due to the recognition of previously unrecognized tax benefits, as well as adjustments from finalizing the computation of the income tax liability for the year ended February 29, 2012. We were able to recognize the previously unrecognized tax benefits because the tax years in which they were generated are no longer subject to audit.

- (11) **Retirement and Savings Plans.** The Company has one defined contribution retirement plan qualifying under the Internal Revenue Code Section 401(k): The Material Sciences Savings & Investment Plan (the "SIP"). All MSC employees can elect to participate in the SIP.

MSC also has non-contributory defined benefit pension plans, all of which are frozen, and other postretirement plans for certain of its employees. The following table provides the components of net periodic benefit cost for the Company's defined benefit plans and other post-retirement plans.

(in thousands)	Pension Benefits		Other Benefits	
	Three Months Ended November 30,			
	2012	2011	2012	2011
Service Cost	\$-	\$-	\$6	\$5
Interest Cost	146	174	19	21
Amortization of Unrecognized Prior Service Cost	-	-	(69)	(69)
Expected Return on Plan Assets	(143)	(124)	-	-
Amortization of Net Loss	164	120	49	47
Total Net Periodic Benefit Cost	<u>\$167</u>	<u>\$170</u>	<u>\$5</u>	<u>\$4</u>

(in thousands)	Pension Benefits		Other Benefits	
	Nine Months Ended November 30,			
	2012	2011	2012	2011
Service Cost	\$-	\$-	\$17	\$15
Interest Cost	437	508	58	64
Amortization of Unrecognized Prior Service Cost	-	-	(207)	(207)
Expected Return on Plan Assets	(428)	(433)	-	-
Amortization of Net Loss	491	323	147	141
Total Net Periodic Benefit Cost	<u>500</u>	<u>\$398</u>	<u>\$15</u>	<u>\$13</u>

MSC previously disclosed in the Notes to its financial statements for the year ended February 29, 2012, that it expected to contribute \$1.5 million toward its qualified and nonqualified defined benefit pension plans and \$0.1 million toward its other post-retirement benefit plans other than pension plans in fiscal 2012. As of November 30, 2012, \$1.1 million of contributions/payments have been made toward the pension plans and less than \$0.2 million of net contributions/payments have been made to the other post-retirement plans; the increase in payments to other post-retirement plans is due to higher than usual health-care claim activity in fiscal 2013.

- (12) **Equity and Compensation Plans.** On June 28, 2012, the Company's shareowners approved the Material Sciences Corporation 2012 Incentive Compensation Plan ("2012 Plan"). The 2012 Plan replaces the Material Sciences Corporation Amended and Restated 1992 Omnibus Awards Plan for Key Employees ("1992 Plan") and the Material Sciences Corporation Fiscal Year 2006 Long-Term Incentive Plan for Non-Employee Directors (the "Director Plan"). On June 28, 2012, there were 1,406,751 shares authorized under the 2012 Plan (which number included 406,751 shares that remained available for issue under the 1992 Plan) to provide stock options, restricted stock and other equity awards under various programs to both employees and non-employee directors. In addition, any shares related to forfeited, terminated or expired awards issued under the 1992 Plan will become available under the 2012 Plan. Nonqualified stock options generally vest over three years and expire between five and 10 years from the date of grant. Restricted stock awards generally vest over three to five years from the date of grant. Restricted stock awards have been issued with restrictions based upon time, Company financial performance, or a combination of the two.

The Director Plan was adopted by the Board, effective March 1, 2005. The plan provides for phantom stock units (payable only in cash) to be granted to each non-employee director on March 1, June 1, September 1 and December 1 of each fiscal year. Each unit represents the number of shares of our common stock equal to the quotient of \$8,500 divided by the closing sale price of our common stock on the day preceding the grant date. The units vest immediately and are redeemable upon the earlier of (1) five years from the date of grant or (2) such director ceasing to be a member of the Board of Directors for certain reasons. Upon redemption, the director receives a cash amount equal to the

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number of shares of common stock represented by the unit multiplied by the average of the closing sales price of one share of our common stock for the 30 preceding trading days plus the amount of dividends declared on one share of our common stock since the date of grant. The liabilities for the cash redemptions are carried in Accrued Expenses and Long-Term Incentives, depending on the timing of the redemptions. The Director Plan was replaced in the second quarter of fiscal 2013 by the 2012 Plan, which was in effect beginning September 1, 2012. It is anticipated that, going forward, non-employee directors will receive restricted stock grants issued under the 2012 Plan instead of phantom stock units issued under the Director Plan. The quantity of restricted stock granted each quarter to non-employee directors will be computed in the same fashion. On September 1, 2012, each director was granted 959 restricted shares under the 2012 Plan.

MSC also has one inactive equity award plan: The Material Sciences Corporation 2001 Compensation Plan for Non-Employee Directors ("2001 Directors Plan"). The 2001 Directors Plan expired on February 29, 2004, and no additional grants will be made. There were 6,779 stock options outstanding and exercisable under this plan at November 30, 2012.

In March 2011, the Company granted 200,000 stock options to members of management. The Black-Scholes fair value of each option granted was \$4.13. In May 2011, MSC issued 10,000 shares of restricted stock, which will vest over three years, to the Chief Executive Officer ("CEO") for achievement of certain financial goals. In March 2012, the Company granted 200,000 stock options, with a Black-Scholes fair value of \$4.24 per option, to members of management and issued 5,900 shares of restricted stock, which will vest over one year, to certain members of management who elected to receive restricted stock in lieu of their annual compensation increase. In May 2012, MSC issued 10,000 shares of restricted stock, which will vest over three years, to the CEO for achievement of certain financial goals. There were 688,138 stock options outstanding, of which 113,138 were exercisable, at November 30, 2012.

- (13) **Segments.** MSC operates in one segment based on how the Chief Operating Decision Maker views its business for evaluating performance and making operating decisions. The Company provides material-based solutions for acoustical and coated applications. The acoustical material-based solutions include multilayer composites consisting of metals, polymers, rubber and other coated materials used to manage noise and vibration. The coated metal material-based solutions include painted, electrogalvanized ("EG"), rubber and film coatings that provide protective, decorative and functional performance. The coatings are applied to coiled metal of various widths and thicknesses. MSC's material-based solutions are designed to meet specific customer requirements for the transportation, appliance, building products, lighting and electronics markets. The Company uses a significant level of shared assets and personnel across each of its product categories. It is common for a single end-use customer to purchase products from several different product categories.

We use a significant level of shared assets, and share resources for sales, general and administrative expense, and management across each of our product categories. It is common for a single end-use customer to purchase products from several different product categories as well as from different plants. Capital projects—whether for cost savings or generating incremental revenue—are evaluated individually based on estimated economic returns (e.g., net present value, return on investment), not based on related product line or geographic location. We use a centralized functional management structure, and share administration and production resources, to deliver individual products that, together, provide solutions to our customers. Disaggregated financial information for individual product lines is limited to top-line revenues.

(\$ in thousands)	Three Months Ended November 30,				Nine Months Ended November 30,			
	2012		2011		2012		2011	
	\$	%	\$	%	\$	%	\$	%
Acoustical	18,909	62	16,524	49	58,192	61	51,390	49
Coated	11,478	38	17,485	51	36,956	39	53,072	51
<b>Total Net Sales</b>	<b>\$30,387</b>	<b>100%</b>	<b>\$34,009</b>	<b>100%</b>	<b>\$95,148</b>	<b>100%</b>	<b>\$104,462</b>	<b>100%</b>

Net sales of our domestic and foreign units are presented in the table below. No one foreign country comprised greater than 10% of consolidated net sales for any period presented.

(\$ in thousands)	Three Months Ended		Nine Months Ended	
	November 30,		November 30,	
	2012	2011	2012	2011
Domestic Net Sales	\$26,504	\$30,286	\$83,256	\$92,680
Foreign Net Sales	3,883	3,723	11,892	11,782
<b>Total Net Sales</b>	<b>\$30,387</b>	<b>\$34,009</b>	<b>\$95,148</b>	<b>\$104,462</b>

- (14) **Commitments and Contingencies.** MSC is a party to various legal proceedings in connection with the remediation of certain environmental matters. The Company's environmental reserves were approximately \$1.2 million as of November 30, 2012, and \$1.2 million as of February 29, 2012. Management does not believe that the outcome of its environmental legal proceedings will have a material adverse effect on its financial statements, given the reserves recorded as of November 30, 2012, and, where applicable, taking into account contributions from other potentially responsible parties. There are, however, a number of uncertainties. These include, without limitation, the cost of site cleanup, the discretionary authority of federal and state regulatory authorities in bringing enforcement actions and other factors that could affect the Company's exposure.

The Company is also a party to various legal actions and customer disputes arising in the ordinary course of its business. These legal actions and customer disputes cover a broad variety of claims spanning MSC's entire business. We believe that the resolution of these legal actions and customer disputes will not, individually or in the aggregate, have a material adverse effect on its financial statements.

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- (15) **Restructuring.** During the fourth quarter of fiscal 2012, MSC executed a restructuring plan at our German subsidiary, recognizing approximately \$0.3 million in employee termination benefit and related expenses. During the second quarter of fiscal 2012, the Company recognized severance expense of \$0.3 million for employee termination benefits. All of these benefits were fully paid as of the end of the second quarter of fiscal 2013.

The year-to-date activity in the restructuring reserve is presented in the chart below:

(in thousands)	
Restructuring Reserve as of February 29, 2012	\$235
Restructuring Expenses Recorded During Fiscal 2013	—
Cash Payments and Other Adjustments	(235)
Restructuring Reserve as of November 30, 2012	<u>\$—</u>

- (16) **Sale of Elk Grove Village Building.** In April 2011, after receiving authorization from the Board of Directors, management committed to a plan to sell the building located at 2200 East Pratt Boulevard in Elk Grove Village, Illinois (the “Facility”). This building houses our corporate offices and housed our coil coating assets before they were sold in April 2010.

On July 23, 2012, MSC began leasing a portion of the Facility to Main Steel Polishing Company, Inc. The lease includes approximately 240,000 square feet of the 280,000 square foot Facility. MSC entered into this lease to enhance the attractiveness of the Facility to potential buyers.

On August 31, 2012, MSC sold the Facility to Torburn Partners, Inc. (“Torburn”) for cash. The net proceeds from the sale were approximately \$9.2 million, which reflects all selling costs and the executory costs related to the lease discussed above. The Company recognized a gain of approximately \$3.2 million on the sale. MSC will report a tax loss on the sale of approximately \$5.4 million on the fiscal 2013 tax return. The Company expects to realize cash tax savings of approximately \$1.8 million due to the tax loss.

MSC entered into a four-year lease with Torburn under which MSC continues to occupy approximately 35,000 square feet of office space in the Facility to house its corporate and domestic operations.



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## **MATERIAL SCIENCES CORPORATION and SUBSIDIARIES**

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

The following management's discussion and analysis of financial condition and results of operations ("MD&A") should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and related notes, included in Item 1 of this Form 10-Q, and the audited Consolidated Financial Statements and related notes and the MD&A included in the Company's Annual Report on Form 10-K for the year ended February 29, 2012, filed on May 4, 2012 ("Form 10-K"), as well as the Company's other filings with the Securities and Exchange Commission.

#### **Executive Summary**

Material Sciences Corporation and its subsidiaries (the "Company," "MSC," "we," "our" or "us") design, manufacture and market material-based solutions for acoustical and coated applications. The acoustical material-based solutions include multilayer composites consisting of metals, polymers, rubber and other coated materials used to manage noise and vibration. The coated metal material-based solutions include painted, electrogalvanized ("EG"), rubber and film coatings that provide protective, decorative and functional performance. The coatings are applied to coiled metal of various widths and thicknesses. MSC's material-based solutions are designed to meet specific customer requirements for the automotive, appliance, building products, lighting and electronics markets. The Company uses a significant level of shared assets and personnel across each of its product categories. It is common for a single end-use customer to purchase products from several different product categories.

We continue our efforts to expand existing customer relationships in Asia through our sales offices in Korea, Malaysia and China, and have an ongoing relationship with Hae Won Steel in Korea and Federal Iron Works in Malaysia for the production of our products.

As a part of our strategic planning process, management evaluates the strategic position, growth and economic value potential of our businesses with the objective of creating additional value for our shareholders. This planning process includes a review of organic growth opportunities, potential sales of assets, acquisitions of products or businesses, strategic partnerships, and optimum capital allocation.

Although MSC has engaged in the sale of production and real estate assets in recent years, this is unlikely to continue. We will consider selling non-core assets if the circumstances are appropriate. As discussed in Note 16 of the Notes to the Condensed Consolidated Financial Statements in Item 1 of this Form 10-Q, we sold the building located at 2200 East Pratt Boulevard in Elk Grove Village, Illinois in the second quarter of fiscal 2013.

## Results of Operations

Here is a summary of our consolidated financial performance:

(\$ in thousands)	Three Months Ended			Nine Months Ended		
	November 30,			November 30,		
	2012	2011	% Variance	2012	2011	% Variance
Net Sales	\$ 30,387	\$34,009	(10.6 )%	\$95,148	\$104,462	(8.9 )%
Gross Profit	\$7,238	\$9,307	(22.2 )%	\$22,346	\$26,480	(15.6 )%
% of Net Sales	23.8 %	27.4 %		23.5 %	25.3 %	
Selling, General and Administrative	\$4,949	\$5,614	(11.9 )%	\$15,392	\$15,890	(3.1 )%
% of Net Sales	16.3 %	16.5 %		16.2 %	15.2 %	

## Sales

(\$ in thousands)	Application	Net Sales for the Three Months Ended November 30,			
		2012	2011	\$ Variance	% Variance
	Acoustical	\$ 18,909	\$ 16,524	\$ 2,385	14.4 %
	Coated	11,478	17,485	(6,007 )	(34.4 )%
	Total	\$ 30,387	\$ 34,009	(\$3,622 )	(10.7 )%

(\$ in thousands)	Application	Net Sales for the Nine Months Ended November 30,			
		2012	2011	\$ Variance	% Variance
	Acoustical	\$ 58,192	\$ 51,390	\$ 6,802	13.2 %
	Coated	36,956	53,072	(16,116 )	(30.4 )%
	Total	\$ 95,148	\$ 104,462	(\$9,314 )	(8.9 )%

## Comparison of Results of Operations for the Three Months Ended November 30, 2012 and 2011

Sales in the quarter ended November 30, 2012, decreased \$3.6 million from the prior fiscal year quarter.

Acoustical sales increased \$2.4 million versus the prior year quarter. Body panel Quiet Steel® sales for the third quarter of fiscal year 2013 were up \$1.4 million due to stronger shipments as a result of increased vehicle builds. Brake sales were up \$1.3 million due to higher aftermarket (“AM”) brake sales in both the North American and Asian markets, partially offset by lower sales of original equipment (“OE”) brakes in Europe. Other acoustical sales, net of returns & allowances (which includes scrap sales), declined \$0.3 million.

Sales of coated metal products declined \$6.0 million. Fuel tank sales declined \$3.1 million primarily due to lower shipments to Ford as they continued their conversion of certain vehicles to plastic fuel tanks. Management believes the current sales run rates for EG and fuel tank products are at more normalized levels. Sales of EG material declined \$2.8 million, primarily because substantially all of the prior year’s opportunistic shipments to our steel mill customers did not repeat in the current year period. These lower sales were partially offset by a \$0.3 million increase in sales of ElectroBrite® product. Other coated sales, net of returns & allowances (which includes scrap sales), declined by \$0.4 million.

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## **Gross Profit**

Third quarter gross profit for fiscal 2013 was \$7.2 million, or 23.8% of net sales, compared with \$9.3 million, or 27.4% of net sales, for the third quarter of fiscal year 2012. The decline resulted from several factors. The most significant cause was our lower sales of EG and fuel tank products and the corresponding decline in facility utilization. Scrap sales declined due to lower production volumes and lower market prices for scrap. We also incurred higher quality-related expenses, due in part to new product development efforts on our production lines. These factors were partially offset by lower raw material prices.

## **Selling, General and Administrative (“SG&A”) Expenses**

SG&A expenses for the three months ended November 30, 2012, were \$4.9 million, or 16.3% of net sales, compared with \$5.6 million, or 16.5% of net sales, in the same period last year. SG&A expenses in the third quarter of fiscal 2013 were lower by \$0.7 million due to lower director stock incentive expense (based on stock price), lower management incentive expenses and lower facility costs, due to the sale of our Elk Grove Village Plant #7, which houses our corporate offices. These were partially offset by higher workers compensation expenses due to legacy claims from a former subsidiary in California and higher salary expenses related to our expanded sales and product development efforts.

## **Total Other Income, Net**

Total other income, net was \$0.1 million for the three months ended November 30, 2012, and \$0.5 million for the three months ended November 30, 2011. The decrease was principally due to the loss of rental revenue because we sold our Elk Grove Village Plant #7. Joint venture income also decreased from the previous fiscal year’s third quarter due to lower sales in Brazil.

## **Income Taxes**

The Company evaluates its deferred income taxes on a quarterly basis to determine if valuation allowances are required, in full or in part. This includes considering available positive and negative evidence, such as, past operating results, the existence of cumulative losses in the most recent fiscal years and our forecast of future taxable income on a jurisdiction-by-jurisdiction basis. In determining future taxable income, we review the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. At November 30, 2012, MSC had valuation allowances relating to certain state net operating losses.

The Company does not anticipate that the total amount of unrecognized tax benefits of \$0.6 million at November 30, 2012, will significantly change during the next 12 months.

For the three months ended November 30, 2012, MSC’s effective income tax rate for continuing operations was an expense of 9.4%, compared with an expense of 10.3% in the same period last year. The low rate in the period ended November 30, 2011, is due to the utilization of deferred tax assets—principally AMT credits—while having a valuation allowance on the related deferred tax assets. The rate in the three months ended November 30, 2012, is lower than in the first two quarters of fiscal 2013 primarily due to the recognition of previously unrecognized tax benefits, as well as adjustments from finalizing the computation of the income tax liability for the year ended February 29, 2012. We were able to recognize the previously unrecognized tax benefits because the tax years in which they were generated are no longer subject to audit.

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## Comparison of Results of Operations for the Nine Months Ended November 30, 2012 and 2011

Sales in the nine months ended November 30, 2012, decreased \$9.3 million from the prior fiscal year period.

Acoustical sales increased \$6.8 million versus the prior year period. Brake sales were up \$4.2 million due to higher OE and AM brake sales in North American markets and higher AM brake sales in Asian markets, offset by lower sales of brake products in Europe due to the economic conditions there. Body panel Quiet Steel sales for the first nine months of fiscal year 2013 increased \$2.7 million due to stronger shipments to Chrysler and Ford as a result of increased vehicle builds. Sales of engine-related products increased \$0.8 million mainly due to higher OE automotive shipments. Other acoustical sales, net of returns & allowances (which includes scrap sales), declined \$0.9 million

Sales of coated metal products declined \$16.1 million. Sales of EG material declined \$10.0 million, primarily because a significant portion of the prior year's opportunistic shipments to our steel mill customers did not repeat in the current year period. Fuel tank sales declined \$4.6 million primarily due to lower shipments to Ford as they continued their conversion of certain vehicles to plastic fuel tanks. Other coated sales, net of returns & allowances (which includes scrap sales), declined \$1.5 million, mainly due to lower scrap sales.

### Gross Profit

Gross profit for the nine months ended November 30, 2012, was \$22.3 million, or 23.5% of net sales, compared to \$26.5 million, or 25.3% of net sales, for the same period in fiscal year 2012. The decline of \$4.1 million resulted from several factors. The most significant cause was our lower sales and corresponding lower facility utilization. Scrap sales declined due to lower production volumes, principally for EG, and lower market prices for scrap. Last, we experienced unfavorable plant operating performance due to higher unscheduled production downtime and yield losses that were partly the result of new product development efforts. These factors were partially offset by lower raw material prices.

### Selling, General and Administrative Expenses

SG&A expenses were \$15.4 million, or 16.2% of net sales, for the nine months ended November 30, 2012, compared to \$15.9 million, or 15.2% of net sales, in the same period last year. The decrease was principally due to lower management incentive expenses, facility costs related to the sale of our Elk Grove Village Plant #7, recruiting expenses, director stock incentive expenses—based on stock price—and professional service expenses, partially offset by higher employee-related expenses from higher staffing levels in sales and product development, and higher workers compensation expenses due to legacy claims from a former subsidiary located in California.

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## **Gain on Sale of Assets and Restructuring Expenses**

On August 31, 2012, MSC sold the Elk Grove Village Plant #7 to Torburn Partners, Inc. for cash. The net proceeds from the sale were approximately \$9.2 million. The Company recognized a gain of approximately \$3.2 million on the sale. Restructuring expenses of \$0.3 million in the nine months ended November 30, 2011, did not repeat in the current year period.

## **Total Other Income, Net**

Total other income, net for the nine months ended November 30, 2012, was \$0.8 million compared with \$1.3 million in the same period of fiscal 2012. The decrease was primarily due to lower income from our joint venture investment in Tekno because of lower sales in Brazil. Rental revenue also decreased due to the sale of our Elk Grove Village Plant #7.

## **Income Taxes**

The Company evaluates its deferred income taxes on a quarterly basis to determine if valuation allowances are required, in full or in part. This includes considering available positive and negative evidence, such as, past operating results, the existence of cumulative losses in the most recent fiscal years and our forecast of future taxable income on a jurisdiction-by-jurisdiction basis. In determining future taxable income, we review the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. At November 30, 2012, MSC had valuation allowances relating to certain state net operating losses.

The Company does not anticipate that the total amount of unrecognized tax benefits of \$0.6 million at November 30, 2012, will significantly change during the next 12 months.

For the nine months ended November 30, 2012, MSC's effective income tax rate for continuing operations was an expense of 30.5% compared with an expense of 5.9% in the same period last year. The low rate in the period ended November 30, 2011, is due to the utilization of deferred tax assets—principally AMT credits—while having a valuation allowance on the related deferred tax assets. The rate in the period ended November 30, 2012, reflects reductions primarily due to the recognition of previously unrecognized tax benefits, as well as adjustments from finalizing the computation of the income tax liability for the year ended February 29, 2012. We were able to recognize the previously unrecognized tax benefits because the tax years in which they were generated are no longer subject to audit.

## **Liquidity and Capital Resources**

We have historically financed our operations with funds generated from operating activities, borrowings under credit facilities and sales of various assets. We believe that our cash on hand, cash generated from operations and cash available under our credit facility will be sufficient to fund our operations and meet our working capital needs for the foreseeable future.

During the first nine months of fiscal 2013, we generated \$4.5 million of cash from operating activities compared with \$14.9 million during the first nine months of last fiscal year. The decrease was primarily because:

Cash generated from accounts receivable activities in the current year period is \$4.8 million less than in the same prior year period for two reasons;

Fiscal 2012 included a \$2.4 million payment from a significant customer that was delayed from fiscal 2011; this was not repeated in fiscal 2013.

Our accounts receivable included an increasing proportion of customers with longer payment terms.

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Net income after adjustment for noncash items decreased \$2.6 million from the prior year.

Income tax receivable increased \$1.6 million principally due to the projected tax savings resulting from the tax loss on the sale of the Plant #7 facility.

Cash used for inventories, accounts payable and long-term accruals was \$1.3 million higher in the first nine months of fiscal 2013 than in the same prior year period due to normal changes in operating activities. The growth in inventories was driven by a changing product mix that in certain cases requires higher inventory levels. In addition, certain inventory levels were increased at the end of the third quarter in order to pull ahead production schedules due to late December manufacturing shutdowns at our Walbridge and Elk Grove Village facilities.

In the first nine months of fiscal 2013, we invested \$3.5 million in capital improvement projects, compared with \$5.5 million in the same period last year. The decrease was primarily attributable to additional investments in the prior year for production equipment at our Elk Grove Village, Illinois Plant #2 and Walbridge, Ohio facilities to broaden our production capabilities and improve efficiency.

In the first nine months of fiscal 2013, we invested \$2.3 million repurchasing our common stock.

The Company has a credit line (“Line”) with JPMorgan Chase Bank, N.A. Interest on the Line is at the bank’s prime rate (3.25% as of November 30, 2012) or Libor plus 1.50%, at our discretion. There are annual letter of credit fees of 1.50% on outstanding letters of credit and a 0.25% fee on the annual unused credit line. The Line is secured by a borrowing base equal to a specified percentage of accounts receivable and liens on other Company assets—including inventory, equipment, real property and intellectual property—reduced by outstanding letters of credit. The Line has a minimum availability covenant of \$2.5 million. The Line expires on May 13, 2013.

Due to the borrowing base limitations and outstanding letters of credit of \$1.1 million, the net amount available for borrowing at November 30, 2012, was \$3.9 million. The lender may, at its discretion subject to the terms of the Line, modify the advance rates used in computing the borrowing base, which may limit the amounts available for future borrowings. There were no borrowings outstanding under the Line as of November 30, 2012, nor were any amounts borrowed during the nine months ended November 30, 2012, or November 30, 2011.

Our Board of Directors authorized the repurchase of 1,000,000 shares of the Company’s common stock on September 14, 2011, and again on September 27, 2012. The shares may be repurchased from time-to-time on the open market, subject to market conditions and other factors, and generally will be funded with internally generated cash. The Company repurchased 283,388 shares under the September 2011 authorization during the nine months ended November 30, 2012. At November 30, 2012, there were 364,476 shares available for purchase under the September 2011 authorization and 1,000,000 shares available for purchase under the September 2012 authorization.

MSC is party to various legal proceedings in connection with the remediation of certain environmental matters. The Company’s environmental reserves were approximately \$1.2 million at November 30, 2012, and February 29, 2012. Refer to Note 14 of the Notes to the Condensed Consolidated Financial Statements entitled “Commitments and Contingencies” for additional information.

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## **Contractual Obligations**

There were no significant changes to the contractual obligations table presented in our Form 10-K.

## **Critical Accounting Policies**

We have identified significant accounting policies that—as a result of the judgments, uncertainties, uniqueness and complexities of the underlying accounting standards and operations involved—could result in material changes to our financial condition or results of operations under different conditions or using different assumptions. Our most critical accounting policies, to which there have been no changes, are related to the following areas: revenue recognition, allowance for doubtful accounts, inventory, long-lived assets, income taxes, environmental reserves and defined benefit retirement plans. Details on our use of these policies and the related estimates are described fully in our Form 10-K.

## **Cautionary Statement Concerning Forward-Looking Statements**

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors and shareowners can better understand a company's future prospects and make informed investment decisions. This Form 10-Q contains forward-looking statements that include, without limitation, information about our anticipated results based on our plans and assumptions. We have tried, wherever possible, to identify these statements by using words such as “anticipates,” “estimates,” “expects,” “projects,” “intends,” “will,” “plans,” “believes” and similar words and terms in connection with any discussion of future operating or financial performance.

Achievement of future results is subject to risks, uncertainties and assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from what we anticipate, estimate or project in this Form 10-Q. Many of the factors that could cause this are discussed in detail in Part I, Item 1A, “Risk Factors” of our Form 10-K.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. This discussion of potential risks and uncertainties is by no means complete but is designed to highlight important factors that may affect our financial condition or results of operations. Other sections of this Form 10-Q may include additional factors that could have an adverse impact on our business and financial performance. In addition, we operate in a competitive environment. New risks emerge from time to time and it is not possible for us to predict all risk factors, nor can we assess the impact of all these risk factors on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those in any forward-looking statements. Given this situation, stockholders should not place undue reliance on forward-looking statements as a prediction of actual results.

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### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

There has been no material change in the assessment of our sensitivity to market risk since the presentation in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in the Form 10-K.

### **Item 4. Controls and Procedures**

**Evaluation of disclosure controls and procedures.** MSC maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Our controls and procedures also ensure this information is accumulated and communicated to management, including the Company’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), as appropriate, to allow timely decisions on required disclosure. MSC periodically reviews the design and effectiveness of its disclosure controls and internal control over financial reporting. The Company makes modifications to improve the design and effectiveness of its disclosure controls and internal control over financial reporting, and may take other corrective actions if its reviews identify a need for these.

There are inherent limitations to the effectiveness of any system of disclosure controls and internal control over financial reporting, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and internal control over financial reporting can only provide reasonable assurance of achieving their control objectives.

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company’s management, including the CEO and CFO, of the effectiveness of the design and operation of MSC’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, management concluded that MSC’s disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

**Changes in internal control over financial reporting.** During the quarter ended November 30, 2012, there were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

The required certifications of our principal executive and financial officers are included as exhibits to this Quarterly Report on Form 10-Q. The disclosures in this Item 4 contain information on the evaluation of our disclosure controls and procedures and changes in internal control over financial reporting referred to in those certifications. For a more complete understanding of the matters covered by the certifications, these should be read in conjunction with Item 9A of the Form 10-K.



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**MATERIAL SCIENCES CORPORATION**

**FORM 10-Q**

**For the Quarter Ended November 30, 2012**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

MSC is party to various legal actions arising in the ordinary course of its business. These legal actions cover a broad variety of claims spanning our entire business. We believe that the resolution of these legal actions will not, individually or in the aggregate, have a material adverse effect on the Company's financial statements. See Note 14 to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

**Item 1A. Risk Factors**

Our operations and financial results are subject to various risks and uncertainties that could adversely affect our business, financial condition and results of operations, cash flows, and liquidity, and the market price of our common stock. Item 1A of our Annual Report on Form 10-K for the year ended February 29, 2012, includes a detailed discussion of the risk factors we believe still exist in our business. In addition to those factors, other risks and uncertainties may have a material adverse effect on our business, financial condition, and/or operating results, cash flows and liquidity.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

- (a) None
- (b) None
- (c) Our Board of Directors authorized the repurchase of 1,000,000 shares of the Company's common stock on September 14, 2011 and again on September 27, 2012. The shares may be repurchased from time-to-time on the open market, subject to market conditions and other factors, and generally will be funded with internally generated cash. The Company repurchased 283,388 shares under the September 2011 authorization during the nine months ended November 30, 2012. At November 30, 2012, there were 364,476 shares available for purchase under the September 2011 authorization and 1,000,000 available for purchase under the September 2012 authorization.

On October 10, 2011, the Company entered into a written trading plan to purchase up to 1,000,000 shares under Rule 10b5-1 of the Exchange Act as part of the existing share repurchase program. The plan expired on July 16, 2012, when it was replaced by a new plan to purchase up to 551,853 shares. The new plan will expire on February 15, 2013, or when 551,853 shares have been repurchased, whichever occurs first.

The following table shows the repurchases of common stock made by the Company during the fiscal quarter ended November 30, 2012:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that may Yet Be Purchased Under the Plans or Programs (1)</u>
September 1-30 2012	1,532	\$ 8.77	1,532	399,525
October 1-31, 2012	9,413	\$ 8.77	9,413	390,112
November 1-30 2012	<u>25,636</u>	<u>\$ 8.76</u>	<u>25,636</u>	<u>364,476</u>
Total	<u>36,581</u>	<u>\$ 8.76</u>	<u>36,581</u>	

- (1) All of the shares repurchased during the fiscal quarter ended November 30, 2012, were bought under an open market stock repurchase program (Rule 10b5-1 plan) which was previously announced on July 17, 2012, and which will terminate on February 15, 2013

**Item 6. Exhibits**

Reference is made to the attached Index to Exhibits.

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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, on the 14th day of January 2013.

### MATERIAL SCIENCES CORPORATION

By: /s/ Clifford D. Nastas

Clifford D. Nastas  
Chief Executive Officer

By: /s/ James D. Pawlak

James D. Pawlak  
Vice President, Chief Financial  
Officer, Corporate Controller and  
Corporate Secretary

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**MATERIAL SCIENCES CORPORATION**

**Quarterly Report on Form 10-Q  
For the Quarter Ended November 30, 2012**

**Index to Exhibits**

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
31.1	Rule 13a-14(a)/ 15(d)-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/ 15(d)-14(a) Certification of Chief Financial Officer.
32	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer.
101	The following data from the Material Sciences Corporation Quarterly Report on Form 10-Q for the quarter ended November 30, 2012, formatted in eXtensible Business Reporting Language (XBRL®): (i) Condensed Consolidated Statements of Operations, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Cash Flows, and (v) the related notes. (1)

(1) This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

**Rule 13a-14(a)/ 15(d)-14(a) Certification of Chief Executive Officer**

I, Clifford D. Nastas, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Material Sciences Corporation;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting that are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

January 14, 2013

/s/ Clifford D. Nastas

Clifford D. Nastas

Chief Executive Officer

**Rule 13a-14(a)/ 15(d)-14(a) Certification of Chief Financial Officer**

I, James D. Pawlak, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Material Sciences Corporation;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting.
5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting that are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

January 14, 2013

/s/ James D. Pawlak

James D. Pawlak

Vice President, Chief Financial Officer,

Corporate Controller and Corporate Secretary

**SECTION 1350 CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER**

In connection with the Quarterly Report of Material Sciences Corporation (the "Company") on Form 10-Q for the fiscal quarter ended November 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Clifford D. Nastas, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

January 14, 2013

By: /s/ Clifford D. Nastas

Clifford D. Nastas  
Chief Executive Officer

In connection with the Report, I, James D. Pawlak, Vice President, Chief Financial Officer, Corporate Controller and Corporate Secretary of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

January 14, 2013

By: /s/ James D. Pawlak

James D. Pawlak  
Vice President, Chief Financial Officer,  
Corporate Controller and Corporate Secretary

**Long-Term Incentives  
(Detail) (USD \$)  
In Thousands, unless  
otherwise specified**

**Nov. 30, 2012 Feb. 29, 2012**

**Schedule Of Other Liabilities Noncurrent [Line Items]**

Long-Term incentives \$ 3,163 \$ 3,420

Long-Term Incentives

**Schedule Of Other Liabilities Noncurrent [Line Items]**

Long-Term incentives 508 822

Phantom Stock Liability

**Schedule Of Other Liabilities Noncurrent [Line Items]**

Long-Term incentives \$ 2,655 \$ 2,598



**Net Sales of Domestic and Foreign Units (Detail) (USD**

**)**

**In Thousands, unless otherwise specified**

**3 Months Ended**

**9 Months Ended**

**Nov. 30, 2012 Nov. 30, 2011 Nov. 30, 2012 Nov. 30, 2011**

**Segment Reporting Information [Line Items]**

<u>Net Sales</u>	\$ 30,387	\$ 34,009	\$ 95,148	\$ 104,462
Domestic Net Sales				

**Segment Reporting Information [Line Items]**

<u>Net Sales</u>	26,504	30,286	83,256	92,680
Foreign Net Sales				

**Segment Reporting Information [Line Items]**

<u>Net Sales</u>	\$ 3,883	\$ 3,723	\$ 11,892	\$ 11,782
------------------	----------	----------	-----------	-----------

Equity and Compensation Plans - Additional Information (Detail) (USD \$)	1 Months Ended		9 Months Ended		1 Months Ended				9 Months Ended				9 Months Ended		
	Mar. 31, 2012	Mar. 31, 2011	Nov. 30, 2012 Minimum	Nov. 30, 2012 Maximum	Nov. 30, 2012 Stock Options	May 31, 2012 Restricted Stock	Mar. 31, 2012 Restricted Stock	May 31, 2011 Restricted Stock	Nov. 30, 2012 Restricted Stock	Nov. 30, 2012 Restricted Stock Minimum	Nov. 30, 2012 Restricted Stock Maximum	Jun. 28, 2012 Plan	Jun. 28, 2012 Nineteen Ninety Two Omnibus Awards Plan	Nov. 30, 2012 Twenty Zero One Compensation Plan for Non- employee Directors Compensation Plan	Nov. 30, 2012 Directors Plan
<a href="#">Share-based Compensation Arrangement by Share-based Payment Award [Line Items]</a>															
<a href="#">Shares authorized under compensation plans</a>												1,406,751			
<a href="#">Shares remaining available for issuance</a>												406,751			
<a href="#">Share based payment award, award vesting period</a>					3 years	3 years	1 year	3 years		3 years	5 years				5 years
<a href="#">Nonqualified stock options, expiration period from date of grant</a>			5 years	10 years											
<a href="#">Shares granted to each non-employee director</a>															\$ 8,500
<a href="#">Number of preceding trading days used in calculation of redemption amount</a>															30 days
<a href="#">Number of inactive equity award plan</a>													1		
<a href="#">Stock options outstanding and exercisable</a>													6,779		
<a href="#">Share based payment award, stock option granted</a>	200,000	200,000													
<a href="#">Share based payment award, value of each option granted</a>	\$ 4.24	\$ 4.13													
<a href="#">Share based payment award, restricted stock issued</a>					10,000	5,900	10,000								
<a href="#">Share based payment award, stock options outstanding</a>									688,138						
<a href="#">Share based payment award, stock options exercisable</a>									113,138						

**Preferred Stock - Additional  
Information (Detail) (USD \$) Nov. 30, 2012**

**Preferred Stock [Line Items]**

Preferred Stock, Par Value \$ 1.00  
Preferred Stock, Shares Authorized 10,000,000

Preferred Stock, Issued

Series B Junior Participating Preferred

**Preferred Stock [Line Items]**

Preferred Stock, Designated 1,000,000

## Treasury Stock (Tables)

**9 Months Ended  
Nov. 30, 2012**

### Treasury Stock

	<u>Shares</u>	<u>Cost of Shares Purchased (in thousands)</u>	<u>Average Price per Share</u>
Treasury Stock as of February 29, 2012	8,540,784	\$ 74,423	\$ 8.71
Repurchases During the Nine Months Ended November 30, 2012	<u>283,388</u>	<u>2,333</u>	\$ 8.23
Treasury Stock as of November 30, 2012	<u>8,824,172</u>	<u>\$ 76,756</u>	\$ 8.70

**Restructuring - Additional  
Information (Detail)  
(Germany, USD \$)  
In Millions, unless otherwise  
specified**

**3 Months Ended**  
**Feb. 29, 2012 Aug. 31, 2011**

Germany

**Restructuring Cost and Reserve [Line Items]**

<u>Employee termination benefit and related expenses</u>	\$ 0.3	\$ 0.3
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**Gross Accounts Receivable  
from Significant Customers  
as Percentage of Total  
Consolidated Gross  
Accounts Receivable (Detail)  
(Accounts Receivable,  
Customer Concentration  
Risk)**

**Nov. 30, 2012 Feb. 29, 2012**

Chrysler

**Concentration Risk [Line Items]**

Percentage of Consolidated Gross Accounts Receivable 19.00% 18.00%

US Steel

**Concentration Risk [Line Items]**

Percentage of Consolidated Gross Accounts Receivable 9.00% 12.00%

Ford

**Concentration Risk [Line Items]**

Percentage of Consolidated Gross Accounts Receivable 5.00% 15.00%

**Indebtedness - Additional  
Information (Detail) (USD \$)  
In Millions, unless otherwise  
specified**

**9 Months Ended**

**Nov. 30, 2012**

**Line of Credit Facility [Line Items]**

Credit line with JP Morgan Chase Bank

\$ 7.5

Line of credit, expiry date

May 13, 2013

Outstanding letters of credit

1.1

Net amount available for borrowing

\$ 3.9

Letter of Credit

**Line of Credit Facility [Line Items]**

Annual letter of credit fee

1.50%

Annual letter of credit fee on unused credit line

0.25%

Prime Rate

**Line of Credit Facility [Line Items]**

Line of credit, interest rate

3.25%

LIBOR

**Line of Credit Facility [Line Items]**

Line of credit, interest rate

1.50%

**Sale of Elk Grove Village  
Building - Additional  
Information (Detail) (USD \$)**

	<b>6 Months Ended Aug. 31, 2012</b>	<b>9 Months Ended Nov. 30, 2012</b>		<b>9 Months Ended Jul. 23, 2012</b>
				sqft

**Discontinued Operations [Line Items]**

<u>Facility leased to Main Steel Polishing Company, Inc.</u>				240,000
<u>Leasable area of facility</u>				280,000
<u>Proceeds from sale of assets</u>	\$ 9,200,000	\$ 9,180,000		
<u>Gain on sales of assets</u>	3,200,000	3,216,000		
<u>Tax loss on sale of assets</u>	5,400,000			
<u>Expected tax savings due to tax loss</u>	\$ 1,800,000			
<u>Lease agreement with Torburn</u>		35,000		
<u>Lease term</u>		4 years		



Segments (Detail) (USD \$) In Thousands, unless otherwise specified	3 Months Ended		9 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011	Nov. 30, 2012	Nov. 30, 2011
<b><u>Segment Reporting Information [Line Items]</u></b>				
<u>Net Sales</u>	\$ 30,387	\$ 34,009	\$ 95,148	\$ 104,462
<u>Percentage of Net Sales</u>	100.00%	100.00%	100.00%	100.00%
Acoustical				
<b><u>Segment Reporting Information [Line Items]</u></b>				
<u>Net Sales</u>	18,909	16,524	58,192	51,390
<u>Percentage of Net Sales</u>	62.00%	49.00%	61.00%	49.00%
Coated				
<b><u>Segment Reporting Information [Line Items]</u></b>				
<u>Net Sales</u>	\$ 11,478	\$ 17,485	\$ 36,956	\$ 53,072
<u>Percentage of Net Sales</u>	38.00%	51.00%	39.00%	51.00%

## Joint Venture

**9 Months Ended  
Nov. 30, 2012**

### Joint Venture

- (1) **Joint Venture.** In November 2000, a subsidiary of MSC formed a joint venture with Tekno S.A. (“Tekno”) for the manufacture and sale of Quiet Steel® and disc brake noise damping material for the South American market. The Company includes its portion of the joint venture’s results in the Condensed Consolidated Statements of Operations under Equity in Results of Joint Venture. The Equity in Results of Joint Venture was income of \$89,000 and \$204,000 for the three and nine months ended November 30, 2012, respectively, compared with \$198,000 and \$461,000 for the three and nine months ended November 30, 2011.

**Income Taxes - Additional Information (Detail) (USD \$)**  
**In Millions, unless otherwise specified**

**Income Tax [Line Items]**

	<b>3 Months Ended</b>		<b>9 Months Ended</b>	
	<b>Nov. 30, 2012</b>	<b>Nov. 30, 2011</b>	<b>Nov. 30, 2012</b>	<b>Nov. 30, 2011</b>
<u>Unrecognized tax benefits</u>	\$ 0.6		\$ 0.6	
<u>Income tax rate</u>	9.40%	10.30%	30.50%	5.90%

**Retirement and Savings  
Plans (Tables)**

[Components of Net Periodic Benefit Cost for  
Defined Benefit Plans and Other Post Retirement  
Plan](#)

**9 Months Ended  
Nov. 30, 2012**

The following table provides the components of net periodic benefit cost for the Company's defined benefit plans and other post-retirement plans.

(in thousands)	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>Three Months Ended November 30,</u>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Service Cost	\$—	\$—	\$6	\$5
Interest Cost	146	174	19	21
Amortization of Unrecognized				
Prior Service Cost	—	—	(69)	(69)
Expected Return on Plan Assets	(143)	(124)	—	—
Amortization of Net Loss	164	120	49	47
Total Net Periodic Benefit Cost	<u>\$167</u>	<u>\$170</u>	<u>\$5</u>	<u>\$4</u>

(in thousands)	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>Nine Months Ended November 30,</u>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Service Cost	\$—	\$—	\$17	\$15
Interest Cost	437	508	58	64
Amortization of Unrecognized				
Prior Service Cost	—	—	(207)	(207)
Expected Return on Plan Assets	(428)	(433)	—	—
Amortization of Net Loss	491	323	147	141
Total Net Periodic Benefit Cost	<u>500</u>	<u>\$398</u>	<u>\$15</u>	<u>\$13</u>

**Significant Customers  
(Tables)**

Sales Revenue, Goods, Net  
[Concentration Risk,  
Percentage for Significant  
Customers](#)

**9 Months Ended  
Nov. 30, 2012**

The following table shows sales to the Company's major customers as a percentage of consolidated net sales for the three and nine months ended November 30, 2012 and 2011.

Customer	% of Consolidated Net Sales for the Three Months Ended November 30,		% of Consolidated Net Sales for the Nine Months Ended November 30,	
	2012	2011	2012	2011
	Chrysler	21 %	17 %	21 %
US Steel	17 %	18 %	16 %	22 %
Ford	5 %	14 %	8 %	12 %

Accounts Receivable  
[Concentration Risk,  
Percentage for Significant  
Customers](#)

The following table shows gross accounts receivable from the significant customers as a percentage of total consolidated gross accounts receivable as of November 30, 2012, and February 29, 2012.

Customer	% of Consolidated Gross Accounts Receivable			
	November 30, 2012		February 29, 2012	
Chrysler	19	%	18	%
US Steel	9	%	12	%
Ford	5	%	15	%

**Retirement and Savings  
Plans - Additional  
Information (Detail) (USD \$)  
In Millions, unless otherwise  
specified**

**9 Months Ended**

**Nov. 30, 2012    Feb. 29, 2012**

**[Defined Benefit Plan Disclosure \[Line Items\]](#)**

[Number of defined contribution retirement plans](#)

1

Pension Plans, Defined Benefit

**[Defined Benefit Plan Disclosure \[Line Items\]](#)**

[Employer expected contribution to defined benefit plans](#)

\$ 1.5

[Employer contribution made to defined benefit plan](#)

1.1

Other Postretirement Benefit Plans, Defined Benefit

**[Defined Benefit Plan Disclosure \[Line Items\]](#)**

[Employer expected contribution to defined benefit plans](#)

0.1

Other Postretirement Benefit Plans, Defined Benefit | Maximum

**[Defined Benefit Plan Disclosure \[Line Items\]](#)**

[Employer contribution made to defined benefit plan](#)

\$ 0.2

## Segments (Tables)

### 9 Months Ended Nov. 30, 2012

#### Segments

(\$ in thousands)	Three Months Ended November 30,				Nine Months Ended November 30,			
	2012		2011		2012		2011	
	\$	%	\$	%	\$	%	\$	%
Acoustical	18,909	62	16,524	49	58,192	61	51,390	49
Coated	11,478	38	17,485	51	36,956	39	53,072	51
<b>Total Net Sales</b>	<b>\$30,387</b>	<b>100%</b>	<b>\$34,009</b>	<b>100%</b>	<b>\$95,148</b>	<b>100%</b>	<b>\$104,462</b>	<b>100%</b>

#### Net Sales of Domestic and Foreign Units

Net sales of our domestic and foreign units are presented in the table below. No one foreign country comprised greater than 10% of consolidated net sales for any period presented.

(\$ in thousands)	Three Months Ended		Nine Months Ended	
	November 30,		November 30,	
	2012	2011	2012	2011
Domestic Net Sales	\$26,504	\$30,286	\$83,256	\$92,680
Foreign Net Sales	3,883	3,723	11,892	11,782
<b>Total Net Sales</b>	<b>\$30,387</b>	<b>\$34,009</b>	<b>\$95,148</b>	<b>\$104,462</b>

## Restructuring (Tables)

### Year-to-Date Activity in Restructuring Reserve

**9 Months Ended  
Nov. 30, 2012**

The year-to-date activity in the restructuring reserve is presented in the chart below:

(in thousands)

Restructuring Reserve as of February 29, 2012	\$235
Restructuring Expenses Recorded During Fiscal 2013	—
Cash Payments and Other Adjustments	<u>(235)</u>
Restructuring Reserve as of November 30, 2012	<u>\$—</u>



## **Basis of Accounting**

**9 Months Ended  
Nov. 30, 2012**

### [Basis of Accounting](#)

The financial information as of November 30, 2012, and for the three and nine months ended November 30, 2012 and 2011, has not been audited by our independent registered public accounting firm. In the opinion of Material Sciences Corporation and Subsidiaries (the “Company,” “we,” “our,” “us” or “MSC”), the information reflects all adjustments (consisting of only normal, recurring adjustments) necessary for a fair presentation of the information at that date and for those periods. The financial information contained in this report should be read in conjunction with the Company’s Annual Report on Form 10-K (“Form 10-K”) filed with the Securities and Exchange Commission on May 4, 2012, for the fiscal year ended February 29, 2012. Reclassifications have been made to the prior years’ consolidated financial statements to conform to the 2012 presentation—“Equity in Results of Joint Venture” was reclassified from “Other, Net” on the Condensed Consolidated Statements of Cash Flows and “Long-Term Incentives” was reclassified from “Other” within the Long-Term Liabilities section of the Condensed Consolidated Balance Sheets.

**Joint Venture - Additional  
Information (Detail) (USD \$)  
In Thousands, unless  
otherwise specified**

<b>3 Months Ended</b>		<b>9 Months Ended</b>	
<b>Nov. 30, 2012</b>	<b>Nov. 30, 2011</b>	<b>Nov. 30, 2012</b>	<b>Nov. 30, 2011</b>

**Schedule of Equity Method Investments [Line  
Items]**

<u>Equity in results of Joint Venture</u>	\$ 89	\$ 198	\$ 204	\$ 461
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Long Term Incentives - Additional Information (Detail) (USD \$)	Nov. 30, 2012	Feb. 29, 2012	9 Months Ended	
			Nov. 30, 2012 Phantom Stock Liability	Nov. 30, 2012 Management Incentive Award
<a href="#">Schedule Of Other Liabilities Noncurrent [Line Items]</a>				
<a href="#">Redemption period</a>			5 years	
<a href="#">Number of preceding trading days used in calculation of redemption amount</a>			30 days	
<a href="#">Management incentives</a>				\$ 1,400,000
<a href="#">Redemption period current</a>			1 year	
<a href="#">Accrued expenses</a>	\$ 5,131,000	\$ 5,289,000	\$ 200,000	

<b>Condensed Consolidated Statements of Operations</b> <b>(USD \$)</b> <b>In Thousands, except Per Share data, unless otherwise specified</b>	<b>3 Months Ended</b>		<b>9 Months Ended</b>	
	<b>Nov. 30, 2012</b>	<b>Nov. 30, 2011</b>	<b>Nov. 30, 2012</b>	<b>Nov. 30, 2011</b>
<u>Net Sales</u>	\$ 30,387	\$ 34,009	\$ 95,148	\$ 104,462
<u>Cost of Sales</u>	23,149	24,702	72,802	77,982
<u>Gross Profit</u>	7,238	9,307	22,346	26,480
<u>Selling, General and Administrative Expenses</u>	4,949	5,614	15,392	15,890
<u>Gain on Sale of Assets</u>			3,216	
<u>Restructuring Expenses</u>				345
<u>Income from Operations</u>	2,289	3,693	10,170	10,245
<b><u>Other Income, Net:</u></b>				
<u>Interest Income, Net</u>	4	3	10	35
<u>Equity in results of Joint Venture</u>	89	198	204	461
<u>Rental Income</u>	6	283	635	827
<u>Other, Net</u>	8	(23)	(26)	21
<u>Total Other Income, Net</u>	107	461	823	1,344
<u>Income from Operations Before Provision for Income Taxes</u>	2,396	4,154	10,993	11,589
<u>Provision for Income Taxes</u>	225	428	3,351	685
<u>Net Income</u>	\$ 2,171	\$ 3,726	\$ 7,642	\$ 10,904
<u>Basic Net Income Per Share</u>	\$ 0.21	\$ 0.35	\$ 0.74	\$ 0.94
<u>Diluted Net Income Per Share</u>	\$ 0.21	\$ 0.34	\$ 0.73	\$ 0.93
<u>Weighted Average Number of Common Shares Outstanding Used for Basic Net Income Per Share</u>	10,213	10,786	10,334	11,605
<u>Dilutive Shares</u>	134	87	123	91
<u>Weighted Average Number of Common Shares Outstanding Plus Dilutive Shares</u>	10,347	10,873	10,457	11,696
<u>Outstanding Common Stock Options Having No Dilutive Effect</u>	207	339	416	324

**Components of Net Periodic  
Benefit Cost for Defined  
Benefit Plans and Other Post  
Retirement Plan (Detail)  
(USD \$)**

**3 Months Ended**

**9 Months Ended**

**Nov. 30, 2012 Nov. 30, 2011 Nov. 30, 2012 Nov. 30, 2011**

**In Thousands, unless  
otherwise specified**

Pension Plans, Defined Benefit

**Defined Benefit Plan Disclosure [Line Items]**

<u>Interest Cost</u>	\$ 146	\$ 174	\$ 437	\$ 508
<u>Expected Return on Plan Assets</u>	(143)	(124)	(428)	(433)
<u>Amortization of Net Loss</u>	164	120	491	323
<u>Total Net Periodic Benefit Cost</u>	167	170	500	398

Other Postretirement Benefit Plans, Defined Benefit

**Defined Benefit Plan Disclosure [Line Items]**

<u>Service Cost</u>	6	5	17	15
<u>Interest Cost</u>	19	21	58	64
<u>Amortization of Unrecognized Prior Service Cost</u>	(69)	(69)	(207)	(207)
<u>Amortization of Net Loss</u>	49	47	147	141
<u>Total Net Periodic Benefit Cost</u>	\$ 5	\$ 4	\$ 15	\$ 13

**Condensed Consolidated  
Balance Sheets  
(Parenthetical) (USD \$)  
In Thousands, unless  
otherwise specified**

**Nov. 30, 2012 Feb. 29, 2012**

Receivables, Reserves and Allowances \$ 495                      \$ 696

Treasury Stock - Additional Information (Detail)	9 Months Ended		9 Months Ended		9 Months Ended		Nov. 30, 2012 authorization
	Nov. 30, 2012	Nov. 30, 2012 September authorization	Sep. 14, 2011 September authorization	Nov. 30, 2012 October 2011 plan	Oct. 10, 2011 October 2011 plan	Nov. 30, 2012 July 2012 plan	
<a href="#">Equity, Class of Treasury Stock [Line Items]</a>							
<a href="#">Common stock authorized to be repurchased</a>			1,000,000		1,000,000		551,853
<a href="#">Common stock repurchased</a>	283,388	283,388		96,011		187,377	
<a href="#">Common stock available for repurchase</a>		364,476					1,000,000
<a href="#">Stock repurchase program, expiration date</a>					Jul. 16, 2012		Feb. 15, 2013

## Commitments and Contingencies

**9 Months Ended  
Nov. 30, 2012**

### [Commitments and Contingencies](#)

(14) **Commitments and Contingencies.** MSC is a party to various legal proceedings in connection with the remediation of certain environmental matters. The Company's environmental reserves were approximately \$1.2 million as of November 30, 2012, and \$1.2 million as of February 29, 2012. Management does not believe that the outcome of its environmental legal proceedings will have a material adverse effect on its financial statements, given the reserves recorded as of November 30, 2012, and, where applicable, taking into account contributions from other potentially responsible parties. There are, however, a number of uncertainties. These include, without limitation, the cost of site cleanup, the discretionary authority of federal and state regulatory authorities in bringing enforcement actions and other factors that could affect the Company's exposure.

The Company is also a party to various legal actions and customer disputes arising in the ordinary course of its business. These legal actions and customer disputes cover a broad variety of claims spanning MSC's entire business. We believe that the resolution of these legal actions and customer disputes will not, individually or in the aggregate, have a material adverse effect on its financial statements.



<b>Treasury Stock (Detail)</b>	<b>9 Months Ended</b>
<b>(USD \$)</b>	
<b>In Thousands, except Share</b>	<b>Nov. 30, 2012</b>
<b>data, unless otherwise</b>	
<b>specified</b>	

**Equity, Class of Treasury Stock [Line Items]**

<u>Treasury Stock as of February 29, 2012</u>	8,540,784
<u>Repurchases During the Nine Months Ended November 30, 2012</u>	283,388
<u>Treasury Stock as of November 30, 2012</u>	8,824,172
<u>Treasury Stock as of February 29, 2012</u>	\$ 74,423
<u>Repurchases During the Nine Months Ended November 30, 2012</u>	2,333
<u>Treasury Stock as of November 30, 2012</u>	\$ 76,756
<u>Treasury Stock as of February 29, 2012</u>	\$ 8.71
<u>Repurchases During the Nine Months Ended November 30, 2012</u>	\$ 8.23
<u>Treasury Stock as of November 30, 2012</u>	\$ 8.70

**Sale of Elk Grove Village  
Building**

**9 Months Ended  
Nov. 30, 2012**

[Sale of Elk Grove Village  
Building](#)

(16) **Sale of Elk Grove Village Building.** In April 2011, after receiving authorization from the Board of Directors, management committed to a plan to sell the building located at 2200 East Pratt Boulevard in Elk Grove Village, Illinois (the “Facility”). This building houses our corporate offices and housed our coil coating assets before they were sold in April 2010.

On July 23, 2012, MSC began leasing a portion of the Facility to Main Steel Polishing Company, Inc. The lease includes approximately 240,000 square feet of the 280,000 square foot Facility. MSC entered into this lease to enhance the attractiveness of the Facility to potential buyers.

On August 31, 2012, MSC sold the Facility to Torburn Partners, Inc. (“Torburn”) for cash. The net proceeds from the sale were approximately \$9.2 million, which reflects all selling costs and the executory costs related to the lease discussed above. The Company recognized a gain of approximately \$3.2 million on the sale. MSC will report a tax loss on the sale of approximately \$5.4 million on the fiscal 2013 tax return. The Company expects to realize cash tax savings of approximately \$1.8 million due to the tax loss.

MSC entered into a four-year lease with Torburn under which MSC continues to occupy approximately 35,000 square feet of office space in the Facility to house its corporate and domestic operations.

**Condensed Consolidated  
Statements of Cash Flows  
(USD \$)  
In Thousands, unless  
otherwise specified**

**9 Months Ended**

**Nov. 30,  
2012**      **Nov. 30,  
2011**

**Cash Flows From: Operating Activities:**

Net Income      \$ 7,642      \$ 10,904

**Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:**

Depreciation, Amortization and Accretion      3,546      3,679

Equity in Results of Joint Venture      (204)      (461)

Deferred Income Taxes      3,462

Gain on Sales of Assets      (3,216)

Compensatory Effect of Stock Plans      460      221

Other, Net      (48)

**Changes in Assets and Liabilities:**

Receivables      (391)      4,451

Income Taxes Receivable      (1,341)      295

Prepaid Expenses      (112)      (411)

Inventories      (3,254)      (1,883)

Accounts Payable      (273)      (2,213)

Accrued Expenses      (90)      158

Other, Net      (1,705)      242

Net Cash Provided by Operating Activities      4,524      14,934

**Investing Activities:**

Capital Expenditures      (3,465)      (5,457)

Proceeds from sale of assets      9,180

Net Cash Provided by (Used In) Investing Activities      5,715      (5,457)

**Financing Activities:**

Purchases of Treasury Stock      (2,333)      (16,879)

Issuance of Common Stock      4      135

Net Cash Used in Financing Activities      (2,329)      (16,744)

Effect of Exchange Rate Changes on Cash      (17)      (51)

Net Increase (Decrease) in Cash and Cash Equivalents      7,893      (7,318)

Cash and Cash Equivalents at Beginning of Period      28,201      35,629

Cash and Cash Equivalents at End of Period      36,094      28,311

**Non-Cash Transactions:**

Capital Expenditures in Accounts Payable at End of Period      797      1,410

Treasury Stock Purchases in Accrued Liabilities at Period-End      6

**Supplemental Cash Flow Disclosures:**

Interest Paid      24      27

Income Taxes Paid (Refunded), Net      \$ 1,818      \$ 326

Condensed Consolidated Statements of Comprehensive Income (USD \$) In Thousands, unless otherwise specified	3 Months Ended		9 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011	Nov. 30, 2012	Nov. 30, 2011
<u>Net Income</u>	\$ 2,171	\$ 3,726	\$ 7,642	\$ 10,904
<b><u>Other Comprehensive Income:</u></b>				
<u>Foreign Currency Translation</u>	322	99	(714)	437
<u>Pension/Postretirement Adjustments, Net of Benefit for Income Taxes of \$72, \$0, \$215 and \$0, Respectively</u>	116	(832)	348	(190)
<u>Comprehensive Income</u>	\$ 2,609	\$ 2,993	\$ 7,276	\$ 11,151

## Significant Customers

### 9 Months Ended Nov. 30, 2012

#### Significant Customers

- (9) **Significant Customers.** Due to the concentration in the automotive industry, management believes that sales to individual automotive customers—both Tier 1 and Tier 2 (including US Steel)—are significant. The following table shows sales to the Company’s major customers as a percentage of consolidated net sales for the three and nine months ended November 30, 2012 and 2011.

Customer	% of Consolidated Net Sales for the Three Months Ended November 30,		% of Consolidated Net Sales for the Nine Months Ended November 30,	
	2012	2011	2012	2011
	Chrysler	21 %	17 %	21 %
US Steel	17 %	18 %	16 %	22 %
Ford	5 %	14 %	8 %	12 %

The following table shows gross accounts receivable from the significant customers as a percentage of total consolidated gross accounts receivable as of November 30, 2012, and February 29, 2012.

Customer	% of Consolidated Gross Accounts Receivable			
	November 30, 2012		February 29, 2012	
Chrysler	19	%	18	%
US Steel	9	%	12	%
Ford	5	%	15	%

**Document and Entity  
Information**

**9 Months Ended  
Nov. 30, 2012**

**Jan. 07, 2013**

**Document Information [Line Items]**

<u>Document Type</u>	10-Q	
<u>Amendment Flag</u>	false	
<u>Document Period End Date</u>	Nov. 30, 2012	
<u>Document Fiscal Year Focus</u>	2013	
<u>Document Fiscal Period Focus</u>	Q3	
<u>Trading Symbol</u>	MASC	
<u>Entity Registrant Name</u>	MATERIAL SCIENCES CORP	
<u>Entity Central Index Key</u>	0000755003	
<u>Current Fiscal Year End Date</u>	--02-28	
<u>Entity Filer Category</u>	Smaller Reporting Company	
<u>Entity Common Stock, Shares Outstanding</u>		10,187,759

## Income Taxes

**9 Months Ended  
Nov. 30, 2012**

### Income Taxes

(10)**Income Taxes.** The Company evaluates its deferred income taxes on a quarterly basis to determine if valuation allowances are required, in full or in part. This includes considering available positive and negative evidence, such as past operating results, the existence of cumulative losses in the most recent fiscal years and our forecast of future taxable income on a jurisdiction-by-jurisdiction basis. In determining future taxable income, we review the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. At November 30, 2012, MSC had valuation allowances relating to certain state net operating losses.

The Company does not anticipate that the total amount of unrecognized tax benefits of \$0.6 million at November 30, 2012, will significantly change during the next 12 months.

For the three and nine months ended November 30, 2012, MSC's effective income tax rate for continuing operations was an expense of 9.4% and 30.5%, respectively, compared with an expense of 10.3% and 5.9%, respectively in the same periods last year. The low rates in the periods ended November 30, 2011, are due to the utilization of deferred tax assets—principally AMT credits—while having a valuation allowance on the related deferred tax assets. The rate in the three months ended November 30, 2012, is lower than in the first two quarters of fiscal 2013 primarily due to the recognition of previously unrecognized tax benefits, as well as adjustments from finalizing the computation of the income tax liability for the year ended February 29, 2012. We were able to recognize the previously unrecognized tax benefits because the tax years in which they were generated are no longer subject to audit.

<b>Condensed Consolidated Statements of Comprehensive Income (Parenthetical) (USD \$) In Thousands, unless otherwise specified</b>	<b>3 Months Ended</b>		<b>9 Months Ended</b>	
	<b>Nov. 30, 2012</b>	<b>Nov. 30, 2011</b>	<b>Nov. 30, 2012</b>	<b>Nov. 30, 2011</b>
	<a href="#">Pension/Postretirement Adjustments, Income Taxes</a>	\$ 72	\$ 0	\$ 215



## Treasury Stock

### 9 Months Ended Nov. 30, 2012

#### [Treasury Stock](#)

- (4) **Treasury Stock.** Our Board of Directors authorized the repurchase of 1,000,000 shares of the Company's common stock on September 14, 2011 and again on September 27, 2012. The shares may be repurchased from time-to-time on the open market, subject to market conditions and other factors, and generally will be funded with internally generated cash. The Company repurchased 283,388 shares under the September 2011 authorization during the nine months ended November 30, 2012. At November 30, 2012, there were 364,476 shares available for purchase under the September 2011 authorization and 1,000,000 available for purchase under the September 2012 authorization.

	Shares	Cost of Shares Purchased (in thousands)	Average Price per Share
Treasury Stock as of February 29, 2012	8,540,784	\$ 74,423	\$ 8.71
Repurchases During the Nine Months Ended November 30, 2012	<u>283,388</u>	<u>2,333</u>	\$ 8.23
Treasury Stock as of November 30, 2012	<u>8,824,172</u>	<u>\$ 76,756</u>	\$ 8.70

On October 10, 2011, the Company entered into a written trading plan to purchase up to 1,000,000 shares under Rule 10b5-1 of the Exchange Act as part of the existing share repurchase program. The plan expired on July 16, 2012, when it was replaced by a new plan to purchase up to 551,853 shares. The new plan will expire on February 15, 2013, or when 551,853 shares have been repurchased, whichever occurs first. During the nine months ended November 30, 2012, MSC purchased 96,011 shares under the October 2011 plan and 187,377 under the July 2012 plan.

## Common Stock

**9 Months Ended  
Nov. 30, 2012**

### [Common Stock](#)

- (3) **Common Stock.** Common Stock, \$0.02 Par Value; 40,000,000 Shares Authorized; 19,053,051 Shares Issued and 10,187,205 Shares Outstanding as of November 30, 2012, and 19,030,983 Shares Issued and 10,470,199 Shares Outstanding as of February 29, 2012.

## Restructuring

**9 Months Ended  
Nov. 30, 2012**

### Restructuring

(15) **Restructuring.** During the fourth quarter of fiscal 2012, MSC executed a restructuring plan at our German subsidiary, recognizing approximately \$0.3 million in employee termination benefit and related expenses. During the second quarter of fiscal 2012, the Company recognized severance expense of \$0.3 million for employee termination benefits. All of these benefits were fully paid as of the end of the second quarter of fiscal 2013.

The year-to-date activity in the restructuring reserve is presented in the chart below:

(in thousands)

Restructuring Reserve as of February 29, 2012	\$235
Restructuring Expenses Recorded During Fiscal 2013	—
Cash Payments and Other Adjustments	(235)
Restructuring Reserve as of November 30, 2012	<u>\$—</u>

**Retirement and Savings  
Plans**

**9 Months Ended  
Nov. 30, 2012**

[Retirement and Savings Plans](#) (11) **Retirement and Savings Plans.** The Company has one defined contribution retirement plan qualifying under the Internal Revenue Code Section 401(k): The Material Sciences Savings & Investment Plan (the "SIP"). All MSC employees can elect to participate in the SIP.

MSC also has non-contributory defined benefit pension plans, all of which are frozen, and other postretirement plans for certain of its employees. The following table provides the components of net periodic benefit cost for the Company's defined benefit plans and other post-retirement plans.

(in thousands)	Pension Benefits		Other Benefits	
	Three Months Ended November 30,			
	2012	2011	2012	2011
Service Cost	\$—	\$—	\$6	\$5
Interest Cost	146	174	19	21
Amortization of Unrecognized Prior Service Cost	—	—	(69)	(69)
Expected Return on Plan Assets	(143)	(124)	—	—
Amortization of Net Loss	164	120	49	47
Total Net Periodic Benefit Cost	<u>\$167</u>	<u>\$170</u>	<u>\$5</u>	<u>\$4</u>

(in thousands)	Pension Benefits		Other Benefits	
	Nine Months Ended November 30,			
	2012	2011	2012	2011
Service Cost	\$—	\$—	\$17	\$15
Interest Cost	437	508	58	64
Amortization of Unrecognized Prior Service Cost	—	—	(207)	(207)
Expected Return on Plan Assets	(428)	(433)	—	—
Amortization of Net Loss	491	323	147	141
Total Net Periodic Benefit Cost	<u>500</u>	<u>\$398</u>	<u>\$15</u>	<u>\$13</u>

MSC previously disclosed in the Notes to its financial statements for the year ended February 29, 2012, that it expected to contribute \$1.5 million toward its qualified and nonqualified defined benefit pension plans and \$0.1 million toward its other post-retirement benefit plans other than pension plans in fiscal 2012. As of November 30, 2012, \$1.1 million of contributions/payments have been made toward the pension plans and less than \$0.2 million of net contributions/payments have been made to the other post-retirement plans; the increase in payments to other post-retirement plans is due to higher than usual health-care claim activity in fiscal 2013.

## Inventory

### 9 Months Ended Nov. 30, 2012

#### Inventory

(7)**Inventory.** Inventories consist of the following:

(in thousands)	November 30, 2012	February 29, 2012
Raw Materials	\$ 10,173	\$ 9,019
Finished Goods	13,760	11,739
Total		
Inventories	\$ 23,933	\$ 20,758

## Commodity Contracts

**9 Months Ended  
Nov. 30, 2012**

### [Commodity Contracts](#)

- (5) **Commodity Contracts.** MSC is exposed to certain risks related to ongoing business operations. We use derivative instruments with the objective of managing our financial and operational exposure arising from these risks: primarily commodity price risk. From time-to-time in the ordinary course of business, the Company enters into purchase contracts for procuring nickel carbonate, zinc shot and natural gas, which are commodities used in our manufacturing processes. MSC maintains a commodity forward purchase policy. This seeks to ensure that, at any time, the majority of the expected consumption over the next 12 months is secured under a purchase contract at a pre-determined price. When MSC enters into these contracts, it applies the Normal Purchase/Normal Sale election, which excludes the contracts from being accounted for as derivative instruments at fair value for as long as they qualify for the election.

At November 30, 2012, the Company did not have any commodity contracts that we accounted for at fair value.

## Indebtedness

### 9 Months Ended Nov. 30, 2012

#### [Indebtedness](#)

- (6) **Indebtedness.** The Company has a \$7.5 million credit line (“Line”) with JPMorgan Chase Bank, N.A. Interest on the Line is at the bank’s prime rate (3.25% as of November 30, 2012) or Libor plus 1.50%, at the Company’s discretion. There are annual letter of credit fees of 1.50% on outstanding letters of credit and a 0.25% fee on the annual unused credit line. The Line is secured by a borrowing base equal to a specified percentage of accounts receivable and liens on other assets of the Company—including inventory, equipment, real property and intellectual property—reduced by outstanding letters of credit. The Line expires on May 13, 2013.

Due to the borrowing base limitations and outstanding letters of credit of \$1.1 million, the net amount available for borrowing at November 30, 2012, was \$3.9 million. The lender may, at its discretion subject to the terms of the Line, modify the advance rates used in computing the borrowing base, which may limit the amounts available for future borrowings. There were no borrowings outstanding under the Line at either November 30, 2012, or February 29, 2012, nor were any amounts borrowed during the nine months ended November 30, 2012, or November 30, 2011.

## Long-Term Incentives

**9 Months Ended  
Nov. 30, 2012**

### Long-Term Incentives

(8) **Long-Term Incentives.** Long-Term Incentives consist of the following:

(in thousands)	November 30, 2012	February 29, 2012
Long-Term Incentives	\$ 508	\$ 822
Phantom Stock Liability	2,655	2,598
Total Long-Term incentives	<u>\$ 3,163</u>	<u>\$ 3,420</u>

Long-Term Incentives consist of deferred bonuses expected to be earned by certain members of management, based on the achievement of multi-year financial goals.

Phantom Stock Liability represents the value of long-term phantom stock units held by members of the Board of Directors. The units were awarded each quarter from June 2004 through June 2012 and are redeemed in cash after five years at the average of the closing prices of our stock for the preceding 30 trading days. The liability is adjusted to the current market value of our stock each quarter.

We also carry a current liability of \$1.4 million for the current portion of the management deferred bonuses, and a current liability of \$0.2 million (at the November 30, 2012 market value) for phantom stock units which will be redeemed within one year. These liabilities are included in Accrued Expenses within Current Liabilities



**Common Stock - Additional  
Information (Detail) (USD \$)**      **Nov. 30, 2012 Feb. 29, 2012**

**Common Shares [Line Items]**

<u>Common Stock, Par Value</u>	\$ 0.02	\$ 0.02
<u>Common Stock, Shares Authorized</u>	40,000,000	40,000,000
<u>Common Stock, Shares Issued</u>	19,053,051	19,030,983
<u>Common Stock, Shares Outstanding</u>	10,187,205	10,470,199

**Year-to-Date Activity in  
Restructuring Reserve  
(Detail) (USD \$)  
In Thousands, unless  
otherwise specified**

**9 Months Ended**

**Nov. 30, 2012 Nov. 30, 2011**

**Restructuring Cost and Reserve [Line Items]**

<u>Restructuring Reserve as of February 29, 2012</u>	\$ 235	
<u>Restructuring Expenses Recorded During Fiscal 2013</u>		345
<u>Cash Payments and Other Adjustments</u>	\$ (235)	

## Segments

### 9 Months Ended Nov. 30, 2012

#### Segments

(13) **Segments.** MSC operates in one segment based on how the Chief Operating Decision Maker views its business for evaluating performance and making operating decisions. The Company provides material-based solutions for acoustical and coated applications. The acoustical material-based solutions include multilayer composites consisting of metals, polymers, rubber and other coated materials used to manage noise and vibration. The coated metal material-based solutions include painted, electrogalvanized (“EG”), rubber and film coatings that provide protective, decorative and functional performance. The coatings are applied to coiled metal of various widths and thicknesses. MSC’s material-based solutions are designed to meet specific customer requirements for the transportation, appliance, building products, lighting and electronics markets. The Company uses a significant level of shared assets and personnel across each of its product categories. It is common for a single end-use customer to purchase products from several different product categories.

We use a significant level of shared assets, and share resources for sales, general and administrative expense, and management across each of our product categories. It is common for a single end-use customer to purchase products from several different product categories as well as from different plants. Capital projects—whether for cost savings or generating incremental revenue—are evaluated individually based on estimated economic returns (e.g., net present value, return on investment), not based on related product line or geographic location. We use a centralized functional management structure, and share administration and production resources, to deliver individual products that, together, provide solutions to our customers. Disaggregated financial information for individual product lines is limited to top-line revenues.

(\$ in thousands)	Three Months Ended November 30,				Nine Months Ended November 30,			
	2012		2011		2012		2011	
	\$	%	\$	%	\$	%	\$	%
Acoustical	18,909	62	16,524	49	58,192	61	51,390	49
Coated	11,478	38	17,485	51	36,956	39	53,072	51
<b>Total Net Sales</b>	<b>\$30,387</b>	<b>100%</b>	<b>\$34,009</b>	<b>100%</b>	<b>\$95,148</b>	<b>100%</b>	<b>\$104,462</b>	<b>100%</b>

Net sales of our domestic and foreign units are presented in the table below. No one foreign country comprised greater than 10% of consolidated net sales for any period presented.

(\$ in thousands)	Three Months Ended		Nine Months Ended	
	November 30,		November 30,	
	2012	2011	2012	2011
Domestic Net Sales	\$26,504	\$30,286	\$83,256	\$92,680
Foreign Net Sales	3,883	3,723	11,892	11,782
<b>Total Net Sales</b>	<b>\$30,387</b>	<b>\$34,009</b>	<b>\$95,148</b>	<b>\$104,462</b>

## Inventory (Tables)

### 9 Months Ended Nov. 30, 2012

#### [Inventories](#)

Inventories consist of the following:

(in thousands)	November 30, 2012	February 29, 2012
Raw Materials	\$ 10,173	\$ 9,019
Finished Goods	13,760	11,739
Total		
Inventories	\$ 23,933	\$ 20,758

**Commitments and  
Contingencies - Additional  
Information (Detail) (USD \$)  
In Millions, unless otherwise  
specified**

**Nov. 30, 2012 Feb. 29, 2012**

**Commitments and Contingencies [Line Items]**

<u>Reserve for environmental legal proceedings</u>	\$ 1.2	\$ 1.2
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Sales to Major Customer As Percentage of Consolidated Net Sales (Detail) (Sales Revenue, Goods, Net, Customer Concentration Risk)	3 Months Ended		9 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011	Nov. 30, 2012	Nov. 30, 2011
Chrysler				
<a href="#">Concentration Risk [Line Items]</a>				
<a href="#">Concentration risk, percentage</a>	21.00%	17.00%	21.00%	16.00%
US Steel				
<a href="#">Concentration Risk [Line Items]</a>				
<a href="#">Concentration risk, percentage</a>	17.00%	18.00%	16.00%	22.00%
Ford				
<a href="#">Concentration Risk [Line Items]</a>				
<a href="#">Concentration risk, percentage</a>	5.00%	14.00%	8.00%	12.00%

**Condensed Consolidated  
Balance Sheets (USD \$)  
In Thousands, unless  
otherwise specified**

**Nov. 30, 2012 Feb. 29, 2012**

**Current Assets:**

<u>Cash and Cash Equivalents</u>	\$ 36,094	\$ 28,201
<u>Receivables, Less Reserves and Allowances of \$495 and \$696, Respectively</u>	20,322	20,136
<u>Income Taxes Receivable</u>	1,482	141
<u>Prepaid Expenses</u>	790	674
<u>Inventories</u>	23,933	20,758
<u>Short Term Deferred Tax Assets</u>	3,590	4,313
<u>Total Current Assets</u>	86,211	74,223
<u>Property, Plant and Equipment</u>	118,779	127,952
<u>Accumulated Depreciation</u>	(90,274)	(93,217)
<u>Net Property, Plant and Equipment</u>	28,505	34,735

**Other Assets:**

<u>Investment in Joint Venture</u>	2,787	2,955
<u>Long Term Deferred Tax Assets</u>	9,942	13,024
<u>Other</u>	146	159
<u>Total Other Assets</u>	12,875	16,138
<u>Total Assets</u>	127,591	125,096

**Current Liabilities:**

<u>Accounts Payable</u>	13,007	13,364
<u>Accrued Payroll Related Expenses</u>	2,982	3,113
<u>Accrued expenses</u>	5,131	5,289
<u>Total Current Liabilities</u>	21,120	21,766

**Long-Term Liabilities:**

<u>Pension and Postretirement Liabilities</u>	7,200	8,500
<u>Long-Term incentives</u>	3,163	3,420
<u>Other</u>	2,720	3,430
<u>Total Long-Term Liabilities</u>	13,083	15,350

**Commitments and Contingencies**

**Shareowners' Equity:**

<u>Preferred Stock</u>		
<u>Common Stock</u>	381	381
<u>Additional Paid-In Capital</u>	80,904	80,440
<u>Treasury Stock at Cost</u>	(76,756)	(74,423)
<u>Retained Earnings</u>	91,695	84,052
<u>Accumulated Other Comprehensive Income (Loss)</u>	(2,836)	(2,470)
<u>Total Shareowners' Equity</u>	93,388	87,980
<u>Total Liabilities and Equity</u>	\$ 127,591	\$ 125,096

## Preferred Stock

**9 Months Ended**

**Nov. 30, 2012**

### [Preferred Stock](#)

- (2) **Preferred Stock.** Preferred Stock, \$1.00 Par Value; 10,000,000 Shares Authorized; 1,000,000 Designated Series B Junior Participating Preferred; None Issued.



**Long-Term Incentives  
(Tables)**

[Long-Term Incentives](#)

**9 Months Ended  
Nov. 30, 2012**

Long-Term Incentives consist of the following:

(in thousands)	November 30, 2012	February 29, 2012
Long-Term		
Incentives	\$ 508	\$ 822
Phantom Stock		
Liability	2,655	2,598
Total Long-Term incentives	<u>\$ 3,163</u>	<u>\$ 3,420</u>

**Inventories (Detail) (USD \$)**

**In Thousands, unless  
otherwise specified**

**Nov. 30, 2012 Feb. 29, 2012**

**Schedule of Inventory [Line Items]**

<u>Raw Materials</u>	\$ 10,173	\$ 9,019
<u>Finished Goods</u>	13,760	11,739
<u>Total Inventories</u>	\$ 23,933	\$ 20,758

## Equity and Compensation Plans

9 Months Ended  
Nov. 30, 2012

### [Equity and Compensation Plans](#)

(12) **Equity and Compensation Plans.** On June 28, 2012, the Company's shareowners approved the Material Sciences Corporation 2012 Incentive Compensation Plan ("2012 Plan"). The 2012 Plan replaces the Material Sciences Corporation Amended and Restated 1992 Omnibus Awards Plan for Key Employees ("1992 Plan") and the Material Sciences Corporation Fiscal Year 2006 Long-Term Incentive Plan for Non-Employee Directors (the "Director Plan"). On June 28, 2012, there were 1,406,751 shares authorized under the 2012 Plan (which number included 406,751 shares that remained available for issue under the 1992 Plan) to provide stock options, restricted stock and other equity awards under various programs to both employees and non-employee directors. In addition, any shares related to forfeited, terminated or expired awards issued under the 1992 Plan will become available under the 2012 Plan. Nonqualified stock options generally vest over three years and expire between five and 10 years from the date of grant. Restricted stock awards generally vest over three to five years from the date of grant. Restricted stock awards have been issued with restrictions based upon time, Company financial performance, or a combination of the two.

The Director Plan was adopted by the Board, effective March 1, 2005. The plan provides for phantom stock units (payable only in cash) to be granted to each non-employee director on March 1, June 1, September 1 and December 1 of each fiscal year. Each unit represents the number of shares of our common stock equal to the quotient of \$8,500 divided by the closing sale price of our common stock on the day preceding the grant date. The units vest immediately and are redeemable upon the earlier of (1) five years from the date of grant or (2) such director ceasing to be a member of the Board of Directors for certain reasons. Upon redemption, the director receives a cash amount equal to the

number of shares of common stock represented by the unit multiplied by the average of the closing sales price of one share of our common stock for the 30 preceding trading days plus the amount of dividends declared on one share of our common stock since the date of grant. The liabilities for the cash redemptions are carried in Accrued Expenses and Long-Term Incentives, depending on the timing of the redemptions. The Director Plan was replaced in the second quarter of fiscal 2013 by the 2012 Plan, which was in effect beginning September 1, 2012. It is anticipated that, going forward, non-employee directors will receive restricted stock grants issued under the 2012 Plan instead of phantom stock units issued under the Director Plan. The quantity of restricted stock granted each quarter to non-employee directors will be computed in the same fashion. On September 1, 2012, each director was granted 959 restricted shares under the 2012 Plan.

MSC also has one inactive equity award plan: The Material Sciences Corporation 2001 Compensation Plan for Non-Employee Directors ("2001 Directors Plan"). The 2001 Directors Plan expired on February 29, 2004, and no additional grants will be made. There were 6,779 stock options outstanding and exercisable under this plan at November 30, 2012.

In March 2011, the Company granted 200,000 stock options to members of management. The Black-Scholes fair value of each option granted was \$4.13. In May 2011, MSC issued 10,000 shares of restricted stock, which will vest over three years, to the Chief Executive Officer ("CEO") for achievement of certain financial goals. In March 2012, the Company granted 200,000 stock options, with a Black-Scholes fair value of \$4.24 per option, to members of management and issued 5,900 shares of restricted stock, which will vest over one year, to certain members of management who elected to receive restricted stock in lieu of their annual

compensation increase. In May 2012, MSC issued 10,000 shares of restricted stock, which will vest over three years, to the CEO for achievement of certain financial goals. There were 688,138 stock options outstanding, of which 113,138 were exercisable, at November 30, 2012.