

MATERIAL SCIENCES CORP
Form 10-Q/A
July 02, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended August 31, 2007

Commission File Number 1-8803

MATERIAL SCIENCES CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

95-2673173
(IRS employer
identification number)

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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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer

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 September 28, 2007, there were 14,369,951 outstanding shares of common stock, \$.02 par value.

EXPLANATORY NOTE

The primary purpose of this Amendment No. 1 on Form 10-Q/A is to restate the condensed consolidated financial statements for the fiscal quarter and six-month period ended August 31, 2007, presented in our Quarterly Report on Form 10-Q initially filed with the Securities and Exchange Commission (SEC) on October 10, 2007 (the Original Filing).

As previously reported, subsequent to the issuance of our interim financial statements on Form 10-Q for the second quarter ended August 31, 2007, management discovered financial statement errors that related to the interim period ended August 31, that caused an overstatement of the previously reported net loss for the second quarter ended August 31, 2007, by \$596,000 (\$675,000 before the effect of income taxes), or \$0.04 per common share. For the six-month period ended August 31, 2007, the previously reported net loss was overstated by \$326,000 (\$194,000 before the effect of income taxes). These errors primarily related to errors in the capitalization of and accounting for inventory costs, errors related to the accounting for certain previously unrecorded investment assets and errors in the accounting for foreign currency transactions. As a result of these errors, second quarter cost of sales was overstated by \$498,000 related to the inventory errors, second quarter Total Other Income was understated by \$177,000 related to previously unrecorded dividend income from the investment assets and for the effect of the foreign currency transaction gain on the intercompany debt with our German subsidiary. Cost of sales for the six months ended August 31, 2007 was understated by \$462,000 related to the inventory errors, and Total Other Income for the six months ended August 31, 2007 was understated by \$656,000 related to previously unrecorded dividend income from the investment assets and for the effect of the foreign currency transaction gain on the intercompany debt with our German subsidiary. See Note 20 to the Notes to the Condensed Consolidated Interim Financial Statements for more details on these errors and the related financial statement effect.

For the convenience of the reader, this Form 10-Q/A sets forth the Original Filing in its entirety. No attempt has been made in this Form 10-Q/A to modify or update the disclosures in the Original Filing except as required to reflect the effects of the restatement included in Note 20 to the Notes to the Condensed Consolidated Interim Financial Statements. Except as otherwise noted herein, this Form 10-Q/A continues to describe conditions as of the date of the Original Filing, and the disclosures contained herein have not been updated to reflect events, results or developments that occurred after the Original Filing, or to modify or update those disclosures affected by subsequent events. Among other things, forward-looking statements made in the Original Filing have not been revised to reflect events, results or developments that occurred or facts that became known to us after the date of the Original Filing, other than the restatement, and such forward-looking statements should be read in conjunction with our filings with the SEC subsequent to the filing of the Original Filing.

Part I Item 1 (Financial Information), and Part I Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations), have been amended from the Original Filing as a result of the restatement. In addition, Part II Item 6 (Exhibits) has been amended to include new certifications executed as of the date of this Form 10-Q/A by our Chief Executive Officer and Chief Financial Officer.

MATERIAL SCIENCES CORPORATION

FORM 10-Q/A

For the Quarter Ended August 31, 2007

(In thousands, except per share data)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

- (a) 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 August 31, As Restated (See Note 20)		Six Months Ended August 31, As Restated (See Note 20)	
	2007	2006	2007	2006
Net Sales	\$ 56,166	\$ 67,313	\$ 116,831	\$ 143,077
Cost of Sales	50,740	54,012	102,684	116,685
Gross Profit	5,426	13,301	14,147	26,392
Selling, General and Administrative Expenses	8,628	8,588	18,916	17,198
Restructuring Expenses		14		592
Income (Loss) from Operations	(3,202)	4,699	(4,769)	8,602
Other (Income) and Expense:				
Interest (Income) Expense, Net	(108)	(268)	(190)	(394)
Equity in Results of Joint Venture	(69)	(32)	(125)	(56)
Other, Net	(216)	(39)	(733)	(63)
Total Other Income, Net	(393)	(339)	(1,048)	(513)
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes	(2,809)	5,038	(3,721)	9,115
Provision (Benefit) for Income Taxes	(1,131)	2,318	(1,498)	4,141
Income (Loss) from Continuing Operations	(1,678)	2,720	(2,223)	4,974
Net Income (Loss)	\$ (1,678)	\$ 2,720	\$ (2,223)	\$ 4,974
Basic Net Income (Loss) Per Share	\$ (0.12)	\$ 0.19	\$ (0.15)	\$ 0.34
Diluted Net Income (Loss) Per Share	\$ (0.12)	\$ 0.19	\$ (0.15)	\$ 0.34
Weighted Average Number of Common Shares Outstanding Used for Basic Net Income (Loss) Per Share	14,466	14,655	14,497	14,689
Dilutive Shares		5		8
Weighted Average Number of Common Shares Outstanding Plus Dilutive Shares	14,466	14,660	14,497	14,697
Outstanding Common Stock Options Having No Dilutive Effect	169	286	169	286

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

Condensed Consolidated Balance Sheets (Unaudited)

Material Sciences Corporation and Subsidiaries

(In thousands)	As Restated (See Note 20) August 31, 2007	February 28, 2007
Assets:		
Current Assets:		
Cash and Cash Equivalents	\$ 8,955	\$ 11,667
Short Term Investment	1,103	953
Receivables, Less Reserves of \$3,717 and \$4,020, Respectively	32,876	48,121
Income Taxes Receivable	2,724	1,665
Prepaid Expenses	1,542	1,168
Inventories	42,937	42,269
Deferred Income Taxes	4,524	2,204
Other Assets	181	198
Total Current Assets	94,842	108,245
Property, Plant and Equipment	249,046	245,570
Accumulated Depreciation and Amortization	(176,621)	(170,666)
Net Property, Plant and Equipment	72,425	74,904
Other Assets:		
Investment in Joint Venture	2,742	2,363
Goodwill	1,319	1,319
Deferred Income Taxes	1,615	1,415
Other	242	192
Total Other Assets	5,918	5,289
Total Assets	\$ 173,185	\$ 188,438
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 26,661	\$ 39,093
Accrued Payroll Related Expenses	4,458	5,414
Accrued Expenses	10,832	7,468
Current Liabilities of Discontinued Operation - Pinole Point Steel	78	66
Total Current Liabilities	42,029	52,041
Long-Term Liabilities:		
Other	8,368	9,191
Total Long-Term Liabilities	8,368	9,191
Commitments and Contingencies		
Shareowners Equity:		
Preferred Stock		
Common Stock	381	381
Additional Paid-In Capital	79,367	79,171

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Treasury Stock at Cost	(51,110)	(48,757)
Retained Earnings	92,513	94,828
Accumulated Other Comprehensive Income	1,637	1,583
Total Shareowners' Equity	122,788	127,206
Total Liabilities and Shareowners' Equity	\$ 173,185	\$ 188,438

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

(In thousands)	Six Months Ended August 31, As Restated (See Note 20)	
	2007	2006
Cash Flows From:		
Operating Activities:		
Net Income (Loss)	\$ (2,223)	\$ 4,974
Adjustments to Reconcile Net Income (Loss) to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	5,952	5,332
Provision for Deferred Income Taxes	(280)	756
Compensatory Effect of Stock Plans	56	114
Foreign Currency Transaction Gain	(587)	
Other, Net	(94)	(56)
Changes in Assets and Liabilities:		
Receivables	15,338	2,631
Income Taxes Receivable	(925)	2,314
Prepaid Expenses	(372)	(821)
Inventories	(598)	(11,631)
Accounts Payable	(12,381)	4,581
Accrued Expenses	(160)	(171)
Other, Net	(906)	(292)
Net Cash Provided by Continuing Operations	2,820	7,731
Net Cash Provided by (Used in) Discontinued Operations	12	(552)
Net Cash Provided by Operating Activities	2,832	7,179
Investing Activities:		
Capital Expenditures	(3,345)	(7,513)
Net Cash Used in Investing Activities	(3,345)	(7,513)
Financing Activities:		
Purchases of Treasury Stock	(2,353)	(2,080)
Issuance of Common Stock	140	238
Net Cash Used in Financing Activities	(2,213)	(1,842)
Effect of Exchange Rate Changes on Cash	14	(24)
Net Decrease in Cash	(2,712)	(2,200)
Cash and Cash Equivalents at Beginning of Period	11,667	13,600
Cash and Cash Equivalents at End of Period	\$ 8,955	\$ 11,400
Non-Cash Transactions:		
Capital Expenditures in Accounts Payable at End of Period	\$ 399	\$ 879
Supplemental Cash Flow Disclosures:		
Interest Paid	\$ 88	\$ 73
Income Taxes Paid (Refunded), net	(159)	1,079

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

MATERIAL SCIENCES CORPORATION and SUBSIDIARIES

The data as of August 31, 2007 and for the three and six months ended August 31, 2007 and 2006 has not been audited by our independent registered public accounting firm. In the opinion of Material Sciences Corporation (the Company or MSC), the data reflects all adjustments (consisting of only normal, recurring adjustments) necessary for a fair presentation of the information at those dates and for those periods. The financial information contained in this report should be read in conjunction with the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on May 29, 2008 for the fiscal year ended February 29, 2008.

- (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 damper material for the South American market. The Company includes its portion of Tekno'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 \$69 and \$125 for the three and six months ended August 31, 2007, respectively, compared with \$32 and \$56 for the same periods in 2006.
- (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, \$.02 Par Value; 40,000,000 Shares Authorized; 19,040,293 Shares Issued and 14,369,951 Shares Outstanding as of August 31, 2007 and 19,030,907 Shares Issued and 14,615,259 Shares Outstanding as of February 28, 2007.
- (4) **Treasury Stock.** In February 2006, the Company's Board of Directors authorized the repurchase of up to one million shares of common stock. The shares may be repurchased from time-to-time on the open market, subject to market conditions, existing financial covenants associated with the Company's credit facility and other factors, generally funded with internally generated cash. The Company repurchased 226,494 shares during the fiscal quarter ended August 31, 2007 at a total cost of \$2.1 million. During the fiscal year ended February 28, 2007, the Company repurchased 227,000 shares of common stock on the open market at a total cost of \$2.2 million. On July 12, 2007 the Company ente