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MATERIAL SCIENCES CORP
Form 11-K
May 31, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 1-8803

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Material Sciences Corporation
Savings and Investment Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive offices:

Material Sciences Corporation
2200 East Pratt Boulevard
Elk Grove Village, Illinois 60007

MATERIAL SCIENCES CORPORATION
SAVINGS AND INVESTMENT PLAN

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and Investment Plan to the Commission regarding
representations to Material Sciences Corporation Savings
and Investment Plan from Arthur Andersen LLP.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Retirement Plan Committee of
Material Sciences Corporation
Savings and Investment Plan:

We have audited the accompanying statements of net assets available for benefits of MATERIAL SCIENCES CORPORATION SAVINGS AND INVESTMENT PLAN as of December 31, 2001 and 2000, and the related statement of changes in net assets available for benefits for the year ended December 31, 2001. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of Material Sciences Corporation Savings and Investment Plan as of December 31, 2001 and 2000, and the changes in net assets available for benefits for the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of assets held at end of the year and nonexempt transactions are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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Chicago, Illinois
May 21, 2002

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MATERIAL SCIENCES CORPORATION
SAVINGS AND INVESTMENT PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

As of December 31, 2001 and 2000

(Employer Identification Number 95-2673173, Plan Number 003)

	2001	2000
	-----	-----
ASSETS:		
Investments (Note 3)	\$37,951,044	\$44,390,192
Contributions receivable-		
Employer	205,613	21,621
Participant	108,096	126,370
LIABILITIES:		
Excess contributions payable	-	(11,320)
NET ASSETS AVAILABLE FOR BENEFITS	\$38,264,753	\$44,526,863
	=====	=====

The accompanying notes are an integral part of these statements.

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MATERIAL SCIENCES CORPORATION
SAVINGS AND INVESTMENT PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2001

(Employer Identification Number 95-2673173, Plan Number 003)

ADDITIONS:		
Contributions-		
Participant		\$ 3,926,320
Employer		1,799,783
Investment income-		
Dividends and interest		1,349,846
	Total additions	7,075,949

DEDUCTIONS:		
Benefits paid to participants		(3,768,552)
Net depreciation in fair value of investments (Note 3)		(6,147,735)
Administrative expenses		(11,675)
	Total deductions	(9,927,962)

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Net decrease before transfer activity	(2,852,013)
TRANSFERS TO OTHER PLAN (Note 9)	(3,410,097)
NET ASSETS AVAILABLE FOR BENEFITS:	
Beginning of year	44,526,863
End of year	\$38,264,753

The accompanying notes are an integral part of this statement.

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MATERIAL SCIENCES CORPORATION
SAVINGS AND INVESTMENT PLAN

NOTES TO FINANCIAL STATEMENTS AND SCHEDULES

December 31, 2001 and 2000

(Employer Identification Number 95-2673173, Plan Number 003)

1. DESCRIPTION OF THE PLAN

The following description of the Material Sciences Corporation Savings and Investment Plan (the "Plan") provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended.

General

The Plan was established on January 1, 1976, as a defined contribution savings and investment plan. Employees of Material Sciences Corporation ("MSC") and its subsidiaries (collectively, the "Company") are eligible to participate as of their date of hire (as defined in the Plan agreement).

Plan Administration

The Retirement Plan Committee, consisting of current employees of the Company, administers the Plan. Putnam Fiduciary Trust Company (the "Trustee") was the trustee of the Plan as of December 31, 2001 and 2000. In addition, the Trustee performs additional record-keeping tasks for the Plan.

Contributions

The Plan allows participants to contribute 1% to 14% of their compensation, as defined by the Plan document, to their pre-tax and after-tax accounts. The combined pre-tax and after-tax contributions up to 6% of the participant's compensation are designated as "Basic Contributions". Any contribution in excess of the 6% of participant's compensation is designated as "Supplemental Contributions". The combined pre-tax and after-tax contributions cannot exceed 14% of the participant's compensation.

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Effective April 1, 2000, the Company's matching contributions increased from 50% to 60% of the eligible participant's Basic Contributions, except for MSC Pre Finish Metals (EGV) Inc.'s Union and MSC Laminates and Composites Inc.'s Union, which remained at 50%.

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Participant Accounts

Each participant's account is credited with the participant's contribution and allocations of both the Company's contribution and Plan earnings. Participants share in the earnings of the Plan based on the ratio of each participant's equity to the total participants' equity. Earnings include interest, dividends, realized gains or losses on sales of investments and the net change in unrealized appreciation or depreciation of investments. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Vesting and Forfeitures

Participants vest in the Company's contribution and related earnings at the rate of 20% per year for each full year of participation and are 100% vested after five years. Upon termination of employment, any amounts not vested are forfeited and are applied toward future Company matching contributions. Contributions made by the participants and the related earnings are fully vested and not subject to forfeiture. In 2001, \$33,996 in forfeitures were used to reduce the Company's matching contribution.

Payment of Benefits

Upon retirement, death, disability or termination of service, a participant may elect to receive a lump-sum distribution equal to his or her vested account balance or a life annuity.

Loans and Distributions to Participants

Participants may borrow as much as 50% of their vested account balance, or \$50,000 (whichever is less). The minimum loan amount is \$1,000. Most loans must be repaid within five years. The loan period is extended to 15 years if the loan proceeds were used to purchase a primary residence. The interest rate is prime plus 1%. Participants may request a distribution of their after-tax funds, including their vested Company match. In addition, hardship distributions are permitted if certain criteria are met. Such withdrawals, however, are subject to a 10% excise tax if the participant is less than 59 1/2 years of age and the withdrawal does not qualify for exemption under the Internal Revenue Code ("IRC") regulations.

Investment Options

Participants may direct the investments of their total account balances into seven mutual funds, two common collective trust funds ("CCT"), and a Company stock fund currently available in the Plan.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The investments of the Plan, except for the Putnam Stable Value Fund, are stated at fair value. Shares of registered investment companies are valued at quoted market prices, which represent the net asset value of shares held by the Plan at year-end. The Company stock is valued at its quoted market price. Participant loans are valued at cost, which approximates fair value.

The Plan's interest in the Putnam Stable Value Fund, at December 31, 2001 and 2000, is a CCT. The Plan owns shares in this CCT, which, in turn holds shares in the underlying securities. The Putnam Stable Value Fund holds investments in guaranteed investment contracts. These investment contracts provide for benefit-responsive withdrawals at contract value. These investments are valued at contract value, which approximates fair values, as determined by the Trustee (that being contract value representing investing principal plus accrued interest thereon). At December 31, 2001 and 2000 the average yield and crediting interest rates for the CCT were approximately 6%.

Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized appreciation (depreciation) is recorded in the accompanying Statement of Changes in Net Assets Available for Benefits, as net appreciation (depreciation) in fair value of investments.

The Plan provides for investments that, in general, are exposed to various risks such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could affect the amounts reported in the Statements of Net Assets Available for Benefits.

Administrative Expenses

The Company pays all administrative expenses of the Plan, except for certain investment management charges, distribution and loan processing fees.

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Payment of Benefits

Benefits are recorded when paid.

Reclassifications

Certain amounts were reclassified to conform to the current year's presentation.

3. INVESTMENTS

The following presents investments that represent 5% or more of the Plan's net assets as of December 31, 2001 and 2000:

	2001	2000
	-----	-----
George Putnam Fund	\$5,633,839	\$5,633,839
Putnam Growth & Income Fund	7,561,968	9,561,968
Putnam Global Growth Fund	1,961,836	3,961,836
Putnam Voyager Fund	6,578,556	9,578,556
Putnam OTC & Emerging Growth Fund	2,436,967	3,436,967
Putnam Stable Value Fund	7,617,590	7,617,590

During 2001, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) depreciated in value by \$6,147,735 as follows:

Mutual funds	\$(6,613,488)
Common stock	465,753

	\$(6,147,735)
	=====

4. TAX STATUS

The Internal Revenue Service has determined and informed the Company by a letter dated March 3, 1995, that the Plan is designed in accordance with applicable IRC. Although the Plan has been amended since receiving the determination letter, the plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

5. RELATED-PARTY TRANSACTIONS

Certain Plan investments are shares of mutual funds managed by Putnam Fiduciary Trust Co., the Trustee as defined by the Plan; therefore, these transactions qualify as party-in-interest transactions.

6. PLAN TERMINATION

Although the Company has not expressed any intent to discontinue its contributions or terminate the Plan, it may do so at any time, subject to ERISA. In the event of termination, the Plan provides that the assets of the Plan shall be allocated among the

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participants and beneficiaries of the Plan in the order and amounts provided for in the Plan document, and that all participants shall become fully vested on their Company contribution accounts at that time.

7. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

	December 31	
	2001	2000
Net assets available for benefits per the financial statements	\$38,264,753	\$44,526,863
Amounts allocated to withdrawing participants	(120,414)	(38,757)
Net assets available for benefits per the Form 5500	\$38,144,339	\$44,488,106

The following is a reconciliation of benefits paid to participants per the financial statements to the Form 5500 at December 31, 2001:

Benefits paid to participants per the financial statements	\$3,768,552
Add- Amounts allocated to withdrawing participants at Plan year-end	120,414
Less- Amounts allocated to withdrawing participants previous year's Plan year-end	(38,757)
Benefits paid to participants per the Form 5500	\$3,850,209

Amounts allocated to withdrawing participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to December 31, but not yet paid as of that date.

8. NONEXEMPT TRANSACTIONS

During the Plan year ended December 31, 2000, there was a deemed loan made to the Company when an employee 401(k) contribution of \$21,656 was not remitted to the Plan on a timely basis. The Company remitted the contribution to the Plan on July 27, 2001 and intends to repay the Plan for the interest incurred on the loan in 2002. This transaction is detailed on the schedule of nonexempt transactions in the accompanying supplemental schedules.

9. TRANSFER TO OTHER PLAN

Effective June 29, 2001, the Company sold substantially all of the

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assets of its Specialty Films segment ("SFI"). The participants of the SFI division were spun off from this Plan. Assets were transferred on October 1, 2001 to the Innovative Specialty Films, LLC Savings & Investment Plan in the amount of \$3,410,097.

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10. SUBSEQUENT EVENT

Effective February 17, 2002, the Company increased the MSC Pre Finish Metals (EGV) Inc.'s Union and MSC Laminates and Composites Inc.'s Union matching contributions from 50% to 60% of the eligible participant's Basic Contributions.

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Schedule I

MATERIAL SCIENCES CORPORATION
SAVINGS AND INVESTMENT PLAN

SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)

December 31, 2001

(Employer Identification Number 95-2673173, Plan Number 003)

(a)	(b) Identity of Issuer	(c) Description of Investment
-----	-----	-----
*	Putnam Fiduciary Trust Co.	George Putnam Fund
*	Putnam Fiduciary Trust Co.	International Growth Fund
*	Putnam Fiduciary Trust Co.	Growth & Income Fund
*	Putnam Fiduciary Trust Co.	Global Growth Fund
*	Putnam Fiduciary Trust Co.	Voyager Fund
*	Putnam Fiduciary Trust Co.	Stable Value Fund
*	Putnam Fiduciary Trust Co.	OTC & Emerging Growth Fund
*	Putnam Fiduciary Trust Co.	S&P 500 Index Fund
	Neuberger & Berman	Genesis Trust Fund
*		Material Sciences Corporation stock
*		Loan Fund (interest rates ranging from low-- 6% to high--10%)
		Total investments

*Represents a party-in-interest transaction.

The accompanying notes are an integral part of this schedule.

MATERIAL SCIENCES CORPORATION
SAVINGS AND INVESTMENT PLAN

SCHEDULE OF NONEXEMPT TRANSACTIONS

For the Year Ended December 31, 2001

(Employer Identification Number 95-2673173, Plan Number 003)

Identity of Party Involved	Relationship of Plan, Employer or Other Party in Interest	Description of Transaction, Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value	(d) Amount Loaned	(i)
Material Sciences Corporation	Plan sponsor	Lending of monies from the Plan to the Plan sponsor (contributions not remitted to the Plan on time) as follows: Deemed loan occurred March 4, 2000, maturity \$26,378, with interest at various rates	\$21,656 =====	=====

The accompanying notes are an integral part of this schedule.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized on this 31st day of May, 2002.

MATERIAL SCIENCES CORPORATION
SAVINGS AND INVESTMENT PLAN

By: Material Sciences Corporation,
Plan Administrator

By: /s/ James J. Waclawik, Sr.

James J. Waclawik, Sr.
Vice President, Chief Financial Officer
and Secretary

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Exhibit Index

Exhibit No. -----	Description -----
23.1	Consent of Independent Public Accountants
99.1	Letter from Material Sciences Corporation Savings and Investment Plan to the Commission regarding representations to Material Sciences Corporation Savings and Investment Plan from Arthur Andersen LLP.