SCHULMAN A INC
Form 10-Q
April 04, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended February 29, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________.

Commission File No. 0-7459

A. SCHULMAN, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**34-0514850**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
3550 West Market Street, Akron, Ohio	**44333**
(Address of Principal Executive Offices)	(ZIP Code)

Registrant s telephone number, including area code: (330) 666-3751

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 þ No o

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a 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 o No þ

Number of shares of common stock, $1.00 par value, outstanding as of March 31, 2008 27,096,969

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PART I FINANCIAL INFORMATION
ITEM 1 Consolidated Financial Statements
A. SCHULMAN, INC.
Consolidated Statements of Operations
(In thousands except per share data)

	Three months ended		Six months ended	
	February 29, 2008	**February 28, 2007**	**February 29, 2008**	**February 28, 2007**
	Unaudited		Unaudited	
Net sales	$ 479,811	$ 412,767	$ 976,385	$ 855,494
Cost of sales	422,774	365,333	862,178	759,230
Selling, general and administrative expenses	48,047	39,092	88,936	78,631
Minority interest	131	196	376	428
Interest expense	2,008	2,031	3,619	3,861
Interest income	(421)	(527)	(903)	(888)
Foreign currency transaction (gains) losses	463	(784)	597	(1,298)
Other (income) expense	(334)	(106)	(2)	(81)
Goodwill impairment North America	964		964	
Asset impairment North America	5,219		5,219	
Restructuring expense North America	2,616	810	2,622	928
	481,467	406,045	963,606	840,811
Income (loss) before taxes	(1,656)	6,722	12,779	14,683
Provision for U.S. and foreign income taxes	2,118	5,082	6,530	10,671
Net income (loss)	(3,774)	1,640	6,249	4,012
Less: Preferred stock dividends	(13)	(13)	(26)	(26)
Net income (loss) applicable to common stock	$ (3,787)	$ 1,627	$ 6,223	$ 3,986
Weighted-average number of shares outstanding:				
Basic	27,223	26,952	27,372	26,916
Diluted	27,223	27,212	27,618	27,256
Earnings (losses) per share of common stock:				
Basic	$ (0.13)	$ 0.06	$ 0.23	$ 0.15

Diluted	$	(0.13)	$	0.06	$	0.23	$	0.15

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

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A. SCHULMAN, INC.
Consolidated Balance Sheets

	February 29, 2008	August 31, 2007
	Unaudited (In thousands except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 44,650	$ 43,045
Accounts receivable, less allowance for doubtful accounts of $9,667 at February 29, 2008 and $9,056 at August 31, 2007	354,654	317,774
Inventories, average cost or market, whichever is lower	295,898	263,047
Prepaid expenses and other current assets	19,208	16,163
Total current assets	714,410	640,029
Other assets:		
Cash surrender value of life insurance	2,639	2,231
Deferred charges and other assets	24,398	21,784
Goodwill	10,933	9,350
Intangible assets	186	174
	38,156	33,539
Property, plant and equipment, at cost:		
Land and improvements	17,662	16,768
Buildings and leasehold improvements	156,579	145,952
Machinery and equipment	377,787	352,044
Furniture and fixtures	43,127	38,955
Construction in progress	14,263	13,035
	609,418	566,754
Accumulated depreciation and investment grants of $1,250 at February 29, 2008 and $1,322 at August 31, 2007	403,775	366,207
	205,643	200,547
	$ 958,209	$ 874,115
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable	$ 2,650	$ 2,762
Accounts payable	148,876	141,838

U.S. and foreign income taxes payable	4,918	11,544
Accrued payrolls, taxes and related benefits	35,389	32,249
Other accrued liabilities	38,247	33,112
Total current liabilities	230,080	221,505
Long-term debt	162,723	123,080
Other long-term liabilities	100,608	91,316
Deferred income taxes	5,857	5,640
Minority interest	5,637	5,561
Commitments and contingencies		
Stockholders equity:		
Preferred stock, 5% cumulative, $100 par value, authorized, issued and outstanding 10,564 shares at February 29, 2008 and August 31, 2007	1,057	1,057
Special stock, 1,000,000 shares authorized, none outstanding		
Common stock $1 par value, authorized 75,000,000 shares, issued 42,171,226 shares at February 29, 2008 and 41,784,640 shares at August 31, 2007	42,171	41,785
Other capital	106,987	103,828
Accumulated other comprehensive income	85,918	50,092
Retained earnings	509,619	509,415
Treasury stock, at cost, 14,776,980 shares at February 29, 2008 and 14,113,977 shares at August 31, 2007	(292,448)	(279,164)
Common stockholders equity	452,247	425,956
Total stockholders equity	453,304	427,013
	$ 958,209	$ 874,115

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

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A. SCHULMAN, INC.
Consolidated Statements of Cash Flows

	Six months ended	
	February 29, 2008	**February 28, 2007**
	Unaudited (In thousands)	
Provided from (used in) operating activities:		
Net income	$ 6,249	$ 4,012
Adjustments to reconcile net income to net cash provided from (used in) operating activities:		
Depreciation and amortization	14,040	12,487
Deferred tax provision	(1,263)	(1,931)
Pension and other deferred compensation	5,247	2,900
Postretirement benefit obligation	569	1,626
Minority interest in net income of subsidiaries	376	428
Restructuring charges, including $0 and $949 of accelerated depreciation in fiscal 2008 and 2007, respectively	2,622	1,686
Goodwill impairment North America	964	
Asset impairment North America	5,219	
Changes in assets and liabilities:		
Accounts receivable	(10,681)	(9,498)
Inventories	(10,947)	42,369
Accounts payable	(2,972)	(12,285)
Income taxes	(5,733)	(6,639)
Restructuring payments	(80)	(191)
Accrued payrolls and other accrued liabilities	967	4,150
Changes in other assets and other long-term liabilities	883	611
Net cash provided from (used in) operating activities	5,460	39,725
Provided from (used in) investing activities:		
Expenditures for property, plant and equipment	(13,187)	(12,113)
Disposals of property, plant and equipment	474	312
Proceeds of insurance settlements		545
Net cash used in investing activities	(12,713)	(11,256)
Provided from (used in) financing activities:		
Cash dividends paid	(8,123)	(8,149)
Increase (decrease) in notes payable	(554)	(4,508)
Borrowings on revolving credit facilities	81,502	51,576
Repayments on revolving credit facilities	(52,569)	(23,877)
Cash distributions to minority shareholders	(300)	(300)
Exercise of stock options	1,083	4,907
Purchase of treasury stock	(13,284)	(18,107)

Net cash provided from (used in) financing activities	7,755	1,542
Effect of exchange rate changes on cash	1,103	(667)
Net increase (decrease) in cash and cash equivalents	1,605	29,344
Cash and cash equivalents at beginning of period	43,045	50,662
Cash and cash equivalents at end of period	$ 44,650	$ 80,006

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) The interim financial statements furnished reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of the results of the interim period presented. All such adjustments are of a normal recurring nature.

The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The results of operations for the six months ended February 29, 2008 are not necessarily indicative of the results expected for the year ending August 31, 2008.

The accounting policies for the periods presented are the same as described in Note 1 Summary of Significant Accounting Policies to the consolidated financial statements contained in the Company s Annual Report on Form 10-K for the fiscal year ended August 31, 2007 except for new accounting pronouncements and accounting for uncertain tax positions which are described in the footnotes.

Certain items previously reported in specific financial statement captions have been reclassified to conform to the fiscal 2008 presentation.

(2) Effective in December 2002, the Company adopted the 2002 Equity Incentive Plan which provided for the grant of incentive stock options, nonqualified stock options, restricted stock awards and director deferred units for employees and non-employee directors. The option price of incentive stock options is the fair market value of the common shares on the date of the grant. In the case of nonqualified options, the Company grants options at 100% of the fair market value of the common shares on the date of the grant. All options become exercisable at the rate of 33 1/3% per year, commencing on the first anniversary date of the grant. Each option expires ten years from the date of the grant. Restricted stock awards under the 2002 Equity Incentive Plan vest ratably over four years following the date of grant.

On December 7, 2006, the Company adopted the 2006 Incentive Plan which provides for the grant of incentive stock options, nonqualified stock options, whole shares, restricted stock awards, restricted stock units, stock appreciation rights, performance shares, performance units, cash-based awards, dividend equivalents and performance-based awards. Upon adoption of the 2006 Incentive Plan all remaining shares eligible for award under the 2002 Equity Incentive Plan were added to the 2006 Incentive Plan and no further awards could be made from the 2002 Equity Incentive Plan. The time-based nonqualified stock options granted under the 2006 Incentive Plan become exercisable at the rate of 33 1/3% per year, commencing on the first anniversary date of the grant. It has been the Company s practice to issue new common shares upon stock option exercise. On February 29, 2008, there were approximately 2.7 million shares available for grant pursuant to the Company s 2006 Incentive Plan.

A summary of stock options is as follows:

	Six months ended February 29, 2008		Six months ended February 28, 2007	
	Outstanding shares under option	Weighted-average exercise price	Outstanding shares under option	Weighted-average exercise price
Outstanding at beginning of period	813,710	$ 19.10	1,568,276	$ 18.93
Granted				
Exercised	(57,216)	18.93	(264,461)	18.55

Forfeited and expired	(4,169)	19.23	(6,036)	19.30
Outstanding at end of period	752,325	19.11	1,297,779	19.01
Exercisable at the end of the period	614,597	18.92	854,980	18.55

The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option. The total intrinsic value of stock options exercised during the six months ended February 29, 2008 and February 28, 2007 was approximately $0.1 million and $1.0 million, respectively. The intrinsic value for stock options exercisable at February 29, 2008 was $1.5 million with a remaining term for

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options exercisable of approximately 5.8 years. For stock options outstanding at February 29, 2008, exercise prices range from $11.63 to $24.69. The weighted average remaining contractual life for options outstanding at February 29, 2008 was approximately 6.1 years. Stock options vested and expected to vest at February 29, 2008 were approximately 747,000 with a remaining contractual term of approximately 6.1 years and a weighted-average exercise price of $19.10. The aggregate intrinsic value of stock options vested and expected to vest was $1.7 million at February 29, 2008. There were no grants of stock options during the six months ended February 29, 2008 or in the comparable period last fiscal year.

Restricted stock awards under the 2002 Equity Incentive Plan vest over four years following the date of grant. Restricted stock awards under the 2006 Incentive Plan can vest over various periods. The restricted stock grants outstanding under the 2006 Incentive Plan have service vesting periods of three years following the date of grant. The following table summarizes the outstanding restricted stock awards and weighted-average fair market value:

	Outstanding Restricted Stock Awards	Weighted-Average Fair Market Value (per share)
Outstanding at August 31, 2007	330,775	$ 20.01
Granted	99,150	20.44
Released	(102,088)	18.16
Forfeited	(6,962)	20.52
Outstanding at February 29, 2008	320,875	20.71

During the three months ended February 29, 2008, the Company granted 99,150 time-based restricted shares. Restrictions on these shares underlying the restricted stock awards will lapse ratably over a three year period and were valued at the fair market value on the date of grant. There were no other grants of restricted stock awards during the six months ended February 29, 2008. The Company did not grant any restricted stock during the six months ended February 28, 2007.

The Company also grants awards with market performance vesting criteria. In the table below, the Company summarizes all performance-based awards which include performance-based restricted stock awards and Performance Shares.

	Outstanding Performance-based Awards	Weighted-Average Fair Market Value (per share)
Outstanding at August 31, 2007	137,525	$ 20.55
Granted	203,725	13.13
Released		
Forfeited	(3,568)	20.55
Outstanding at February 29, 2008	337,682	16.07

During the three months ended February 29, 2008, the Company granted 203,725 performance share awards. Performance share awards (Performance Shares) are awards for which the vesting will occur based on both service and market performance criteria and do not have voting rights. There were no other grants of Performance Shares during the six months ended February 29, 2008. The Company did not grant any Performance Shares during the six months ended February 28, 2007. Included in the fiscal 2008 grant are approximately 136,000 Performance Shares which earn dividends throughout the vesting period and approximately 68,000 Performance Shares which do not earn dividends. The weighted-average grant date fair value of the Performance Shares based on market conditions granted during the three months ended February 29, 2008 was $13.13 per share. The valuation for these awards granted during the period ended February 29, 2008 which vest based on market performance criteria was based upon the Monte Carlo simulation, which is a

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binomial model that represents the characteristics of these grants. Vesting of the ultimate number of shares underlying performance awards, if any, will be dependent upon the Company s total shareholder return in relation to the total shareholder return of a select group of peer companies over a three year period. These awards were accounted for as awards with market conditions in accordance with Financial Accounting Standards Board (FASB) Statement No. 123(R), Share-Based Payment.

As of February 29, 2008, approximately 134,000 awards of the outstanding performance-based awards in the table above are performance-based restricted stock awards from the fiscal 2007 grant with vesting based on both service and market performance criteria. The performance-based restricted stock awards have voting rights. At the vesting date of these performance-based restricted stock awards, approximately 67,000 additional shares could be issued and released if certain market conditions are met which are not included in the table. The probability of meeting the market criteria was considered when calculating the estimated fair market value on the date of grant using a Monte Carlo simulation as explained below.

The fair value of the Performance Shares awards granted during the six months ended February 29, 2008 was estimated using a Monte Carlo simulation binomial model with the following weighted-average assumptions:

Weighted-Average Assumptions	Six months ended February 29, 2008
Dividend yield	2.84%
Expected volatility	30.00%
Risk-free interest rate	1.97%
Correlation	32.00%

Total unrecognized compensation cost, including a provision for forfeitures, related to nonvested share-based compensation arrangements at February 29, 2008 was approximately $8.0 million. This cost is expected to be recognized over a weighted-average period of approximately 2 years.

At February 29, 2008, the Company had approximately 358,000 restricted stock units outstanding with various vesting periods and criteria. Each restricted stock unit is equivalent to one share of A. Schulman, Inc. stock on the vesting date. The Company granted approximately 114,000 restricted stock units during the three months ended February 29, 2008. There were no other grants of restricted stock units during the six months ended February 29, 2008. The Company did not grant any restricted stock units during the six months ended February 28, 2007. Certain restricted stock units earn dividends during the vesting period. Restricted stock units are settled only in cash at the vesting date and therefore are treated as a liability award. The Company records a liability for these restricted stock units in an amount equal to the total of (a) the mark to market adjustment of the units vested to date, and (b) accrued dividends on the units. The Company has recorded approximately $0.4 million and $0.1 million of expense related to restricted stock units for the three months ended February 29, 2008 and February 28, 2007, respectively. The Company has recorded approximately $0.8 million and $0.3 million of expense related to restricted stock units for the six months ended February 29, 2008 and February 28, 2007, respectively.

(3) All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents. Such investments amounted to $14.1 million at February 29, 2008 and $11.0 million at August 31, 2007.

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(4) A summary of the stockholders equity section for the six months ended February 29, 2008 and February 28, 2007 is as follows:

(In thousands except per share data)
(Unaudited)

	Preferred Stock	Common Stock	Other Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders Equity
Balance at September 1, 2007	$ 1,057	$ 41,785	$ 103,828	$ 50,092	$ 509,415	$ (279,164)	$ 427,013
Impact due to adoption of FIN 48					2,078		2,078
Adjusted balance at September 1, 2007	1,057	41,785	103,828	50,092	511,493	(279,164)	429,091
Comprehensive income:							
Net income					6,249		
Foreign currency translation gain (loss)				30,711			
Amortization of unrecognized transition obligations, actuarial losses and prior service costs (credits), net				5,115			
Total comprehensive income							42,075
Cash dividends paid or accrued:							
Preferred stock, $2.50 per share					(26)		(26)
Common stock, $0.29 per share					(8,097)		(8,097)
Stock options exercised		57	1,026				1,083
Restricted stock issued		329	(329)				
Purchase of treasury stock						(13,284)	(13,284)
Non-cash stock based compensation			428				428
			2,034				2,034

Amortization of restricted stock							
Balance at February 29, 2008	$ 1,057	$ 42,171	$ 106,987	$ 85,918	$ 509,619	$ (292,448)	$ 453,304
Balance at September 1, 2006	$ 1,057	$ 40,707	$ 86,894	$ 32,893	$ 502,998	$ (261,057)	$ 403,492
Comprehensive income:							
Net income					4,012		
Foreign currency translation gain (loss)				4,845			
Total comprehensive income							8,857
Cash dividends paid or accrued:							
Preferred stock, $2.50 per share					(26)		(26)
Common stock, $0.29 per share					(8,123)*		(8,123)
Stock options exercised		265	4,642				4,907
Restricted stock issued		102	(102)				
Purchase of treasury stock						(18,107)	(18,107)
Non-cash stock based compensation			1,115				1,115
Amortization of restricted stock			765				765
Balance at February 28, 2007	$ 1,057	$ 41,074	$ 93,314	$ 37,738	$ 498,861	$ (279,164)	$ 392,880

* Includes approximately $.3 million related to the redemption of the special stock purchase rights which were paid at a price of $.01 per share for shareholders of record on January 19,

2007. This $.01 is not included in the $.29 per share for common stock dividends.

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A. SCHULMAN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if common stock equivalents were exercised, and the impact of restricted stock and performance based awards expected to vest, which would then share in the earnings of the Company.

The difference between basic and diluted weighted-average common shares results from the assumed exercise of outstanding stock options and grants of restricted stock, calculated using the treasury stock method. The following presents the number of incremental weighted-average shares used in computing diluted per share amounts:

	Three Months Ended		Six Months Ended	
	February 29, 2008	February 28, 2007	February 29, 2008	February 28, 2007
	(in thousands)			
Weighted-average shares outstanding:				
Basic	27,223	26,952	27,372	26,916
Incremental shares from stock options		100	65	154
Incremental shares from restricted stock		160	181	186
Diluted	27,223	27,212	27,618	27,256

For the three months ended February 29, 2008, any stock options and restricted stock were excluded from the calculation of diluted net loss per common share, because they would have had an anti-dilutive effect due to the Company s net loss. For the six months ended February 29, 2008, there were approximately 0.1 million equivalent shares related to stock options that were excluded from diluted weighted-average shares outstanding because inclusion would have been anti-dilutive.

(6) The components of Accumulated Other Comprehensive Income are as follows:

	Foreign Currency Translation Gain	Unrecognized transition obligations, actuarial losses and prior service costs (credits), net	Total Accumulated Other Comprehensive Income
		(in thousands)	
Balance as of August 31, 2007	$55,397	$(5,305)	$ 50,092
Current period change	30,711	5,115	35,826
Balance as of February 29, 2008	$86,108	$ (190)	$ 85,918

Foreign currency translation gains are not tax effected as such gains are considered permanently reinvested.

(7) To identify reportable segments, the Company considered its operating structure and the types of information subject to regular review by its President and Chief Executive Officer, who is the Chief Operating Decision

Maker (CODM). The Company historically identified and presented two geographical operating segments, North America and Europe, based on how the CODM regularly reviewed information and allocated resources. In addition, the Company presented other financial information separately representing items below operating income, which were not managed at a segment level. During the first quarter of fiscal 2008, management began excluding corporate from the segment results and other charges such as foreign currency transaction gains or losses and other expenses which are not under full control of segment management. Management believed this better reflects the actual operating performance of the segments. Prior to fiscal 2008, the Company allocated certain corporate expenses to the operating segments. Prior periods were recast to reflect the current presentation.

The CODM uses net sales to unaffiliated customers, gross profit and operating income in order to make decisions and assess performance of each segment. Operating income does not include interest income or

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A. SCHULMAN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

expense, other income or expense, restructuring expense, impairment charges or foreign currency transaction gains or losses. In some cases, the Company may choose to exclude from a segment s results certain non-recurring items as determined by management. These items are included in the Corporate and Other section in the table below. Corporate expenses include the compensation of certain personnel, certain audit expenses, board of directors related costs, and other miscellaneous legal and professional fees.

A reconciliation of operating income (loss) by segment to consolidated income (loss) before taxes is presented below:

	North America	Europe	Corporate and Other	Consolidated
		Unaudited (In thousands)		
Three months ended February 29, 2008				
Net sales to unaffiliated customers	$ 114,776	$ 365,035	$	$ 479,811
Gross profit	$ 6,916	$ 50,121	$	$ 57,037
Operating income (loss)	$ (6,228)	$ 23,881	$ (8,794)	$ 8,859
Interest expense, net			(1,587)	(1,587)
Foreign currency transaction gains (losses)			(463)	(463)
Other income (expense)			334	334
Goodwill impairment North America			(964)	(964)
Asset impairment North America			(5,219)	(5,219)
Restructuring expense North America			(2,616)	(2,616)
Income (loss) before taxes	$ (6,228)	$ 23,881	$ (19,309)	$ (1,656)
Three months ended February 28, 2007				
Net sales to unaffiliated customers	$ 111,751	$ 301,016	$	$ 412,767
Gross profit	$ 9,088	$ 38,346	$	$ 47,434
Operating income (loss)	$ (4,378)	$ 16,107	$ (3,583)	$ 8,146
Interest expense, net			(1,504)	(1,504)
Foreign currency transaction gains (losses)			784	784
Other income (expense)			106	106
Restructuring expense North America			(810)	(810)
Income (loss) before taxes	$ (4,378)	$ 16,107	$ (5,007)	$ 6,722

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	North America	Europe	Corporate and Other	Consolidated
		Unaudited (In thousands)		
Six months ended February 29, 2008				
Net sales to unaffiliated customers	$ 243,345	$ 733,040	$	$ 976,385
Gross profit	$ 16,416	$ 97,791	$	$ 114,207
Operating income (loss)	$ (9,388)	$ 46,459	$ (12,176)	$ 24,895
Interest expense, net			(2,716)	(2,716)
Foreign currency transaction gains (losses)			(597)	(597)
Other income (expense)			2	2
Goodwill impairment North America			(964)	(964)
Asset impairment North America			(5,219)	(5,219)
Restructuring expense North America			(2,622)	(2,622)
Income (loss) before taxes	$ (9,388)	$ 46,459	$ (24,292)	$ 12,779
Six months ended February 28, 2007				
Net sales to unaffiliated customers	$ 230,045	$ 625,449	$	$ 855,494
Gross profit	$ 16,445	$ 79,819	$	$ 96,264
Operating income (loss)	$ (10,615)	$ 34,924	$ (7,104)	$ 17,205
Interest expense, net			(2,973)	(2,973)
Foreign currency transaction gains (losses)			1,298	1,298
Other income (expense)			81	81
Restructuring expense North America			(928)	(928)
Income (loss) before taxes	$ (10,615)	$ 34,924	$ (9,626)	$ 14,683

North America gross profit for the three and six months ended February 28, 2007 include $0.7 million and $0.9 million of accelerated depreciation expense, respectively, related to the restructuring plan announced in fiscal 2007. For the three months ended February 29, 2008 and February 28, 2007, North American gross profit includes expense of $1.2 million and $1.1 million, respectively, related to the Invision® product. For the six months ended February 29, 2008 and February 28, 2007, North American gross profit includes expense of $2.8 million and $2.0 million, respectively, related to the Invision product. Europe gross profit for the six months ended February 29, 2008 was negatively impacted by $0.8 million for employee termination costs.

Depreciation expense was $4.3 million and $2.6 million for Europe and North America, respectively, for the three months ended February 29, 2008. Depreciation expense was $8.8 million and $5.3 million for Europe and North America, respectively, for the six months ended February 29, 2008. For the three months ended February 28, 2007, depreciation expense was $3.7 million and $3.3 million for Europe and North America, respectively, and $7.4 million and $6.1 million for Europe and North America, respectively, for the six months ended February 28, 2007. The fiscal 2007 amounts include the accelerated depreciation mentioned previously for North America.

The majority of the Company s sales for the three and six months ended February 29, 2008 and February 28, 2007 can be classified into five primary product families. The approximate amount and percentage of consolidated sales for these product families are as follows:

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Product Family	Three months ended February 29, 2008		February 28, 2007	
	(In thousands, except for % s)			
Color and additive concentrates	$ 167,041	35%	$ 140,555	34%
Polyolefins	163,061	34	128,711	31
Engineered compounds	101,873	21	105,452	26
Polyvinyl chloride (PVC)	13,923	3	15,036	4
Tolling	6,218	1	6,271	1
Other	27,695	6	16,742	4
	$ 479,811	100%	$ 412,767	100%

Product Family	Six months ended February 29, 2008		February 28, 2007	
	(In thousands, except for % s)			
Color and additive concentrates	$ 345,996	35%	$ 298,044	35%
Polyolefins	323,374	33	264,645	31
Engineered compounds	208,686	22	213,736	25
Polyvinyl chloride (PVC)	28,621	3	31,046	4
Tolling	12,175	1	10,809	1
Other	57,533	6	37,214	4
	$ 976,385	100%	$ 855,494	100%

(8) In June 2006, the FASB issued FASB interpretation No. 48, (FIN 48), Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes. FIN 48 clarifies the accounting for uncertain income tax positions that are recognized in a company s financial statements. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 requires a company to recognize a financial statement benefit for a position taken or expected to be taken in a tax return when it is more-likely-than-not that the position will be sustained.

The Company adopted FIN 48 on September 1, 2007, as required. As a result of the implementation, the Company recognized an increase in the opening balance of retained earnings of $2.1 million for unrecognized tax benefits not previously recognized under historical practice.

As of February 29, 2008, the Company s gross unrecognized tax benefits totaled $5.6 million. If recognized, approximately $3.0 million of the total unrecognized tax benefits would favorably affect the Company s effective tax rate. The Company elects to report interest and penalties related to income tax matters in income tax expense. At February 29, 2008, the Company had $1.3 million of accrued interest and penalties on unrecognized tax benefits.

The Company is open to potential income tax examinations in the U.S. from fiscal 2004 onward and generally from fiscal year 2001 onward for most foreign jurisdictions. Specifically, in Belgium the Company is open for examination from 2005 onward. In addition, the Company is currently under examination in Germany for years

2000 through 2004. The expiration of certain statutes of limitation in foreign jurisdictions during the second quarter resulted in a tax benefit of approximately $0.6 million relating to the reversal of tax and interest previously accrued for under FIN 48.

The amount of unrecognized tax benefits is expected to change in the next 12 months; however the change is not expected to have a significant impact on the financial position of the Company.

In October 2007, significant tax legislation was passed in Mexico, which was generally effective starting January 1, 2008. Of particular importance is the law s introduction of a flat tax, which will apply to taxpaying

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entities along with Mexico s regular income tax. The new legislation is not expected to have a material effect on the Company s current financial condition, results of operations or cash flows.

In December 2007, tax legislation was passed in Italy, which was effective January 1, 2008 and includes a reduction in the combined corporate and local income tax rate by approximately six percentage points. The new legislation did not have a material effect on the Company s current financial position, results of operations or cash flows.

A reconciliation of the statutory U.S. federal income tax rate of 35% with the effective tax rate is as follows:

	For the three months ended February 29, 2008		For the three months ended February 28, 2007	
	(in thousands except for % s)			
Statutory U.S. tax rate	$ (580)	35.0%	$ 2,353	35.0%
Domestic losses with no benefit	3,742	(225.8)	2,836	42.2
Amount of foreign taxes at less than statutory U.S. tax rate	(3,717)	224.2	(620)	(9.2)
U.S. restructuring and other U.S. unusual charges with no tax benefit	3,073	(185.4)	230	3.4
FIN 48	(567)	34.2		
Other	167	(10.0)	283	4.2
Total income tax expense (benefit)	$ 2,118	(127.8)%	$ 5,082	75.6%

	For the six months ended February 29, 2008		For the six months ended February 28, 2007	
	(in thousands except for % s)			
Statutory U.S. tax rate	$ 4,473	35.0%	$ 5,139	35.0%
Domestic losses with no benefit	6,013	47.1	6,394	43.6
Amount of foreign taxes at less than statutory U.S. tax rate	(6,867)	(53.8)	(1,561)	(10.6)
U.S. restructuring and other U.S. unusual charges with no tax benefit	3,073	24.1	271	1.8
FIN 48	(459)	(3.6)		
Other	297	2.3	428	2.9
Total income tax expense (benefit)	$ 6,530	51.1%	$ 10,671	72.7%

The negative effective tax rate of (127.8%) for the three months ended February 29, 2008 is less than the U.S. statutory rate of 35.0% primarily because no tax benefits were recognized for U.S losses from continuing operations, charges incurred for the sale of the Orange, Texas plant, lease termination costs, and CEO transition costs. This unfavorable effect on the Company s effective tax rate was partially offset by the overall foreign tax rate being less than the U.S. statutory rate. As compared to the effective rate of 75.6% for the three months ended

February 28, 2007, the current quarter s negative effective rate is driven by increases in the U.S. pre-tax loss from operations and other U.S. charges for which no tax benefit was recognized. This unfavorable impact on the rate is partially offset by an increase in foreign pre-tax income in lower rate jurisdictions, recently implemented tax planning strategies, recently enacted tax legislation in Germany which reduced the German statutory rate by approximately 10 percentage points, and the reduction of the FIN 48 reserve.

The effective tax rate of 51.1% for the six months ended February 29, 2008 is greater than the U.S. statutory rate of 35.0% primarily because no tax benefits were recognized for U.S losses from continuing operations,

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charges incurred for the sale of the Orange, Texas plant, lease termination costs, and CEO transition costs. This unfavorable effect on the Company s effective tax rate was partially offset by the overall foreign tax rate being less than the U.S. statutory rate. As compared to the effective rate of 72.7% for the six months ended February 28, 2007, the current period s effective rate is driven by increases in the U.S. pre-tax loss from operations and other U.S. charges for which no tax benefit was recognized. This unfavorable impact on the rate is partially offset by an increase in foreign pre-tax income in lower rate jurisdictions, recently implemented tax planning strategies, recently enacted tax legislation in Germany which reduced the German statutory rate by approximately 10 percentage points, and the reduction of the FIN 48 reserve.

(9) In January 2008, the Company s CEO announced a 100 day plan which included many initiatives to improve profitability and drive growth. On February 6, 2008, the Company announced two steps in its continuing effort to improve the profitability of its North American operations. The Company announced it will shut down its manufacturing facility in St. Thomas, Ontario, Canada and will pursue a sale of its manufacturing facility in Orange, Texas.

As a result of the announcement made in February 2008, management deemed that a trigger to evaluate goodwill in North America had occurred. The goodwill in North America relates only to the tolling reporting unit of which the Orange, Texas facility is the only facility. In accordance with FASB Statement No. 142, Goodwill and Other Intangible Assets (SFAS 142), the Company s analysis resulted in an impairment of goodwill related to this tolling reporting unit in the amount of approximately $1.0 million.

As a result of the announcement in February 2008, the Company considered the inventory and property, plant and equipment of the Orange, Texas facility to be held for sale and therefore ceased depreciating the fixed assets on February 6, 2008. The Company determined that an analysis of impairment related to the long-lived assets of the Orange facility was necessary based on the announced intentions of management to sell the facility. As a result of the analysis, during the second quarter of fiscal 2008 the property, plant and equipment of the Orange, Texas facility was determined to be impaired and the Company recorded an impairment charge of approximately $2.7 million. The net book value of the assets held for sale after impairment is approximately $3.7 million which is included in the inventory and property, plant and equipment line items in the Company s consolidated balance sheet as of February 29, 2008.

As of February 29, 2008, the Company considered the assets of the St. Thomas, Ontario, Canada facility to be held and used as the facility is not available for immediate sale. In connection with the planned closure of this facility, the analysis of the possible impairment of the property, plant and equipment resulted in an impairment charge of $2.5 million recorded in the second quarter of fiscal 2008.

The St. Thomas, Ontario, Canada facility primarily produces engineered plastics for the automotive market, with a capacity of 74 million pounds per year and approximately 120 employees. Production related to low-margin business at the St. Thomas facility will be discontinued and the remaining higher margin business is expected to be absorbed by the Company s Nashville, Tennessee manufacturing facility and the Bellevue, Ohio manufacturing facility. The shutdown is expected to be completed no later than the end of fiscal 2008.

The Orange, Texas facility has primarily provided North American third-party tolling services in which the Company processes customer-owned materials for a fee. The Company has decided to exit the North American tolling business to concentrate on higher value-added products. Total annual capacity at the Orange, Texas facility is approximately 135 million pounds and employs approximately 100 employees. The Company completed the sale of this facility in March 2008 to Alloy Polymers, Inc. for total consideration of $3.7 million. In connection with this sale, the Company entered into a tolling agreement with Alloy Polymers, Inc. to have specified minimum quantities of products tolled over a period of four years.

During the second quarter of fiscal 2008, the Company recorded approximately $2.6 million in employee related costs which include estimated severance payments and medical insurance for approximately 135 employees whose positions have been or will be eliminated at the Orange, Texas and St. Thomas, Ontario, Canada facilities. Any additional severance to be paid in excess of the amounts recorded will be charged to restructuring expense when finalized and communicated to the employees.

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At February 29, 2008, the Company estimated it will incur additional charges for employee related costs, contract termination costs and other related costs of approximately $4.0 to $7.0 million related to the announcements made in January and February. The Company anticipates the majority of the accrued balance for restructuring charges to be paid during the third and fourth quarters of fiscal 2008.

During fiscal 2007, the Company announced multiple phases of a restructuring plan to restore its North American segment to profitability. In November 2006, in order to balance capacity with demand, reduce costs and improve efficiencies in the North American segment, the Company announced a plan to close two of its manufacturing lines at its Orange, Texas plant, close a warehouse also located in Orange, Texas and reduce the workforce at its Bellevue, Ohio plant. Due to unanticipated customer demand on certain lines, the two manufacturing lines at the Orange, Texas plant continued production through the sale of the facility in March 2008. The Orange, Texas warehouse was closed during the third quarter of fiscal 2007. The warehouse and related assets were considered held for sale and are included in the Company s consolidated balance sheet in property, plant and equipment and therefore the Company ceased depreciation on those assets. In connection with this plan, the Company reduced its workforce by 65 positions at various facilities including the Bellevue, Ohio plant.

In February 2007, the Company announced the second phase of its restructuring plan which implements several initiatives that will improve the Company s operations and profitability in North America. This restructuring plan includes savings from the following initiatives:

- Reduction in the Company s North American workforce by approximately 30 positions, primarily in the sales and administrative functions,
- Reduction in the Company s United States retiree healthcare coverage plan,
- Greater cost sharing of employee and retiree medical plan costs,
- Broad discretionary selling, general and administrative cost reductions,
- Savings from improved purchasing processes, and
- Improved logistics efficiencies.

As a result of the initiatives announced in fiscal 2007, the Company recorded approximately $0.9 million of accelerated depreciation for the six months ended February 28, 2007, which represents a change in estimate for the reduced life of equipment. The employee related costs include severance payments and medical insurance for employees whose positions have been eliminated in North America. The Company recorded minimal charges in fiscal 2008 related to the fiscal 2007 initiatives. At February 29, 2008, the Company believes the charges related to this restructuring plan are complete and it will not incur additional cash out-flows related to the announced initiatives in 2007. The total charge for this plan was approximately $2.1 million recorded primarily in fiscal 2007.

In connection with the announced plans in fiscal 2007 and fiscal 2008, the Company recorded the following restructuring charges.

	Fiscal 2007 Charges	Paid Fiscal 2007	Accrual Balance August 31, 2007	Fiscal 2008 Charges	Paid Fiscal 2008	Accrual Balance February 29, 2008

						(In thousands)						
Employee related costs	$	980	$	(906)	$	74	$	2,622	$	(80)	$	2,616
Other costs		68		(68)								
Restructuring		1,048	$	(974)	$	74	$	2,622	$	(80)	$	2,616
Accelerated depreciation, included in North America cost of sales in 2007		1,071										&nb