

MATERIAL SCIENCES CORP
Form 11-K
June 29, 2007
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UNITED STATES
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, 2006

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

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REPORT OF INDEPENDENT REGISTERED ACCOUNTING FIRM

Pension Committee

Material Sciences Corporation

Savings and Investment Plan

We have audited the accompanying statements of net assets available for benefits of the Material Sciences Corporation Savings and Investment Plan (the Plan) as of December 31, 2006 and 2005, and the related statement of changes in net assets available for benefits for the year ended December 31, 2006. 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 standards of the Public Company Accounting Oversight Board (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. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the Plan as of December 31, 2006 and 2005, and the changes in net assets available for benefits for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

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Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is 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. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ GRANT THORNTON LLP

Chicago, Illinois

June 27, 2007

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Material Sciences Corporation

Savings and Investment Plan

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

December 31,

| | 2006 | 2005 |
|--|--------------------------|--------------------------|
| Assets | | |
| Participant-directed investments (note C) | \$ 44,657,983 | \$ 42,675,854 |
| Receivables | | |
| Participant contributions | 105,693 | 20,270 |
| Company contributions | 387,428 | 7,727 |
| Dividend income receivable | | 34,352 |
| Total receivables | 493,121 | 62,349 |
| NET ASSETS AVAILABLE FOR BENEFITS | \$ 45,151,104 | \$ 42,738,203 |

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

Year ended December 31, 2006

| | |
|--|----------------------|
| Additions | |
| Investment income | |
| Net appreciation in fair value of investments (note C) | \$ 1,952,703 |
| Dividends and interest | 2,829,756 |
| Net investment income | 4,782,459 |
| Contributions | |
| Participant | 2,278,534 |
| Company | 1,156,052 |
| Rollovers | 221,749 |
| Total contributions | 3,656,335 |
| Total additions | 8,438,794 |
| Deductions | |
| Benefits paid to participants | 6,017,203 |
| Administrative expenses | 8,690 |
| Total deductions | 6,025,893 |
| NET INCREASE | 2,412,901 |
| Net assets available for benefits | |
| Beginning of year | 42,738,203 |
| End of year | \$ 45,151,104 |

The accompanying notes are an integral part of these statements.

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Material Sciences Corporation

Savings and Investment Plan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE A 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.

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 in the Plan. An employee is eligible to participate in the Plan starting on their date of hire. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

Plan Administration

The Pension Committee, consisting of current employees of the Company, administers the Plan. Mercer HR Services (the Trustee) is the trustee and performs record-keeping tasks for the Plan.

Contributions

Each year, participants may contribute up to 50% of their pretax annual compensation, as defined in the Plan, subject to certain Internal Revenue Code (IRC) limitations. The combined pretax and after-tax contributions, up to 6% of the participants' compensation, are designated as Basic Contributions. Any contribution in excess of the 6% of participants' compensation is designated as Supplemental Contributions. The combined pretax and after-tax contributions cannot exceed 50% of the participants' compensation.

The Company makes matching contributions to the Plan and these contributions are allocated to participant accounts. The amount of the matching contribution is determined by the Company. Through June 30, 2005, participants received 35% of the first 6% of base compensation. Effective July 1, 2005, participants received a matching contribution equal to the following percentage:

| | |
|---|--|
| MSC Non-Union Employees | 50% of the first 6% of base compensation |
| MSC Bargaining Unit (Elk Grove Village) | 60% of the first 6% of base compensation |
| MSC Bargaining Unit (Morrisville) | 60% of the first 6% of base compensation |
| MSC Bargaining Unit (Walbridge) | 35% of the first 6% of base compensation |

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Material Sciences Corporation

Savings and Investment Plan

NOTES TO FINANCIAL STATEMENTS CONTINUED

December 31, 2006 and 2005

NOTE A DESCRIPTION OF THE PLAN Continued

Contributions Continued

Effective April 1, 2006, the Company matching contribution for the MSC Bargaining Unit (Morrisville) has been reduced to 50% of the first 6% of base compensation.

Effective July 1, 2006, all employees will receive an additional minimum retirement contribution as defined in the eighth and ninth amendment to the Plan:

| | |
|---|-------------------------------------|
| MSC Non Union Employees | 1.75% to 1.92% of base compensation |
| MSC Bargaining Unit Employees (Elk Grove Village) | 2.16% to 2.33% of base compensation |
| MSC Bargaining Unit Employees (Morrisville) | 1.75% of base compensation |
| MSC Bargaining Unit Employees (Walbridge) | 1.75% to 1.92% of base compensation |

Effective September 15, 2006, the Company matching contribution for the MSC Bargaining Unit (Walbridge) has been increased to 50% of the first 6% of base compensation.

Additional amounts may be contributed at the discretion of the Company's Board of Directors. No such additional discretionary contributions were made for the years ended December 31, 2006 and 2005.

Participant Accounts

Individual accounts are maintained for each Plan participant. Each participant's account is credited with the participant's contribution, the Company's matching contributions and allocations of Company discretionary contributions and Plan earnings, and charged with withdrawals and an allocation of Plan losses. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Investment Options

Participants may direct the investment of their total account balances into various mutual funds, common collective trust (CCT) funds and a Company stock fund, all of which are currently available as investment options in the Plan.

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Material Sciences Corporation

Savings and Investment Plan

NOTES TO FINANCIAL STATEMENTS CONTINUED

December 31, 2006 and 2005

NOTE A DESCRIPTION OF THE PLAN Continued

Vesting

Participants are vested immediately in their contributions plus actual earnings thereon. Vesting in the Company's matching contribution portion of their accounts is based on years of continuous service. A participant is 100% vested after five years of credited service.

Forfeited Accounts

Upon termination of employment, any amounts not vested are forfeited and are applied toward future Company matching contributions or administrative expenses. At December 31, 2006 and 2005, forfeited accounts totaled \$158,722 and \$107,976 respectively. During the plan year ended December 31, 2006, administrative expenses were reduced by \$6,538 from non-vested forfeiture accounts. Subsequent to year-end, the Plan received \$217,752 of forfeitures due to a plan merger (see Note 6). In 2007, the forfeitures in the Plan were applied towards the Company 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 periodic installment payments.

Loans and Distributions to Participants

Participants may borrow as much as 50% of their vested account balances 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. Loans are secured by the balance in the participant's account. 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 IRC regulations.

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Material Sciences Corporation

Savings and Investment Plan

NOTES TO FINANCIAL STATEMENTS CONTINUED

December 31, 2006 and 2005

NOTE B 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 of America.

Use of Estimates

The preparation of financial statements in conformity with standards of the Public Accounting Oversight Board (United States) and with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits, and changes therein. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

Except for the Putnam Stable Value Fund, the investments of the Plan are stated at fair value. Shares of mutual funds 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, 2006 and 2005 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 investment contracts are valued at contract value as estimated by the Trustee (that being contract value representing investing principal plus accrued interest thereon). As described in Financial Accounting Standards Board Staff Position, FSP AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans* (the "FSP"), investment contracts held by a defined-contribution plan are required to be reported at fair value. The Plan adopted FSP AAG INV-1 in 2006. The adoption did not have a material effect on the Plan's financial statements. Accordingly, contract value, which represents net contributions plus interest at the contract rate, approximates fair value at December 31, 2006 and 2005.

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 in fair value of investments.

Table of Contents**Material Sciences Corporation****Savings and Investment Plan****NOTES TO FINANCIAL STATEMENTS CONTINUED****December 31, 2006 and 2005****NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued***Administrative Expenses*

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

Payment of Benefits

Benefit payments to participants are recorded upon distribution. There were no participants who have elected to withdraw from the Plan but have not yet been paid at December 31, 2006 and 2005.

NOTE C INVESTMENTS

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

| | 2006 | 2005 |
|---|--------------|--------------|
| George Putnam of Boston Fund | \$ 5,422,995 | \$ 5,223,766 |
| ABN AMRO Veredus Aggressive Growth Fund | N/A | 2,479,595 |
| Dodge & Cox Stock Fund | 9,719,406 | 8,517,949 |
| Putnam Voyager Fund | 2,784,898 | 3,744,731 |
| Putnam S&P 500 Index Fund | 2,646,082 | 2,089,780 |
| Putnam Stable Value Fund | 8,807,444 | 9,442,448 |
| Neuberger & Berman Genesis Trust Fund | 3,231,937 | 3,940,667 |
| William Blair International Growth Fund | 4,201,768 | 3,110,743 |
| Oakmark International Fund | 2,871,574 | N/A |

Table of Contents**Material Sciences Corporation****Savings and Investment Plan****NOTES TO FINANCIAL STATEMENTS CONTINUED****December 31, 2006 and 2005****NOTE C INVESTMENTS Continued**

During 2006, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$1,952,703 as follows:

| | |
|---|--------------|
| Mutual funds | |
| Putnam George Putnam of Boston Fund | \$ 45,599 |
| Putnam S&P 500 Index Fund | 333,529 |
| Putnam Voyager Fund | 141,675 |
| William Blair International Growth Fund | 325,002 |
| Oakmark International Fund | 209,043 |
| ABN AMRO Veredus Aggressive Growth Fund | (151,986) |
| Neuberger & Berman Genesis Trust Fund | (62,654) |
| Dodge & Cox Stock Fund | 999,153 |
| T. Rowe Price Growth Stock Fund | 82,736 |
| Vanguard Total Bond Market Fund | 3,234 |
| Total mutual funds | 1,925,331 |
| Common stock | |
| Material Sciences Corporation | 27,372 |
| Net appreciation of investments | \$ 1,952,703 |

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. 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 materially affect the amounts reported in the financial statements.

NOTE D TAX STATUS

The Internal Revenue Service has determined and informed the Company by a letter dated July 30, 2002, that the Plan is designed in accordance with applicable IRC requirements. Although the Plan has been amended since receiving the determination letter, the Plan administrator believes that the Plan is currently designed and being operated in all material aspects with the applicable requirements of the IRC and that the Plan and related trust continue to be tax exempt as of the financial statement dates.

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Material Sciences Corporation

Savings and Investment Plan

NOTES TO FINANCIAL STATEMENTS CONTINUED

December 31, 2006 and 2005

NOTE E RELATED-PARTY TRANSACTIONS

Certain Plan investments are shares of mutual funds managed by Mercer HR Services, the Trustee as defined by the Plan; therefore, these transactions qualify as party-in-interest transactions. Fees paid by the Plan for investment management services were included as a reduction of the return earned on each fund.

At December 31, 2006 and 2005, the Plan held 44,489 and 43,840 shares, respectively, of the common stock of MSC, the Plan's sponsor. During the year ended December 31, 2006, the Plan recorded no dividend income related to such stock.

NOTE F 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 the provisions set forth in ERISA. In the event of termination, the Plan provides that the assets of the Plan shall be allocated among the 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 in their Company contribution accounts at that time.

NOTE G SUBSEQUENT EVENT

Effective January 1, 2007, the Material Sciences Corporation Retirement Plan was merged into the Plan. As a result of this merger, assets of approximately \$17,030,000 were transferred in from the Material Sciences Corporation Retirement Plan in January, 2007.

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Material Sciences Corporation

Savings and Investment Plan

NOTES TO FINANCIAL STATEMENTS CONTINUED

December 31, 2006 and 2005

NOTE H RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

The following is a reconciliation of net assets available for benefits per the financial statements at December 31, 2006 and 2005, to the Form 5500:

| | 2006 | 2005 |
|--|---------------|---------------|
| Net assets available for benefits per the financial statements | 45,151,104 | \$ 42,738,203 |
| Less Contribution receivable at end of year | | |
| | (493,121) | |
| Less Loans deemed distributable | (42,751) | |
| Net assets available for benefits per the Form 5500 | \$ 44,615,232 | \$ 42,738,203 |

The following is a reconciliation of net income per the financial statements for the year ended December 31, 2006, to the Form 5500:

| | 2006 |
|---|--------------|
| Net income per the financial statements | 2,412,901 |
| Less Contribution receivable at end of year | |
| | (493,121) |
| Less Loans deemed distributable | (42,751) |
| Net income per the Form 5500 | \$ 1,877,029 |

Table of Contents**Material Sciences Corporation****Savings and Investment Plan****SCHEDULE H, LINE 4i SCHEDULE OF ASSETS (HELD AT END OF YEAR)****December 31, 2006**

| (a) | (b) Identity of issuer | (c) Description of investment | (d) Cost*** | (e) Current value |
|-----|-------------------------------|---|----------------|----------------------|
| | | Mutual funds | | |
| * | Putnam Investments | George Putnam of Boston Fund | | \$ 5,422,995 |
| | | Voyager Fund | | 2,784,898 |
| | William Blair | International Growth Fund | | 4,201,768 |
| | Oakmark | Oakmark International Fund | | 2,871,574 |
| | ABN AMRO | Veredus Aggressive Growth Fund | | 1,377,384 |
| | Neuberger & Berman | Genesis Trust Fund | | 3,231,937 |
| | Dodge & Cox | Stock Fund | | 9,719,406 |
| | T. Rowe Price | Growth Stock Fund | | 1,111,272 |
| | Vanguard | Total Bond Fund | | 555,403 |
| | | Common stock | | |
| ** | Material Sciences Corporation | Material Sciences Corporation | | 575,690 |
| | | Common collective trusts | | |
| | Putnam Investments | Stable Value Fund | | 8,807,444 |
| | | S&P 500 Index Fund | | 2,646,082 |
| | | Participant loans | | |
| ** | Loans to participants | Interest rates ranging from 5.0% to 10.5%, maturing from 2007 to 2012 | | 1,352,130 |
| | | | | \$ 44,657,983 |

* Putnam and Mercer HR Services are related companies.

** Represents a party-in-interest.

*** Cost information is omitted as the Plan is fully participant directed.

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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 29th day of June, 2007.

MATERIAL SCIENCES CORPORATION
SAVINGS AND INVESTMENT PLAN

By: Material Sciences Corporation,
Plan Administrator

By: /s/ James M. Froisland
James M. Froisland
Senior Vice President, Chief Financial Officer,
Chief Information Officer and Corporate
Secretary

By: /s/ John M. Klepper
John M. Klepper
Vice President, Human Resources

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Exhibit Index

| Exhibit No. | Description |
|--------------------|---|
| 23.1 | Consent of Independent Registered Accounting Firm |