

Edgar Filing: SCHULMAN A INC - Form 10-Q/A

SCHULMAN A INC  
Form 10-Q/A  
March 05, 2002

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q/A

Amendment No. 2

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended November 30, 2001 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-7459

A. Schulman, Inc.

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(Exact Name of Registrant as Specified in its Charter)

Delaware

34-0514850

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(State or Other Jurisdiction of  
Incorporation or Organization)

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(I.R.S. Employer  
Identification No.)

3550 West Market Street, Akron, Ohio

44333

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(Address of Principal Executive Offices)

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(Zip Code)

(330) 666-3751

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(Registrant's Telephone Number, including Area Code)

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(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Number of common shares outstanding as of December 31, 2001 - 29,215,372

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The Registrant hereby amends its Quarterly Report on Form 10-Q for the quarterly period ended November 30, 2001, to include Footnote 7 which addresses the status of the Akron, Ohio restructuring charge. This note was inadvertently dropped from the electronic filing as a result of a

technical error of the financial printer.

Part I.

Item 1. Financial Statements

**A. SCHULMAN, INC.**  
**STATEMENT OF CONSOLIDATED NET INCOME (LOSS) (Notes 1 and 2)**

(In thousands except per share data)

	For the three months ended November 30,	
	2001	2000
	Unaudited	
Net sales	\$ 238,148	\$ 256,616
Interest and other income	548	415
	238,696	257,031
Cost and expenses:		
Cost of goods sold	202,459	221,074
Cost of plant closure (Note 7)		4,635
Selling, general and administrative expense	26,318	26,980
Interest expense	1,453	1,641
Foreign currency transaction gain	(514)	(893)
Minority interest	185	343
	229,901	253,780
Income before taxes	8,795	3,251
Provision for income taxes (Note 9)	3,585	3,978
	5,210	(727)
Net income (loss)	5,210	(727)
Less: Preferred stock dividends	(13)	(13)
	5,197	(740)
Net income (loss) applicable to common stock	\$ 5,197	\$ (740)
Weighted average number of shares outstanding (Note 5):		
Basic	29,213	29,203
Fully diluted	29,213	29,203
Basic and diluted earnings (loss) per common share (Note 5):	\$ 0.18	\$ (0.03)

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

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**A. SCHULMAN, INC.**  
**CONSOLIDATED BALANCE SHEET (Notes 1 and 2)**

(In thousands except per share data )

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	<b>November 30, 2001</b>	<b>August 31, 2001</b>
	<b>Unaudited</b>	
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents (Note 3)	\$ 61,653	\$ 52,586
Accounts receivable, less allowance for doubtful accounts of \$6,394 at November 30, 2001 and \$6,458 at August 31, 2001	160,279	162,131
Inventories, average cost or market, whichever is lower	150,666	159,808
Prepays, including tax effect of temporary differences	16,103	15,023
	<hr/>	<hr/>
Total current assets	388,701	389,548
<b>Other assets:</b>		
Cash surrender value of life insurance	636	639
Deferred charges, etc., including tax effect of timing differences	11,989	11,685
Goodwill (Note 8)	6,485	6,548
Intangible assets (Note 8)	596	644
	<hr/>	<hr/>
	19,706	19,516
<b>Property, plant and equipment, at cost:</b>		
Land and improvements	10,898	10,978
Buildings and leasehold improvements	86,526	83,039
Machinery and equipment	231,230	222,554
Furniture and fixtures	23,897	23,828
Construction in progress	17,557	26,415
	<hr/>	<hr/>
	370,108	366,814
Accumulated depreciation and investment grants of \$855 at November 30, 2001 and \$885 at August 31, 2001	200,534	197,207
	<hr/>	<hr/>
	169,574	169,607
	<hr/>	<hr/>
	\$ 577,981	\$ 578,671
	<hr/>	<hr/>

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

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**A. SCHULMAN, INC.  
CONSOLIDATED BALANCE SHEET (Notes 1 and 2)**

(In thousands except per share data)

	<b>November 30, 2001</b>	<b>August 31, 2001</b>
	<b>Unaudited</b>	
<b>Liabilities and Stockholders Equity</b>		
<b>Current liabilities:</b>		
Notes payable	\$	\$ 313
Accounts payable	56,229	55,426
U.S. and foreign income taxes payable	9,635	7,097
Accrued payrolls, taxes and related benefits	20,139	19,036

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	<b>November 30, 2001</b>	<b>August 31, 2001</b>
	<u>          </u>	<u>          </u>
Other accrued liabilities	20,590	18,388
	<u>          </u>	<u>          </u>
Total current liabilities	106,593	100,260
Long-term debt	100,193	105,415
Other long-term liabilities	39,760	39,242
Deferred income taxes	6,009	6,115
Minority interest	5,746	5,560
Stockholders' equity (Note 4):		
Preferred stock, 5% cumulative, \$100 par value, authorized, issued and outstanding 10,567 shares at November 30, 2001 and August 31, 2001	1,057	1,057
Special stock 1,000,000 shares authorized none outstanding		
Common stock, \$1 par value		
Authorized 75,000,000 shares		
Issued 38,423,967 shares at November 30, 2001 and August 31, 2001	38,424	38,424
Other capital	48,504	48,504
Accumulated other comprehensive income	(48,773)	(44,945)
Retained earnings	447,358	446,142
Treasury stock, at cost, 9,211,095 shares at November 30, 2001 & August 31, 2001	(164,231)	(164,231)
Unearned stock grant compensation	(2,659)	(2,872)
	<u>          </u>	<u>          </u>
Common stockholders' equity	318,623	321,022
	<u>          </u>	<u>          </u>
Total stockholders' equity	319,680	322,079
	<u>          </u>	<u>          </u>
	<u>\$ 577,981</u>	<u>\$ 578,671</u>

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

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**A. SCHULMAN, INC.**

**CONSOLIDATED STATEMENT OF CASH FLOWS (Notes 1 and 2)**

**(In thousands)**

	<b>For the three months ended November 30,</b>	
	<b>2001</b>	<b>2000</b>
	<u>          </u>	
	<b>Unaudited</b>	
	<u>          </u>	
Provided from (used in) operations:		
Net income (loss)	\$ 5,210	\$ (727)
Items not requiring the current use of cash:		
Depreciation	5,568	5,516
Non-current deferred taxes	2,673	93
Pension and other deferred compensation	722	2,304
Postretirement benefit obligation	361	(1,555)

	<b>For the three months ended November 30,</b>	
	<hr/>	
Write-off of assets - plant closure		3,230
Changes in working capital:		
Accounts receivable	(1,643)	(17,896)
Inventories	7,667	(8,554)
Prepays	(1,290)	(2,670)
Accounts payable	3,348	23,549
Income taxes	2,703	1,913
Accrued payrolls and other accrued liabilities	3,600	6,532
Changes in other assets and other long-term liabilities	601	(3,501)
	<hr/>	
Net cash provided from operating activities	29,520	8,234
	<hr/>	
Provided from (used in) investing activities:		
Expenditures for property, plant and equipment	(7,286)	(9,416)
Disposals of property, plant and equipment	457	386
	<hr/>	
Net cash used in investing activities	(6,829)	(9,030)
	<hr/>	
Provided from (used in) financing activities:		
Cash dividends paid	(3,995)	(3,988)
Decrease of notes payable	(308)	(3,347)
Increase of long-term debt		8,000
Reduction in long-term debt	(5,130)	(125)
Minority interest	185	343
Purchase of treasury stock		(1,841)
	<hr/>	
Net cash used in financing activities	(9,248)	(958)
	<hr/>	
Effect of exchange rate changes on cash	(4,376)	2,117
	<hr/>	
Net increase in cash and cash equivalents	9,067	363
Cash and cash equivalents at beginning of period	52,586	26,866
	<hr/>	
Cash and cash equivalents at end of period	\$ 61,653	\$ 27,229
	<hr/>	

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

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A. SCHULMAN, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (1) The results of operations for the three months ended November 30, 2001 are not necessarily indicative of the results expected for the year ended August 31, 2002.
- (2) The interim financial statements furnished reflect all adjustments, which are, in the opinion of management, necessary to a fair presentation of the results of the interim period presented. All such adjustments are of a normal recurring nature.
- (3) All highly liquid investments purchased with a maturity of three months or less are considered to be cash equivalents. Such investments amounted to \$21,668,000 at November 30, 2001 and \$20,991,000 at August 31, 2001.

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A. SCHULMAN, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) A summary of the stockholders' equity section for the three months ended November 30, 2001 and 2000 is as follows:

(In thousands)  
(Unaudited)

	<u>Common Stock</u>	<u>Other Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Unearned Stock Grant Compensation</u>	<u>Total Comprehensive Income</u>
Balance-September 1, 2001	\$38,424	\$48,504	\$446,142	\$(44,945)	\$(2,872)	
Comprehensive income						
Net income			5,210			
Foreign currency translation loss				(3,828)		
Total Comprehensive income						<u>\$ 1,382</u>
Dividends paid or accrued:						
Preferred			(13)			
Common, \$.135 per share			(3,981)			
Amortization of restricted stock					213	
Balance-November 30, 2001	<u>\$38,424</u>	<u>\$48,504</u>	<u>\$447,358</u>	<u>\$(48,773)</u>	<u>\$(2,659)</u>	

(5) During the three months ended November 30, 2001, no shares were repurchased by the Company under its existing repurchase authorization of 1.7 million shares. The Company may repurchase additional common stock in fiscal year 2002 subject to market conditions.

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A. SCHULMAN, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) The Company is engaged in the sale of plastic resins in various forms, which are used as raw materials by its customers. The Company operates in two geographic business segments, North America and Europe. A reconciliation of segment income to consolidated income before tax is presented below.

(In thousands)  
(Unaudited)

	<u>North America</u>	<u>Europe</u>	<u>Other</u>	<u>Consolidated</u>
Three months ended November 30, 2001				
Sales to unaffiliated customers	\$ 94,124	\$ 144,024		\$ 238,148
Gross Profit	<u>\$ 12,852</u>	<u>\$ 22,837</u>		<u>\$ 35,689</u>
Operating income	\$ 237	\$ 9,516		\$ 9,753
Interest expense, net	\$	\$	\$ (958)	\$ (958)
Income before taxes	<u>\$ 237</u>	<u>\$ 9,516</u>	<u>\$ (958)</u>	<u>\$ 8,795</u>
Three months ended November 30, 2000				
Sales to unaffiliated customers	\$ 107,631	\$ 148,985		\$ 256,616

Gross Profit	\$ 10,877	\$ 24,665		\$ 35,542
Operating income (loss)	\$ (1,406)	\$ 10,591		\$ 9,185
Cost of plant closure (Note 7)	\$	\$	\$ (4,635)	\$ (4,635)
Interest expense, net	\$	\$	\$ (1,299)	\$ (1,299)
Income (loss) before taxes	\$ (1,406)	\$ 10,591	\$ (5,934)	\$ 3,251

- (7) During the first quarter of fiscal 2001, the Company announced its plan to terminate manufacturing at its plant in Akron, Ohio. Manufacturing was terminated as of December 31, 2000. As a result, the Company recorded a one-time, pre-tax charge of \$4,635,000 in the quarter ended November 30, 2000, of which \$1,035,000 related to employee severance costs and the balance was other exit costs. The charge was primarily non-cash and included the write-off of equipment to be scrapped and other assets related to the manufacturing operations and employee severance costs for 85 hourly and 33 salaried employees. The severance costs included mainly pension benefits, post-retirement adjustments and medical insurance. At November 30, 2001 the Company's plan for the closing of this facility has been substantially completed.

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**A. SCHULMAN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- (8) On September 1, 2001 the Company adopted the provisions of SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that all business combinations be accounted for by the purchase method and that certain acquired intangible assets be recognized as assets apart from goodwill. SFAS No. 142 provides that goodwill should not be amortized but instead be tested for impairment annually at the reporting unit level. In accordance with SFAS No. 142, the Company intends to complete a transitional goodwill impairment test by February 28, 2002 and does not anticipate recognizing an impairment loss. Goodwill and intangible assets were reclassified from deferred charges for all reportable periods.

Accumulated amortization for intangibles was approximately \$200,000 and \$150,000 at November 30, 2001 and August 31, 2001 respectively. The amortization expense for intangibles was approximately \$50,000 for the three months ended November 30, 2001 and 2000. The amortization expense for goodwill in the November 30, 2000 quarter was \$148,000 and did not impact earnings per share. The Company does not anticipate any significant changes in amortization expense in future periods.

The changes in the carrying value of goodwill for the three months ended November 30, 2001 are as follows:

	(In thousands)		
	North America	Europe	Total
Balance as of September 1, 2001	\$ 2,784	\$ 3,764	\$ 6,548
Foreign currency translation		(63)	(63)
Balance as of November 30, 2001	\$ 2,784	\$ 3,701	\$ 6,485

- (9) The effective tax rate of 40.8% in 2001 and 50.4% (122.4% including the effect of plant closures) in 2000 is greater than the statutory rate of 35% primarily because no tax benefit is available or has been recognized on losses in the United States.

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SIGNATURES

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: March 5 , 2002

A. Schulman, Inc.  
(Registrant)

/s/ R.A. Stefanko

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R. A. Stefanko, Executive Vice President- Finance & Administration  
(Signing on behalf of Registrant as a duly authorized officer of  
Registrant and signing as the Principal Financial Officer of  
Registrant)

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