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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended February 28, 2003 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)

---

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

---

3550 West Market Street, Akron, Ohio

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44333

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(Address of Principal Executive Offices)

---

(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

Indicate by check mark whether Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Number of common shares outstanding as of March 31, 2003 – 29,475,893

PART I — FINANCIAL INFORMATION

ITEM 1 CONSOLIDATED FINANCIAL STATEMENTS

A. SCHULMAN, INC.  
CONSOLIDATED STATEMENT OF INCOME (Notes 1, 2 and 3)

(In thousands except per share data)

	For the three months ended February 28,		For the six months ended February 28,	
	2003	2002	2003	2002
	Unaudited		Unaudited	
Net sales	\$268,185	\$213,554	\$535,051	\$451,702
Interest and other income	521	467	1,107	1,015
	<u>268,706</u>	<u>214,021</u>	<u>536,158</u>	<u>452,717</u>
Costs and expenses:				
Cost of sales	229,170	181,795	454,315	384,254
Selling, general and administrative expense	27,866	24,003	54,676	50,321
Interest expense	1,184	1,301	2,384	2,754
Foreign currency transaction (gain) loss	361	(474)	(157)	(988)
Minority interest	186	247	402	432
	<u>258,767</u>	<u>206,872</u>	<u>511,620</u>	<u>436,773</u>
Income before taxes	9,939	7,149	24,538	15,944
Provision for U.S. and foreign income taxes (Note 10)	5,266	2,692	11,521	6,277
Net income	4,673	4,457	13,017	9,667
Less: Preferred stock dividends	(14)	(14)	(27)	(27)
Net income applicable to common stock	<u>\$ 4,659</u>	<u>\$ 4,443</u>	<u>\$ 12,990</u>	<u>\$ 9,640</u>
Weighted-average number of shares outstanding (Note 6):				
Basic	29,474	29,223	29,469	29,218
Diluted	29,827	29,553	29,894	29,383
Earnings per share (Note 6):				
Basic	<u>\$ 0.16</u>	<u>\$ 0.15</u>	<u>\$ 0.44</u>	<u>\$ 0.33</u>
Diluted	<u>\$ 0.15</u>	<u>\$ 0.15</u>	<u>\$ 0.43</u>	<u>\$ 0.33</u>

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

**A. SCHULMAN, INC.**  
**CONSOLIDATED BALANCE SHEET (Notes 1, 2 and 3)**

(In thousands)

	February 28, 2003	August 31, 2002
Assets	Unaudited	
<b>Current assets:</b>		
Cash and cash equivalents (Note 4)	\$ 63,203	\$ 63,984
Accounts receivable, less allowance for doubtful accounts of \$8,043 at February 28, 2003 and \$6,912 at August 31, 2002	194,509	172,327
Inventories, average cost or market, whichever is lower	196,737	169,719
Prepays, including tax effect of temporary differences	16,925	13,257
Total current assets	471,374	419,287
<b>Other assets:</b>		
Deferred charges, etc., including tax effect of temporary differences	10,005	8,826
Goodwill (Note 11)	6,771	6,558
Intangible assets (Note 11)	490	545
	17,266	15,929
<b>Property, plant and equipment, at cost:</b>		
Land and improvements	12,235	11,408
Buildings and leasehold improvements	111,799	103,536
Machinery and equipment	266,881	254,431
Furniture and fixtures	28,349	26,811
Construction in progress	6,767	6,625
	426,031	402,811
Accumulated depreciation and investment grants of \$992 at February 28, 2003 and \$937 at August 31, 2002	246,860	225,695
	179,171	177,116
	\$667,811	\$612,332

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

**A. SCHULMAN, INC.**  
**CONSOLIDATED BALANCE SHEET (Notes 1, 2 and 3)**

(In thousands)

	February 28, 2003	August 31, 2002
	Unaudited	
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 453	\$ 413
Accounts payable	78,244	71,107
U.S. and foreign income taxes payable	8,263	6,751
Accrued payrolls, taxes and related benefits	21,519	22,688
Other accrued liabilities	22,948	17,373
Total current liabilities	131,427	118,332
Long-term debt	91,985	81,038
Other long-term liabilities	48,120	43,471
Deferred income taxes	8,444	6,957
Minority interest	5,574	6,173
Stockholders' equity (Note 5):		
Preferred stock, 5% cumulative, \$100 par value, authorized, issued and outstanding - 10,567 shares at February 28, 2003 and August 31, 2002	1,057	1,057
Special stock 1,000,000 shares authorized none outstanding	—	—
Common stock, \$1 par value		
Authorized - 75,000,000 shares		
Issued - 38,686,988 shares at February 28, 2003 and 38,629,967 at August 31, 2002	38,687	38,630
Other capital	54,725	51,974
Accumulated other comprehensive income	(12,029)	(31,230)
Retained earnings	467,214	462,270
Treasury stock, at cost, 9,211,095 shares at February 28, 2003 and August 31, 2002	(164,231)	(164,231)
Unearned stock grant compensation	(3,162)	(2,109)
Common stockholders' equity	381,204	355,304
Total stockholders' equity	382,261	356,361
	\$ 667,811	\$ 612,332

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

**A. SCHULMAN, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS (Notes 1, 2 and 3)**

(In thousands)

	For the six months ended February 28,	
	2003	2002
	Unaudited	
Provided from (used in) operating activities:		
Net income	\$ 13,017	\$ 9,667
Items not requiring the current use of cash:		
Depreciation	12,499	11,206
Non-current deferred taxes	803	2,268
Foreign pension and other deferred compensation	2,297	1,680
Postretirement benefit obligation	502	996
Minority interest in net income of subsidiaries	402	432
Changes in working capital:		
Accounts receivable	(14,011)	(4,663)
Inventories	(18,586)	10,201
Prepays	(399)	(3,226)
Accounts payable	4,087	10,012
Income taxes	(2,846)	(2,500)
Accrued payrolls and other accrued liabilities	1,481	1,250
Changes in other assets and other long-term liabilities	1,971	2,161
	1,217	39,484
Provided from (used in) investing activities:		
Expenditures for property, plant and equipment	(8,880)	(14,935)
Disposals of property, plant and equipment	222	241
	(8,658)	(14,694)
Provided from (used in) financing activities:		
Cash dividends paid	(8,072)	(7,990)
Notes payable	—	(309)
Increase in long-term debt	10,853	—
Reduction in long-term debt	—	(5,228)
Cash distributions to minority shareholders	(1,000)	(525)
Exercise of stock options	789	246
	2,570	(13,806)
Effect of exchange rate changes on cash	4,090	(5,801)
Net increase (decrease) in cash and cash equivalents	(781)	5,183
Cash and cash equivalents at beginning of period	63,984	52,586
Cash and cash equivalents at end of period	\$ 63,203	\$ 57,769

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

**A. SCHULMAN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the six months ended February 28, 2003 and 2002**

- (1) The Company's accounting policy regarding revenue recognition is to recognize revenue when products are shipped to unaffiliated customers.

The Company provides tolling services as a fee for processing of material provided and owned by customers. On some occasions, the Company is required to provide certain amounts of its materials, such as additives or packaging. These materials are charged to the customer as an addition to the tolling fees. The only amounts recorded as revenue related to tolling are the processing fees and the charges related to materials provided by the Company.

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, 2002.

- (2) The results of operations for the six months ended February 28, 2003 are not necessarily indicative of the results expected for the year ended August 31, 2003.
- (3) 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. Certain items previously reported in specific financial statement captions have been reclassified to conform to the 2003 presentation.
- (4) All highly liquid investments purchased with a maturity of three months or less are considered to be cash equivalents. Such investments amounted to \$44,231,000 at February 28, 2003 and \$35,824,000 at August 31, 2002.

**A. SCHULMAN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the six months ended February 28, 2003 and 2002**

(5) A summary of the stockholders' equity section for the six months ended February 28, 2003 and 2002 is as follows:

**(In thousands)**  
**(Unaudited)**

	Preferred Stock	Common Stock	Other Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Unearned Stock Grant Compensation	Total Stockholders' Equity
Balance at September 1, 2002	\$1,057	\$38,630	\$51,974	\$(31,230)	\$462,270	\$(164,231)	\$(2,109)	\$356,361
Comprehensive income								
Net income	—	—	—	—	13,017	—	—	
Foreign currency translation gain	—	—	—	19,201	—	—	—	
Total comprehensive income								32,218
Cash dividends paid or accrued:								
Preferred, \$2.50 per share	—	—	—	—	(27)	—	—	(27)
Common, \$.27 per share	—	—	—	—	(8,046)	—	—	(8,046)
Stock options exercised	—	57	732	—	—	—	—	789
Grant of restricted stock	—	—	1,585	—	—	—	(1,585)	—
Non-cash stock based compensation	—	—	434	—	—	—	—	434
Amortization of restricted stock	—	—	—	—	—	—	532	532
Balance at February 28, 2003	\$1,057	\$38,687	\$54,725	\$(12,029)	\$467,214	\$(164,231)	\$(3,162)	\$382,261

**A. SCHULMAN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the six months ended February 28, 2003 and 2002**

(In thousands)  
(Unaudited)

	Preferred Stock	Common Stock	Other Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Unearned Stock Grant Compensation	Total Stockholders' Equity
Balance at September 1, 2001	\$1,057	\$38,424	\$48,504	\$(44,945)	\$446,142	\$(164,231)	\$(2,872)	\$322,079
Comprehensive income								
Net income	—	—	—	—	9,667	—	—	
Foreign currency translation loss	—	—	—	(10,225)	—	—	—	
Total comprehensive income								(558)
Cash dividends paid or accrued:								
Preferred, \$2.50 per share	—	—	—	—	(27)	—	—	(27)
Common, \$.27 per share	—	—	—	—	(7,963)	—	—	(7,963)
Stock options exercised	—	20	226	—	—	—	—	246
Grant of restricted stock	—	—	100	—	—	—	(100)	—
Amortization of restricted stock	—	—	—	—	—	—	429	429
Balance at February 28, 2002	\$1,057	\$38,444	\$48,830	\$(55,170)	\$447,819	\$(164,231)	\$(2,543)	\$314,206

**A. SCHULMAN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the six months ended February 28, 2003 and 2002**

- (6) 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 then shared in the earnings of the company.

During the six months ended February 28, 2003, 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 2003 subject to market conditions.

- (7) The components of Accumulated Other Comprehensive Income is as follows:

	(In thousands)	
	February 28, 2003	August 31, 2002
Foreign currency translation	\$11,827	\$31,028
Minimum pension liability adjustment	202	202
	\$12,029	\$31,230

- (8) A summary of the other comprehensive income section for the three months ended February 28, 2003 and February 28, 2002 and six months ended February 28, 2003 and February 28, 2002 is as follows:

(In thousands)	For the three months ended		For the six months ended	
	February 28, 2003	February 28, 2002	February 28, 2003	February 28, 2002
	Unaudited		Unaudited	
Net income	\$ 4,673	\$ 4,457	\$13,017	\$ 9,667
Other comprehensive income:				
Foreign currency translation adjustment	17,426	(6,397)	19,201	(10,225)
Comprehensive income	\$22,099	\$(1,940)	\$32,218	\$ (558)

**A. SCHULMAN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the six months ended February 28, 2003 and 2002**

- (9) 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:

	<b>(In thousands)</b>			
	<b>(Unaudited)</b>			
	<b>North America</b>	<b>Europe</b>	<b>Interest Expense, net</b>	<b>Consolidated</b>
<b>Three months ended February 28, 2003</b>				
Sales to unaffiliated customers	\$ 94,502	\$173,683	\$ —	\$268,185
Gross Profit	\$ 8,389	\$ 30,626	\$ —	\$ 39,015
Operating income (loss)	\$ (5,599)	\$ 16,294	\$ —	\$ 10,695
Interest expense, net	\$ —	\$ —	\$ (756)	\$ (756)
Income (loss) before taxes	\$ (5,599)	\$ 16,294	\$ (756)	\$ 9,939
<b>Three months ended February 28, 2002</b>				
Sales to unaffiliated customers	\$ 85,996	\$127,558	\$ —	\$213,554
Gross Profit	\$ 11,010	\$ 20,749	\$ —	\$ 31,759
Operating income (loss)	\$ (1,081)	\$ 9,135	\$ —	\$ 8,054
Interest expense, net	\$ —	\$ —	\$ (905)	\$ (905)
Income (loss) before taxes	\$ (1,081)	\$ 9,135	\$ (905)	\$ 7,149
<b>Six months ended February 28, 2003</b>				
Sales to unaffiliated customers	\$194,373	\$340,678	\$ —	\$535,051
Gross Profit	\$ 19,706	\$ 61,030	\$ —	\$ 80,736
Operating income (loss)	\$ (7,338)	\$ 33,334	\$ —	25,996
Interest expense, net	\$ —	\$ —	\$(1,458)	\$ (1,458)
Income (loss) before taxes	\$ (7,338)	\$ 33,334	\$(1,458)	\$ 24,538
<b>Six months ended February 28, 2002</b>				
Sales to unaffiliated customers	\$180,120	\$271,582	\$ —	\$451,702
Gross Profit	\$ 23,862	\$ 43,586	\$ —	\$ 67,448
Operating income (loss)	\$ (844)	\$ 18,651	\$ —	\$ 17,807
Interest expense, net	\$ —	\$ —	\$(1,863)	\$ (1,863)
Income (loss) before taxes	\$ (844)	\$ 18,651	\$(1,863)	\$ 15,944

**A. SCHULMAN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the six months ended February 28, 2003 and 2002**

The majority of the Company's sales for the six months ended February 28, 2003 can be classified into four primary product families. The approximate percentage of consolidated sales for these product families is as follows:

Product Family	Percentage of sales for the six months ended February 28, 2003
<b>Color and additive concentrates</b>	<b>36 %</b>
<b>Polyolefins</b>	<b>27</b>
<b>Engineered compounds</b>	<b>25</b>
<b>Polyvinyl chloride (PVC)</b>	<b>5</b>
<b>Other</b>	<b>7</b>
	<b>100 %</b>

- (10) The effective tax rate of 53.0% and 47.0% for the three and six months ended February 28, 2003, respectively, and 37.7% and 39.4% for the three and six months ended February 28, 2002, respectively, 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.
- (11) Accumulated amortization for intangible assets was approximately \$662,000 and \$520,000 at February 28, 2003 and August 31, 2002, respectively. The amortization expense for intangible assets was approximately \$51,000 and \$99,000 for the three and six months ended February 28, 2003, and \$70,000 and \$141,000 for the three and six months ended February 28, 2002, respectively. The Company does not anticipate any significant changes in amortization expense for intangible assets in future periods.
- (12) On September 1, 2002 the Company adopted the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 applies to all long-lived assets, including discontinued operations, and develops one accounting model for long-lived assets to be disposed of by sale. The adoption of SFAS 144 did not have a material impact on the Company's financial position or results of operations.
- (13) On September 1, 2002 the Company adopted the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), which addresses the recognition and remeasurement of obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement cost. The adoption of SFAS 143 did not have a material impact on the Company's financial position or results of operations.
- (14) In April 2003, the Company decided to discontinue manufacturing at its Dispersions plant in Orange, Texas. The shutdown is expected to be completed by the end of the 2003 fiscal year. The Company is presently finalizing the cost of this action and anticipates total charges of approximately \$6 to \$8 million during the third and fourth quarters. The plant closing will generate approximately \$5.0 million in annual savings beginning in fiscal 2004. The plant has an annual production capacity of approximately 60 million pounds, or 12% of North American capacity. This plant serves primarily the U.S. auto market.
- The decision to close this plant was made after the Company determined there is sufficient capacity at other facilities. The closing will help align the Company's North American production capacity and cost structure with the market realities. The Company is committed to balancing capacity with the demands of the marketplace.
- (15) The Company has a non-qualified stock based compensation plan. Under this plan, options to purchase the Company's common stock are granted to certain employees. Expense related to this plan was approximately \$434,000 for the three and six months ended February 28, 2003.

## Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

### Results of Operations

A comparison of consolidated net sales by business segment for the three and six months ended February 28, 2003 and 2002 is as follows:

Sales	(in thousands)				Six months ended February 28,			
	Three months ended February 28,				2003		2002	
	2003	2002	Increase	%	2003	2002	Increase	%
Europe	\$173,683	\$127,558	\$46,125	36.2	\$340,678	\$271,582	\$69,096	25.4
North America	94,502	85,996	8,506	9.9	194,373	180,120	14,253	7.9
	\$268,185	\$213,554	\$54,631	25.6	\$535,051	\$451,702	\$83,349	18.5

The two largest markets served by the Company are the packaging and automotive markets. For the six months ended February 28, 2003, approximately 40% of consolidated net sales were derived from the packaging market and 28% were to the automotive market.

The majority of the Company’s sales can be classified into four primary product families. The approximate percentage of consolidated net sales for these product families for the six months ended February 28, 2003 is presented below:

Product Family	Percent of Sales Six months ended February 28, 2003
Color and Additive Concentrates	36%
Polyolefins	27
Engineered Compounds	25
Polyvinyl Chloride	5
Other	7
	100%

The translation effect of foreign currencies, primarily the strong Euro, increased sales by \$26.5 million for the quarter and \$39.1 million for the six months ended February 28, 2003.

The reason for the change in sales for the quarter and the six-month period ended February 28, 2003 are as follows:

	Increase	
	Quarter	Six months
Tonnage	10.1%	7.1%
Translation effect	12.4	8.7
Price/Mix	3.1	2.7
	25.6%	18.5%

Over 50% of the tonnage increase was due to the sale of commodity products.

Tonnage increased in Europe by 9.3% for the quarter and 5.4% for the six month period. In North America, tonnage was up 11.6% for the quarter and 10.3% for the six month period.

A comparison of the gross profit dollars and percentages by business segment for the 2003 and 2002 quarters are as follows:

(in thousands)				
Three months ended February 28,				
Gross profit \$	2003	2002	Increase (Decrease)	
			\$	%
Europe	\$30,626	\$20,749	\$ 9,877	47.6%
North America	8,389	11,010	(2,621)	(23.8)
	<u>\$39,015</u>	<u>\$31,759</u>	<u>\$ 7,256</u>	<u>22.9%</u>

  

Gross profit %	2003	2002
Europe	17.6%	16.3%
North America	8.9	12.8
	<u>14.5%</u>	<u>14.9%</u>

  

Six months ended February 28,				
Gross profit \$	2003	2002	Increase (Decrease)	
			\$	%
Europe	\$61,030	\$43,586	\$17,444	40.0%
North America	19,706	23,862	(4,156)	(17.4)
	<u>\$80,736</u>	<u>\$67,448</u>	<u>\$13,288</u>	<u>19.7%</u>

  

Gross profit %	2003	2002
Europe	17.9%	16.0%
North America	10.1	13.2
	<u>15.1%</u>	<u>14.9%</u>

European gross profit margins for the three and six months ended February 28, 2003 were higher than last year's comparable periods due to an increase in margins generated from manufactured products and the effects of currency translation. North American gross profit margins declined for the three and six months ended February 28, 2003 from the prior year. This margin erosion in North America was caused by a significant increase in resin prices due to higher costs of oil and natural gas and approximately \$1.0 million of expenses associated with a cost improvement program in the United States.

A comparison of capacity utilization levels for the quarter and six months is as follows:

	Three months ended February 28,		Six months ended February 28,	
	2003	2002	2003	2002
Europe	79%	89%	82%	88%
North America	76%	75%	78%	77%
Worldwide	78%	82%	81%	83%

European capacity utilization declined, primarily due to the addition of four new manufacturing lines in the second half of fiscal 2002.

Selling, general and administrative costs for the three months ended February 28, 2003 were up \$3.9 million or 16.1% compared with the same quarter last year. The translation effect of foreign currencies, primarily the Euro, increased expenses by \$2.2 million for the 2003 quarter. In addition, North American expenses were higher due to increases in compensation and insurance costs.

Interest expense decreased in 2003, mainly due to lower average borrowings during the six months ended February 28, 2003.

Foreign currency transaction losses were due to changes in the value of currencies in major areas where the Company operates. The majority of the loss for the three months ended February 28, 2003 relates primarily to changes in the value of the U.S. dollar compared with the Canadian dollar and the Euro.

For the six months ended February 28, 2003, the foreign currency transaction gain declined due to changes in the value of the Canadian dollar, Mexican peso and the Euro.

A comparison of operating income by business segment for the three and six months ended February 28, 2003 and 2002 is as follows:

	(in thousands)					
	Three months ended February 28,			Six months ended February 28,		
	2003	2002	Increase (Decrease)	2003	2002	Increase (Decrease)
Operating income (loss):						
Europe	\$16,294	\$ 9,135	\$ 7,159	\$33,334	\$18,651	\$14,683
North America	(5,599)	(1,081)	(4,518)	(7,338)	(844)	(6,494)
Interest expense, net	(756)	(905)	149	(1,458)	(1,863)	405
	<u>\$ 9,939</u>	<u>\$ 7,149</u>	<u>\$ 2,790</u>	<u>\$24,538</u>	<u>\$15,944</u>	<u>\$ 8,594</u>

Operating income for the quarter was up \$2.8 million, primarily due to a \$7.2 million increase from the European segment. The major factors for the increase in European operating income were higher tonnage, an increase in gross profit margins and the positive translation effect from the strength of the euro.

The North American operating loss increased \$4.5 million from the same quarter last year mainly due to a large decline in gross profit margins. Gross profit margins declined due to an increase in resin prices from the higher cost of oil and natural gas and \$1.0 million of expenses relating to a profit improvement program. In addition, there was an increase in sales of commodity products, which traditionally have lower margins than manufactured products.

Minority interest represents a 30% equity position of Mitsubishi Chemical MKV Company in a partnership with the Company and a 35% equity position of P.T. Prima Polycon Indah in an Indonesian joint venture with the Company.

The effective tax rate of 53.0% and 47.0% for the three and six months ended February 28, 2003, respectively, and 37.7% and 39.4% for the three and six months ended February 28, 2002, respectively, 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.

The translation effect of foreign currencies, primarily the Euro, increased net income in 2003 by \$1.7 million or \$.06 per share for the quarter and \$2.6 million or \$.09 per share for the six months ended February 28, 2003.

In January 2003, the Company initiated a profit improvement program for North America. This program is focused on the United States operations and has been designed to improve cost efficiencies and profitability. The key elements of this 26-week program are to reduce manufacturing and delivery costs, enhance response and delivery through reductions in lead times to customers, and reduce North America inventories by 15% or \$10 million. The program should generate annual operating savings of \$6.0 to \$7.0 million starting in the 2004 fiscal year. Most of the implementation costs will be incurred during the second and third quarters of our 2003 fiscal year. Our fiscal 2003 second quarter included pretax charges of \$956,000 relating to these implementation costs.

In early March 2003, as an initial step in this profit improvement program, the Company reduced approximately 18% of the administrative and support positions at the Bellevue, Ohio manufacturing facility. This action is expected to reduce annual operating costs by approximately \$0.6 million.

The program is nearing the halfway point and there are a number of additional initiatives in process. The Company anticipates completion and implementation of these initiatives will enable the organization to achieve its objectives and provide meaningful benefits to North American operations.

In addition, the Company decided in April 2003 to discontinue manufacturing at its Dispersion plant in Orange, Texas. The shutdown is expected to be completed by the end of the 2003 fiscal year. The Company is presently finalizing the cost of this action and anticipates total charges of approximately \$6 to \$8 million during the third and fourth quarters. The plant closing should generate approximately \$5 million in annual savings beginning in fiscal 2004. The plant has an annual production capacity of approximately 60 million pounds, or 12% of our North American capacity. This plant serves primarily the U.S. auto market.

The decision to close this plant was made after the Company determined there is sufficient capacity at other facilities. The closing will help align the Company's North American production capacity with market realities. The Company is committed to balancing capacity with the demands of the marketplace.

The economic environment in Europe has been less than favorable, but the Company has a solid level of orders throughout European operations. Gross profit margins are good even though there have recently been sharp increases in resin prices.

The United States economy continues to soften due to a number of factors, including the Iraq conflict. Consumer confidence is declining and auto sales, an important market for the Company, have weakened. Resin pricing has been rising although the Company has recently noted some leveling in the amount of increases.

The Company is operating in a difficult environment. Therefore, the Company anticipates that fiscal 2003 third quarter net income will be approximately \$.06 to \$.13 per share, including an estimated charge of \$6.0 to \$8.0 million for the discontinuance of manufacturing at the Dispersions plant in Orange, Texas. The total amount of the charge, as well as the amount to be incurred in the third quarter, has not yet been finalized. Last year's third quarter net income of \$.39 per diluted share included a \$.04 per share benefit from a tax law change.

Despite the current economic and political uncertainties, the Company has a strong financial position, which enables it to take appropriate actions for the benefit of the Company and its stockholders.

#### Critical Accounting Policies

The Company has identified critical accounting policies that, as a result of the judgments, uncertainties, and the operations involved, could result in material changes to its financial condition or results of operations under different conditions or using different assumptions. The Company's most critical accounting policies relate to the allowance for doubtful accounts, inventory reserves and interim provisions for income taxes.

Management records an allowance for doubtful accounts receivable based on the careful monitoring of the current and projected credit quality of the Company's customers, historical experience, customer payment history, expected trends and other factors that affect collectibility. Changes in these factors or changes in economic circumstances could result in changes to the allowance for doubtful accounts.

Management establishes an inventory reserve based on historical experience and amounts expected to be realized for slow-moving and obsolete inventory. The Company monitors its slow-moving and obsolete inventory on a quarterly basis and makes adjustments as considered necessary. The proceeds from the sale or disposition of these inventories may differ from the net recorded amount.

The Company's quarterly provision for income taxes involves a significant amount of judgment by management. Quarterly, the provision for income taxes is based upon actual year to date results plus an estimate of pretax income for the remainder of the year. This provision is impacted by the income and tax rates of the countries where the Company operates. A change in the geographical source of the Company's income can have a significant effect on the tax rate.

#### Liquidity and Capital Resources

	February 28, 2003	(in millions) August 31, 2002	% Change
Cash and Cash Equivalents	\$ 63.2	\$ 64.0	(1.3)%
Working Capital	340.0	301.0	13.0
Long-Term Debt	92.0	81.0	13.6
Stockholders' Equity	382.3	356.4	7.3

Net cash provided from operations was \$1.2 million compared with \$39.5 million in the same six-month period last year. The decrease was primarily due to an increase in inventories and trade receivables required to support higher sales levels.

As of February 28, 2003, the current ratio was 3.6 to 1 and working capital was \$340.0 million. Accounts receivable and inventories increased from August 31, 2002 to February 28, 2003 by \$22.2 million and \$27.0 million, respectively. Accounts receivable and inventories were higher as of February 28, 2003, compared with August 31, 2002, primarily because of the translation effect of foreign currencies, which increased the combined balances by \$17.6 million. The inventory also increased because of higher resin prices.

The Company's cash and cash equivalents decreased \$0.8 million, or 1.3% from August 31, 2002. Currently, the Company intends to use cash in its foreign operations to repatriate approximately \$45 million during the second half of fiscal 2003. These funds will be used to reduce long-term debt and for other working capital requirements.

During the six months ended February 28, 2003, the Company repatriated approximately \$6.6 million as dividends from its foreign subsidiaries. The cash was used to repay long-term debt and for other working capital requirements.

The Company increased total long-term debt by \$10.9 million during the six months ended February 28, 2003. The proceeds were used in the North American operations. Total long-term debt was \$92.0 million as of February 28, 2003.

In March 2003, the Company repatriated approximately \$25.0 million from its foreign subsidiaries and utilized the majority of these funds to repay existing long-term debt.

Capital expenditures for the six months ended February 28, 2003 were \$8.9 million compared with \$14.9 million last year. The largest amounts of capital expenditures occurred in the United States, Indonesia, France, Belgium and Italy. The expenditures were for enhancements to existing equipment, additional warehousing in France and a new manufacturing line in Indonesia. The Company anticipates capital expenditures for fiscal 2003 will be approximately \$25.0 million, depending on the progress of each project.

The ratio of long-term liabilities to capital was 26.9% at February 28, 2003 and 25.9% at August 31, 2002. This ratio is calculated by dividing the sum of long-term debt and other long-term liabilities by the sum of total stockholders' equity, long-term debt and other long-term liabilities. The primary factors contributing to this increase were lower earnings in North America, foreign currency translation, and net additional borrowings of \$11.0 million under the revolving credit agreement.

The Company has a \$130,000,000 revolving credit agreement which expires in October 2005. Under terms of the agreement, the Company is required to satisfy certain financial and operating covenants including leverage ratio, interest coverage ratio and capitalization ratio. The revolving credit agreement is unsecured.

The Company has an outstanding private placement of \$50,000,000 in Senior Notes due in 2009. The interest rate is fixed at 7.27% and is payable quarterly with principal due upon maturity in 2009. In 1999, the Company completed an interest rate lock in order to reduce the interest cost over the life of the notes. Proceeds from this transaction totaling \$630,000 have been deferred and are being amortized over the life of the loan, effectively reducing the annual interest rate from 7.27% to 7.14%. Under this agreement, as of February 28, 2003, approximately \$43.0 million of retained earnings was available for the payment of cash dividends. The Company's latest review of the covenants under these agreements indicate no defaults or any non-compliance with their covenants.

The Company leases certain land and buildings for its European segment under a capital lease. The total amount due on this capital lease at February 28, 2003 is \$1.1 million.

Aggregate maturities of long-term debt and capital lease obligations subsequent to February 28, 2003 are presented below:

	(in thousands)				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	\$91,329	\$137	\$41,192	\$ —	\$50,000
Capital lease obligations	1,109	316	632	161	—
	<u>\$92,438</u>	<u>\$453</u>	<u>\$41,824</u>	<u>\$161</u>	<u>\$50,000</u>

Operating lease information is provided in footnote 11 of the Company's Annual Report. The only significant change to this information is the addition of an operating lease with aggregate future minimum rentals of approximately \$1.0 million payable ratably over three years.

The Company's outstanding commercial commitments at February 28, 2003 are not material to the Company's financial position, liquidity or results of operations.

During the six months ended February 28, 2003, the Company has paid two quarterly cash dividends aggregating \$.27 per share. The total amount of these dividends was \$8.0 million. Cash flow has been sufficient to fund the payment of these dividends.

During the six months ended February 28, 2003, the Company did not repurchase any shares of its common stock. Approximately 1.7 million shares remain under a six million-share authorization approved by the Board of Directors in August 1998. The Company may repurchase additional common stock in fiscal year 2003 subject to market conditions. For the six months ended February 28, 2003, 57,021 common shares were issued upon the exercise of employee stock options. The total amount received from the exercise of these options was \$0.8 million.

The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars using current exchange rates. Income statement items are translated at average exchange rates prevailing during the period. The resulting translation adjustments are recorded in the

“accumulated other comprehensive income” account in stockholders’ equity. The weakening of the U.S. dollar during the six months ended February 28, 2003 increased this account by \$19.2 million.

#### New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (the “FASB”) issued SFAS No. 143, “Accounting for Asset Retirement Obligations” (“SFAS 143”), which addresses the recognition and remeasurement of obligations associated with the retirement of tangible long-lived assets and the associated asset retirement cost. The provisions of SFAS 143 were adopted by the Company effective September 1, 2002. The adoption of SFAS 143 did not have a material impact on the Company’s financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS 144”), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 applies to all long-lived assets, including discontinued operations, and develops one accounting model for long-lived assets to be disposed of by sale. This Statement supersedes SFAS 121, “Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of” (“SFAS 121”) and the accounting and reporting provisions of APB No. 30, “Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions” (“APB30”), for the disposal of a segment of a business. The provisions of SFAS 144 were adopted by the Company effective September 1, 2002. The adoption of SFAS 144 did not have a material impact on the Company’s financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146 (“SFAS 146”), “Accounting for Costs Associated with Exit or Disposal Activities.” SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and establishes that fair value is the objective for initial measurement of the liability. This statement is effective for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS 146 did not have a material impact on the Company’s financial position or results of operations.

#### Cautionary Statements

Statements in this report which are not historical facts are forward-looking statements which involve risks and uncertainties and actual events or results could differ materially from those expressed or implied in this report. These “forward-looking statements” are based on currently available information. They are also inherently uncertain, and investors must recognize that events could turn out to be significantly different from what we had expected. Examples of such uncertainties include, but are not limited to, the following:

- Worldwide and regional economic, business and political conditions
- Fluctuations in the value of currencies in major areas where the Company operates, i.e. the U.S. dollar, Euro, U.K. pound sterling,

Canadian dollar, Mexican peso and Indonesian rupiah, etc.

- Fluctuations in prices of plastic resins and other raw materials
- Changes in customer demand and requirements

### **Item 3 — Quantitative and Qualitative Disclosure About Market Risk**

The company enters into forward exchange contracts to reduce its exposure to fluctuations in related foreign currencies. These contracts are with major financial institutions and the risk of loss is considered remote. The total value of open contracts and any risk to the Company as a result of these arrangements is not material to the Company's financial position, liquidity or results of operations.

### **Item 4 — Controls and Procedures**

Within 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c)). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure information required to be disclosed in the Company's reports that it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. There have been no significant changes in the Company's internal controls or in other factors which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

**Part II — Other Information**

Items 1 through 5 are not applicable or the answer to such items is negative; therefore, the items have been omitted and no reference is required in this Report.

**Item 6 — Exhibits and Reports on Form 8-K**

(a)	<u>Exhibit Number</u>	<u>Exhibit</u>
	99.1	CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350.

## SIGNATURES

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: April 11, 2003

A. Schulman, Inc.

(Registrant)

/s/ R.A. STEFANKO

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)

## CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Terry L. Haines, certify that:

1. I have reviewed this quarterly report on Form 10-Q of A. Schulman, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 11, 2003

/s/ Terry L. Haines

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Terry L. Haines  
President and Chief Executive Officer

## CHIEF FINANCIAL OFFICER CERTIFICATION

I, Robert A. Stefanko, certify that:

1. I have reviewed this quarterly report on Form 10-Q of A. Schulman, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 11, 2003

/s/ Robert A. Stefanko

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Robert A. Stefanko  
Executive Vice President - Finance and  
Administration and Chief Financial Officer

## Exhibit Index

Exhibit No.	Description
99.1	Certifications pursuant to 18 U.S.C. 1350