

MATERIAL SCIENCES CORP  
Form DEF 14A  
May 22, 2003  
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**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY  
RULE 14A-6(E)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

**MATERIAL SCIENCES CORPORATION**

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\_\_\_\_\_  
(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(5) Total fee paid:

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form of Schedule and the date of its filing.

(1) Amount Previously Paid:

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(3) Filing Party:

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(4) Date Filed:

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May 22, 2003

Dear Shareowner:

The 2003 Annual Meeting of Shareowners will be held on Thursday, June 26, 2003, at 10:00 a.m. (CDT) at our offices located at 2200 East Pratt Boulevard, Elk Grove Village, Illinois. We hope you will attend. We will be voting on the election of directors and any other matters as may properly come before the meeting. We also will hear management's report regarding the past fiscal year's operations.

The attached notice of annual meeting and proxy statement describe in more detail the matters upon which the shareowners will vote. It is important that your shares be represented at the meeting, regardless of the number you own or whether or not you plan to attend. Accordingly, we urge you to vote your shares as soon as practicable.

I look forward to seeing you on June 26<sup>th</sup>.

Sincerely,

DR. RONALD A. MITSCH

*Non-Executive Chairman of the Board*

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**NOTICE OF ANNUAL MEETING OF SHAREOWNERS**

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The Annual Meeting of Shareowners of Material Sciences Corporation will be held on Thursday, June 26, 2003, at 10:00 a.m. (CDT) at our offices located at 2200 East Pratt Boulevard, Elk Grove Village, Illinois, for the following purposes:

1. To elect eight directors to the Board; and
2. To transact any other business as may properly come before the meeting or any adjournment or postponement thereof.

Our Board of Directors recommends you vote **FOR** the election of directors.

Shareowners of record at the close of business on April 28, 2003 are entitled to notice of and to vote at the annual meeting and any adjournment or postponement thereof.

Whether or not you expect to be present at the meeting, please vote your shares by following the instructions on the enclosed proxy card or voting instruction card. Any person voting by proxy has the power to revoke it at any time prior to its exercise at the meeting in accordance with the procedures described in the accompanying proxy statement.

***IF YOU PLAN TO ATTEND:***

***Please note that space limitations make it necessary to limit attendance to shareowners. Registration will begin at 9:00 a.m., and seating will begin at 9:45 a.m. Each shareowner may be asked to present valid picture identification, such as a driver's license or passport. Shareowners holding stock in brokerage accounts (street name holders) will need to bring a copy of the voting instruction card or a brokerage statement reflecting stock ownership as of the record date. Cameras, recording devices and other electronic devices will not be permitted at the meeting.***

By Order of the Board of Directors,

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James J. Waclawik, Sr.

*Vice President,*

*Chief Financial Officer and Secretary*

Elk Grove Village, Illinois

May 22, 2003

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**PROXY STATEMENT**

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This proxy statement contains information related to the annual meeting of shareowners of Material Sciences Corporation to be held on Thursday, June 26, 2003, beginning at 10:00 a.m. (CDT), at our offices located at 2200 East Pratt Boulevard, Elk Grove Village, Illinois, and at any postponements or adjournments thereof. This proxy statement is being mailed to shareowners on or about May 27, 2003.

**ABOUT THE MEETING**

*What is the purpose of the annual meeting?*

At our annual meeting, shareowners will act upon the matters outlined in the accompanying notice of annual meeting. In addition, management will report on our performance and respond to appropriate questions from shareowners.

*Who is entitled to vote at the meeting?*

Only shareowners of record at the close of business on April 28, 2003, the record date for the meeting, are entitled to receive notice of and to vote at the meeting. If you were a shareowner of record on that date, you will be entitled to vote all of the shares that you held on that date at the meeting or at any postponements or adjournments of the meeting.

*What are the voting rights of the holders of our common stock?*

Each outstanding share of our common stock will be entitled to one vote on each matter considered at the meeting. If one or more shareowners give notice before the voting at the meeting of their intention to cumulate their votes in the election of directors, all shareowners entitled to vote shall have the right to so cumulate their votes. We have received such notice from a shareowner and, unless such notice is withdrawn prior to the voting at the meeting, each holder of our common stock will be entitled, for each share held, to one vote for each director being elected and may cast all such votes for a single nominee (who has been nominated by the Board or in accordance with our By-Laws) or distribute such votes among two or more such nominees. Each executed proxy will grant the person or persons named therein discretionary authority to cumulate votes in connection with the election of directors, except no votes represented by such proxy may be voted for any nominee with respect to which authority to vote has been withheld on the proxy card or voting instruction card and except to the extent that specific instructions have been given on the proxy card or voting instruction card as to cumulative voting. If voting authority is withheld from a particular nominee or nominees, votes will be cumulated in favor of the other nominees, and if different specific instructions are given, the specific instructions will be



followed.

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### ***Who can attend the meeting?***

Shareowners as of the record date, or their duly appointed proxies, may attend the meeting. Registration will begin at 9:00 a.m., and seating will begin at 9:45 a.m. If you attend, please note that you may be asked to present valid picture identification, such as a driver's license or passport. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

Please also note that if you hold your shares in street name (that is, through a broker or other nominee), you will need to bring a copy of your voting instruction card or brokerage statement reflecting your stock ownership as of the record date and check in at the registration desk at the meeting.

### ***What constitutes a quorum?***

A majority of the outstanding shares of our common stock, represented in person or by proxy, shall constitute a quorum for the transaction of business at the meeting. The close of business on April 28, 2003, has been fixed as the record date for the determination of shareowners entitled to notice of and vote at the meeting. On that date, there were 14,144,517 shares of our common stock outstanding.

Proxies received but marked as abstentions and broker non-votes will be counted for purposes of determining whether there is a quorum at the meeting.

### ***How do I vote?***

If the shares of our common stock are held in your name, you can vote on matters to come before the meeting in two ways:

- by completing, dating and signing the enclosed proxy card and returning it in the enclosed postage-paid envelope; or
- by written ballot at the meeting.

Shareowners whose shares of our common stock are held in street name must either direct the record holder of their shares as to how to vote their shares of common stock or obtain a proxy from the record holder to vote at the meeting. Street name shareowners should check the voting instruction cards used by their brokers or nominees for specific instructions on methods of voting, including by telephone or using the Internet.

Your shares will be voted as you indicate. If you return the proxy card but you do not indicate your voting preferences, then with respect to any other matter that properly comes before the meeting, the individuals named on the proxy card will vote your shares in accordance with the

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recommendations of the Board of Directors. The Board and management do not now intend to present any matters at the annual meeting other than those outlined in the notice of the annual meeting. Should any other matter requiring a vote of the shareowners arise, the shareowners confer upon the person or persons named on the proxy card discretionary authority to vote the shares represented by such proxy on any such other matter in accordance with their best judgment. Such authority includes the discretionary authority of the person or persons named on the proxy card to cumulate votes so as to elect the maximum number of directors.

### *How can I change my vote?*

If your shares are held in your name, you may revoke your proxy at any time before it is exercised by:

- filing with the Secretary of MSC a notice of revocation;
- sending in another duly executed proxy bearing a later date; or
- attending the meeting and casting your vote in person.

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If your shares are held in street name, you must contact your broker or nominee to revoke your proxy. In either case, your last vote will be the vote that is counted.

### ***How do I vote my 401(k) shares?***

If you are one of our many employees who participate in the MSC common stock fund under our 401(k) plan, you will receive from the plan trustee a request for voting instructions with respect to all of the shares allocated to your plan account. You are entitled to direct the plan trustee how to vote your plan shares. If you do not give voting instructions to the plan trustee within the time specified by the plan trustee, your plan shares will be voted by the plan trustee in the same proportion as shares held by the plan trustee for which voting instructions have been received. You may revoke your previously given voting instructions by filing with the plan trustee either a written notice of revocation or a properly completed and signed voting instructions card bearing a later date.

### ***What vote is required to approve each item?***

**Election of Directors.** Directors will be elected by the vote of the holders of a majority of shares of common stock represented at the meeting in person or by proxy unless there is cumulative voting. If the vote is conducted by cumulative voting, then the eight nominees receiving the greatest number of votes shall be elected as directors. Shares of common stock as to which authority to vote for the election of one or more director nominees is withheld on the enclosed proxy or voting instruction card will not be counted in determining the number of shares necessary for approval if the vote is conducted by cumulative voting.

**Other Items.** For each other item, the affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote on the item will be required for approval. A properly executed proxy marked ABSTAIN with respect to any such matter will not be voted, although it will be counted for purposes of determining whether there is a quorum. There are currently no other matters to be voted on at the meeting.

**Effect of Broker Non-Votes.** If you hold your shares in street name through a broker or other nominee, your broker or nominee may not be permitted to exercise voting discretion with respect to some of the matters to be acted upon at the meeting. Thus, if you do not give your broker or nominee specific instructions, your shares may not be voted on those matters and will not be counted in determining the number of shares necessary for approval. Shares represented by such broker non-votes will, however, be counted in determining whether there is a quorum.

**Table of Contents****STOCK OWNERSHIP***Who are the largest owners of our common stock?*

The following table contains information regarding the persons known to us that beneficially own more than 5% of our common stock as of April 28, 2003, other than Frank L. Hohmann III. Information regarding Mr. Hohmann, an MSC director, is set forth below under the caption *How much common stock do our directors and executive officers own?*

<b>Name and Address</b>	<b>Shares of Common Stock Beneficially Owned</b>	
	<b>Number</b>	<b>Percent (1)</b>
Mario J. Gabelli (and affiliates) (2) One Corporate Center Rye, NY 10580-1424	1,932,400	13.7%
T. Rowe Price Associates, Inc. (3) 100 E. Pratt Street Baltimore, MD 21202	1,803,800	12.8%
Dimensional Fund Advisors, Inc. (4) 1299 Ocean Ave. 11 <sup>th</sup> Floor Santa Monica, CA 90401	1,190,900	8.4%
Ironwood Capital Management, LLC (and affiliates) (5) 21 Custom House Street Boston, MA 02110	806,350	5.7%

- (1) Based upon the number of shares of our common stock outstanding on April 28, 2003.
- (2) Based on Schedule 13D/A filed by Mario J. Gabelli and certain affiliated entities, Mr. Gabelli directly or indirectly controls or acts as chief investment officer for the entities listed below and, therefore, may be deemed to beneficially own all or some of such shares. According to the Schedule 13G/A, Gabelli Funds, LLC has sole voting and dispositive power with respect to 435,130 shares, GAMCO Investors, Inc. has sole voting and dispositive power with respect to 1,459,170 shares, Gabelli & Company, Inc. has sole voting and dispositive power with respect to 100 shares, Gabelli Advisors, Inc. has sole voting and dispositive power with respect to 38,000 shares and each of Gabelli Group Capital Partners, Inc., Gabelli Asset Management Inc. and Mario J. Gabelli has no voting or dispositive power with respect to any shares.
- (3) Based on a Schedule 13G/A filed by T. Rowe Price Associates, Inc., T. Rowe has sole voting power with respect to 348,700 shares and sole dispositive power with respect to all such shares.
- (4) Based on a Schedule 13G/A filed by Dimensional Fund Advisors, Inc., Dimensional Funds has sole voting and dispositive power with respect to all such shares. According to the Schedule 13G/A, all of the shares are owned by advisory clients of Dimensional Fund and, therefore, Dimensional Fund disclaims beneficial ownership of all such shares.
- (5) Based on a Schedule 13G filed by Ironwood Capital Management, LLC, Warren J. Isabelle, Richard L. Droster and Donald Collins, Ironwood Capital and Messrs. Isabelle, Droster and Collins each has shared voting power with respect to 567,950 shares and shared dispositive power with respect to 806,350 shares.

*How much common stock do our directors and executive officers own?*

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The following table provides certain information, as of April 28, 2003, on the beneficial ownership of our common stock by each director of MSC, the executive officers named in the Summary Compensation Table below, and the directors and executive officers of MSC as a group. To our knowledge, each person has sole voting and investment power for the shares shown unless otherwise noted. The address of all officers and

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directors described below is c/o Material Sciences Corporation, 2200 East Pratt Blvd., Elk Grove Village, IL 60007.

<u>Name</u>	<u>Number of shares directly owned(1)</u>	<u>Shares under exercisable options(2)</u>	<u>Total shares beneficially owned</u>	<u>Percent of class</u>
<b>Directors</b>				
Michael J. Callahan	13,375(3)	16,724	30,099	*
Dr. Eugene W. Emmerich (4)		6,533	6,533	*
G. Robert Evans	92,528	65,372	157,900	1.1%
Avrum Gray				
E. F. Heizer, Jr. (4)	90,710(3)	28,809	119,519	*
Frank L. Hohmann III	1,817,350(5)	3,941	1,821,291	12.9%
Dr. Ronald A. Mitsch	11,344(3)	16,724	28,068	*
Gerald G. Nadig	273,685(6)	247,545	521,230	3.7%
Dr. Mary P. Quin	3,485	16,724	20,209	*
John D. Roach				
Curtis G. Solsvig III	5,000		5,000	*
<b>Named Executive Officers</b>				
Frank L. Lazowski, Jr.	19,639	41,963	61,602	*
Robert J. Mataya	34,892	37,657	72,549	*
Ronald L. Millar, Jr.	64,869(7)	55,657	120,526	*
James J. Waclawik, Sr.	67,290	62,396	129,686	*
<b>All executive officers and directors as a group (21 persons)</b>	<b>2,575,510</b>	<b>673,051</b>	<b>3,248,561</b>	<b>23.0%</b>

\* Less than 1%

- (1) Includes shares held by immediate family members or in trusts. Excludes shares that may be acquired through the exercise of stock options, which information is set forth separately.
- (2) Includes shares subject to options that are exercisable on April 28, 2003 and options which become exercisable within 60 days thereafter.
- (3) Includes 4,143, 3,410 and 7,880 shares for Messrs. Callahan, Heizer and Mitsch, respectively, which may be issuable within 60 days pursuant to each director's deferred stock unit account established under the our 2001 Compensation Plan for Non-Employee Directors. Excludes 732 and 1,464 shares related to the unvested portion of such deferred stock unit accounts for Mr. Callahan and Dr. Mitsch, respectively.
- (4) Dr. Emmerich and Mr. Heizer are not standing for re-election at the annual meeting. Mr. Heizer, however, will become a director emeritus.
- (5) Based on a Schedule 13G/A filed by Mr. Hohmann. Mr. Hohmann has sole voting and dispositive power with respect to 1,688,350 shares and shared voting and dispositive power with respect to 40,000 shares. According to the Schedule 13G/A, the number of shares beneficially owned includes: 5,000 shares held in trust for the daughter of Mr. Hohmann, for which Mr. Hohmann states that he is not the trustee and for which he disclaims beneficial ownership; 10,700 shares beneficially owned by Mr. Hohmann's adult son for which Mr. Hohmann disclaims beneficial ownership; and 40,000 shares held in a private charitable foundation, for which Mr. Hohmann serves as trustee and for which he disclaims beneficial ownership
- (6) Includes 18,149 shares held in a trust for the children of Mr. Nadig, for which Mr. Nadig states that he is not the trustee and for which he disclaims beneficial ownership. Mr. Nadig resigned as our Chairman, President and Chief Executive Officer on April 17, 2003.
- (7) Includes 800 shares held in a trust for the grandchildren of Mr. Millar.

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**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, officers and persons who own more than 10% of our common stock to file reports of ownership and changes in ownership of shares of our common stock with the SEC. Directors, officers and greater than 10% shareowners are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file. Based solely on the review of the copies of such reports furnished to us, or written representations from certain reporting persons that no Forms 5 were required for those persons, we believe that, from March 1, 2002 through February 28, 2003, our directors, officers and greater than 10% shareowners complied with all applicable filing requirements, except Mr. Lazowski, an executive officer, did not timely file a Form 4 relating to the sale of 2,000 shares of our common stock on April 3, 2002. Mr. Lazowski subsequently filed with the SEC the required report.

**ELECTION OF DIRECTORS**

The eight persons listed below are proposed to be elected for a period to end at the 2004 Annual Meeting of Shareowners, when they may be proposed to be re-elected or successors are elected and qualified at that meeting or, as provided in our By-Laws, upon the earlier of death, resignation or removal. Unless authority to vote for one or more nominees is withheld in the proxy, signed proxies that are returned will be voted for approval of the election of the eight nominees listed below. All nominees have indicated a willingness to serve as directors, but if any of them should decline or be unable to act as a director, the persons named in the proxy will vote for the election of another person or persons as the Board recommends.

Information regarding the nominees, as of April 28, 2003, is set forth below, including their ages, the period each has served on the Board and the nominees' business experience.

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**Michael J. Callahan**

**Director since 1999**

**Age 64**

Mr. Callahan was named our President and Chief Executive Officer in April 2003. Mr. Callahan was a business consultant from 1999 to 2003. He served as Executive Vice President and Chief Financial Officer of FMC Corporation from 1994 to 1999. Prior to joining FMC, Mr. Callahan was Executive Vice President and Chief Financial Officer of Whirlpool Corporation from 1992 to 1994. Mr. Callahan is a member of the board of directors of Brunswick Corporation and the associate board of directors Metropolitan Family Services in Chicago.

**G. Robert Evans**

**Director since 1991**

**Age 71**

Mr. Evans served as Chairman of the Board of the Company from January 1997 until his retirement in December 1997. Prior to that time, he served as Chairman and Chief Executive Officer of the Company from June 1991 to December 1997. Mr. Evans also serves as a director of Consolidated Freightways Corporation and Swift Energy Company.





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**Avrum Gray**

**Director since 2003**

**Age 67**

Mr. Gray is the Chairman and founding partner of G-Bar Limited Partnership, one of the nation's largest independent options trading firms and a leading specialist in computer-based arbitrage activities in the derivatives markets. Mr. Gray was the chief executive of a privately held automotive aftermarket company, Alloy Consolidated Industries, from 1969 to 1991. From 1996 through 2001, Mr. Gray was also the chairman of the board of Lynch Systems, Inc., a capital equipment manufacturer. Mr. Gray is currently a member of the Board of Directors of Lynch Corporation, Nashua Corporation and SL Industries, Inc. GAMCO Investors, Inc. recommended Mr. Gray to our Nominating and Governance Committee for consideration as a director. The Nominating and Governance Committee reviewed Mr. Gray's qualifications and background in accordance with its procedures and our corporate governance guidelines and concluded that Mr. Gray was qualified. On April 22, 2003, Mr. Gray was appointed to the Board of Directors.

**Frank L. Hohmann III**

**Director since 2002**

**Age 57**

Mr. Hohmann, a private investor, has been a director since February 2002. Mr. Hohmann spent 23 years with Donaldson, Lufkin & Jenrette, which recently was acquired by Credit Suisse First Boston. Mr. Hohmann was a managing director in the equity derivatives group at Credit Suisse First Boston until he retired on January 2, 2002. From 1974 to 1978, he was managing director at WM Sword and Co. He is a member of the board of directors of Egerton Capital Limited, Mount European Fund, U. Vine Limited and Winterthur Museum.

**Dr. Ronald A. Mitsch**

**Director since 1990**

**Age 68**

Dr. Mitsch was named our Non-Executive Chairman of the Board in April 2003. Dr. Mitsch retired as Vice Chairman and Executive Vice President, Industrial and Consumer Markets and Corporate Services of the 3M Company in 1998. Dr. Mitsch had served in these capacities since 1995. Since joining the 3M Company in 1960, Dr. Mitsch held several key management positions including Senior Vice President, Research and Development. Dr. Mitsch is a member of the board of directors of Lubrizol, WTC Industries and GaMra Composites and is Chairman of the Board of Trustees of Hamline University.

**Dr. Mary P. Quin**

**Director since 1999**

**Age 49**

Dr. Quin is founder and President of a new sole proprietorship, Tuliqi, which specializes in retailing organic textile materials. Dr. Quin was a consultant from 2000 until 2002 and served as Vice President and General Manager, Color Solutions Business Unit, Office Document Products Group at Xerox Corporation from 1999 until June 2000. Since joining Xerox in 1995 as Director, Corporate Business Strategy, she served as Vice President and General Manager, External Business Unit, Office Document Products Group and Vice President, Strategy, Production Systems Group. Dr. Quin is a member of the board of directors of CEDPA, an international aid organization, and was founder and Chairman of the One Hundred Heroines project in Rochester, New York.

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**John D. Roach**

**Director since 2003**

**Age 59**

Mr. Roach has been Chairman and CEO of Stonegate International, a private investment and advisory services company, since 2001. Prior to this, Mr. Roach was a founder of Builders FirstSource, Inc., a leading distributor of building products to production homebuilders, and served as its chairman, president and CEO from 1998 to 2001. From 1991 to 1997, he was chairman, president and CEO of Fibreboard Corporation. Previously, he had been executive vice president of Johns Manville Corporation, which he joined in 1987. Mr. Roach is a director of PMI Group, Inc., Kaiser Aluminum, URS Corp. and the Dallas Symphony Association.

**Curtis G. Solsvig III**

**Director since 2003**

**Age 48**

Mr. Solsvig is Managing Director of Everett & Solsvig, a management consulting and portfolio management services company that he founded in 2002. He previously served as president of Gerhardt, Inc., a company he formed in 1991 to provide management consulting services in workout and turnaround situations. Prior to 1991, Solsvig held management positions with Alvarez & Marsal, Inc. and The Boston Consulting Group. He serves on the boards of Egerton Capital, ESS Holdings, and Pangborn, Inc.

**The Board of Directors recommends a vote FOR the election of each of the directors listed above.**

*Are there any directors not standing for re-election?*

Dr. Eugene W. Emmerich, a director since 1979, will retire from service at the annual meeting and will not stand for re-election. Howard B. Witt, a director since 1997, and Gerald G. Nadig, a director since 1996 and our former Chairman, President and Chief Executive Officer, resigned from the Board on July 17, 2002 and April 17, 2003, respectively.

E.F. Heizer Jr., a director since 1976, will not stand for re-election at the annual meeting. Mr. Heizer, however, has been named a director emeritus effective at our annual meeting and will serve for a period ending at the 2004 Annual Meeting of Shareowners. Mr. Heizer will be entitled to attend meetings of the Board, but will not have the power to vote on matters presented to the Board.

*Which of our directors are independent?*

In February 2003, the Board of Directors adopted a set of Corporate Governance Guidelines, addressing, among other things, standards for evaluating the independence of our directors. Pursuant to the Guidelines, the Board undertook its annual review of director independence in April 2003. During this review, the Board considered transactions and relationships during the prior year between each director or any member of his or her immediate family and MSC and its subsidiaries and affiliates. The Board noted no such transactions or relationships other than Mr. Callahan's recent appointment as our President and Chief Executive Officer and the supplemental pension benefits Mr. Evans receives as a result of his retirement from MSC in December 1997. As a result of this review and based upon the independence standards contained in final SEC rules and current and proposed NYSE rules, the Board affirmatively determined that all of the directors nominated for election at the annual meeting are independent of MSC and its management, other than Mr. Callahan.



**Table of Contents*****How often did the Board meet in fiscal 2003?***

The Board held ten meetings, including five telephonic meetings, during fiscal 2003. Each director attended at least 75% of the total number of meetings of the Board and committees on which the director served that were held while the director was a member.

***What committees has the Board established?***

The Board's standing committees include the following:

<b>Committee</b>	<b>Members</b>	<b>Primary Responsibilities</b>	<b># of Meetings</b>
Audit	Solsvig (Chairperson) Evans Heizer Quin	<ul style="list-style-type: none"> <li>Monitors the integrity of the company's consolidated financial statements, the company's compliance with legal and regulatory requirements and the company's system of internal controls.</li> <li>Selects, evaluates, and, when appropriate, replaces the independent auditor, and pre-approves audit and permitted non-audit services.</li> <li>Monitors the qualifications, independence and performance of the company's internal and independent auditors.</li> </ul>	10, including 6 telephonic
Compensation and Organization	Hohmann (Chairperson) Gray Heizer Roach	<ul style="list-style-type: none"> <li>Determines the compensation of our executive officers and key employees.</li> <li>Reviews and approves cash incentive compensation paid to key employees.</li> <li>Reviews and makes recommendations to the Board regarding the company's compensation and benefit plans and policies.</li> <li>Reviews corporate practices relating to diversity and succession planning.</li> </ul>	7, including 1 telephonic
Nominating and Governance	Mitsch (Chairperson) Evans Hohmann	<ul style="list-style-type: none"> <li>Identifies and recommends candidates for election to the Board.</li> <li>Oversees the evaluation of the Board and management.</li> <li>Approves our corporate governance principles and our Code of Business Ethics.</li> </ul>	4, including 1 telephonic



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The Board has adopted written charters for the Audit, Compensation and Organization, and Nominating and Governance Committees setting forth the roles and responsibilities of each committee. All of these written charters are attached as exhibits to this proxy statement. During fiscal 2003, the Board determined that the full Board should meet, rather than the Technology Committee, to analyze current technology and its use and application in MSC's processes and evaluate technological developments and the suitability of new technology for MSC's operations. The former Technology Committee, comprised of Dr. Mitsch, Dr. Emmerich, Mr. Evans and Dr. Quin, met twice during fiscal 2003.

Messrs. Roach and Solsvig, who became directors in March 2003, and Mr. Gray, who became a director in April 2003, were added to the Board's standing committees in May 2003.

### ***Does the Board have a lead director?***

In February 2003, the Board of Directors approved the Corporate Governance Guidelines which designate the chairperson of the Nominating and Governance Committee as the lead director of the Board when our Chief Executive Officer also holds the position of Chairman of the Board. The lead director's primary responsibility is to preside over periodic executive sessions of the Board in which management directors and other members of management do not participate. In April 2003, Mr. Callahan was appointed President and Chief Executive Officer and Dr. Mitsch was appointed Non-Executive Chairman of the Board. Accordingly, Dr. Mitsch presides over the executive sessions of the Board.

### ***How are directors compensated?***

Effective April 17, 2002, each non-employee director receives (1) an annual retainer of \$30,000, (2) \$1,000 per meeting for attendance at Board meetings or Board committee meetings (other than Audit Committee meetings), (3) \$1,500 per meeting for attendance at Audit Committee meetings, (4) \$10,000 per year for chairing the Audit Committee, (5) \$5,000 per year for chairing the Compensation and Organization Committee or the Nominating and Governance Committee, (6) \$1,000 per meeting for special telephonic meetings and (7) reimbursement for normal travel expenses. In response to market conditions, the Board determined that it was necessary and appropriate to increase the fee for chairing the Audit Committee from \$5,000 to \$10,000, increase the fee for chairing the Compensation and Organization Committee and Nominating and Governance Committee from \$3,000 to \$5,000, increase the per meeting fee for the Audit Committee from \$1,000 to \$1,500 and increase the per meeting fee for special telephonic meetings from \$500 to \$1,000. The annual retainer is paid in cash, shares of common stock, deferred stock units entitling such non-employee director to receive common stock at a future date or any combination thereof based on the preference of the director.

Each eligible non-employee director also receives an incentive stock option grant, having a fair market value on the date of grant equal to \$40,000, under the 2001 Compensation Plan for Non-Employee Directors.

Mr. Heizer, who will become a director emeritus at our annual meeting, will be paid one-third of the annual retainer and all regular meeting fees for those meetings attended in person. Mr. Heizer will not be awarded incentive stock options.

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**CORPORATE GOVERNANCE**

We operate within a comprehensive plan of corporate governance for the purpose of defining responsibilities, setting high standards of professional and personal conduct and assuring compliance with such responsibilities and standards. We regularly monitor developments in the area of corporate governance. In July 2002, Congress passed the Sarbanes-Oxley Act of 2002 which, among other things, establishes, or provides the basis for, a number of new corporate governance standards and disclosure requirements. In addition, the New York Stock Exchange has proposed changes to its corporate governance and listing requirements. Many of the requirements of the Sarbanes-Oxley Act and the proposed NYSE listing standards are subject to final SEC action, and therefore, had not yet become effective (or, in some cases, their transitional provisions had not yet expired) as of the date of this proxy statement. Nevertheless, the Board of Directors has initiated actions consistent with certain of the proposed rules.

Although we have historically followed many of the standards enumerated by the Sarbanes-Oxley Act and proposed NYSE listing standards, we have taken further steps to implement voluntarily many of the new rules and proposed listing standards. In particular, we have:

- amended the charters for our Audit Committee and Compensation and Organization Committee, copies of which are attached to this proxy statement as Exhibit A and Exhibit B, respectively;
- established a new Nominating and Corporate Governance Committee and adopted a charter for this committee, a copy of which is attached to this proxy statement as Exhibit C;
- adopted Corporate Governance Guidelines, a copy of which are attached to this proxy statement as Exhibit D; and
- amended our Code of Business Conduct and Ethics.

To better align the interests of our shareowners with our directors and executive officers, we also require each director and executive officer to own a specified percentage of our common stock pursuant to a program established in 1999. Our Compensation and Organization Committee oversees this program.



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**AUDIT COMMITTEE REPORT**

The Audit Committee operates under a written charter adopted by the Board of Directors. A copy of the Audit Committee Charter, as amended by the Board on April 17, 2003, is attached to this proxy statement as Exhibit A. The Board has determined that each member of the Audit Committee is independent as defined by new SEC rules and current and proposed NYSE listing standards.

The members of the Audit Committee are not professionally engaged in the practice of accounting or auditing and are not experts in the fields of accounting or auditing. The Audit Committee relies, without independent verification, on the information provided to it and on the representations made by management and the independent public accountant that MSC's financial statements have been prepared in conformity with accounting principles generally accepted in the United States.

In overseeing the preparation of the financial statements of MSC, the Audit Committee met with management to review and discuss MSC's audited financial statements prior to their issuance and to discuss significant accounting issues.

The Audit Committee has discussed with its independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committee), as amended.

In addition, the Audit Committee has received the written disclosures and the letter from its independent auditors required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with the independent auditors their independence. The Audit Committee has also reviewed the non-audit services provided by the independent auditors, and considered whether the provision of those services was compatible with maintaining the independence of the auditors.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements of MSC be included in its Annual Report on Form 10-K for the fiscal year ended February 28, 2003, and be filed with the Securities and Exchange Commission.

**Material Sciences Corporation Audit Committee**

Mr. Curtis G. Solsvig, III, Chairperson

Mr. G. Robert Evans

Mr. E.F. Heizer, Jr.

Dr. Mary P. Quin

**INDEPENDENT AUDITORS**

**Fees Paid to Independent Auditors**

The following table sets forth the amount of fees billed by Deloitte & Touche LLP, our independent auditors, for the fiscal year ended February 28, 2003.

	<b>2003</b>
<b>Audit</b>	\$245,000
<b>Audit Related</b>	87,500
<b>Tax</b>	417,650
<b>All Other Fees</b>	10,000
<b>Total Fees</b>	760,150

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Our former independent public accountant, Arthur Andersen LLP, performed services for us in fiscal 2003 related to the fiscal 2002 audit and tax compliance for which we were billed an aggregate of \$139,408.

### **Pre-Approval of Services by Independent Auditors**

The Audit Committee has adopted a pre-approval policy for the provision of audit and non-audit services by our independent auditors. Pursuant to this policy, which was implemented in December 2002, the Audit Committee approves on an annual basis all audit and permissible non-audit services provided by our independent auditors and all related fees. The Audit Committee chairperson or any other two members can approve audit and non-audit services required in the absence of a quorum of the Audit Committee. In limited and exceptional circumstances, MSC may engage our independent auditors to perform non-audit services without pre-approval, so long as the aggregate amount of such services does not exceed \$10,000, the services were not recognized to be non-audit services at the time of the engagement and the services and fees are promptly brought to the attention of the Audit Committee and approved by either the Audit Committee, the Audit Committee chairperson or any other two members of the Audit Committee before completion of our audit.

In making its recommendation to appoint Deloitte & Touche LLP, as our independent auditors for the fiscal year ending February 28, 2003, the Audit Committee determined that the non-audit services provided by Deloitte & Touche LLP are compatible with maintaining the independence of Deloitte & Touche LLP.

### **Attendance of Independent Auditors at Annual Meeting**

Representatives of Deloitte & Touche LLP are expected to be present at the annual meeting, will have the opportunity to make a statement if they wish to do so and will be available to respond to appropriate questions.

### **Change of Independent Public Accountant in Fiscal 2003.**

The Audit Committee annually considers the selection of our independent public accountant. On May 20, 2002, the Audit Committee decided to dismiss Arthur Andersen LLP as MSC's independent public accountant and to engage Deloitte & Touche LLP to serve as MSC's independent public accountant for fiscal 2003.

Arthur Andersen LLP's reports on MSC's consolidated financial statements for fiscal years 2002 and 2001 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. During MSC's fiscal years 2002 and 2001 and through May 20, 2002, there were no disagreements with Arthur Andersen LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Arthur Andersen LLP's satisfaction, would have caused them to make reference to the subject matter in connection with their report on MSC's consolidated financial statements for such years; and there were no reportable events, as defined in Item 304(a)(1)(v) of Regulation S-K. MSC provided Arthur Andersen LLP with a copy of the foregoing disclosures in May 2002 and Arthur Andersen LLP stated its agreement with such statements.

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During MSC's fiscal years 2002 and 2001 and through May 20, 2002, MSC did not consult Deloitte & Touche LLP with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on MSC's consolidated financial statements, or any other matters or reportable events listed in Items 304(a)(2)(i) and (ii) of Regulation S-K.

**Table of Contents****COMPENSATION OF EXECUTIVE OFFICERS****Summary Compensation Table**

The following table discloses compensation received during the periods indicated by our Chairman, President and Chief Executive Officer and four other highest compensated executive officers during fiscal 2003.

Names and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation Awards		
		Salary (\$)	EVA and Other Incentives (\$)	Other Annual Compensation (\$)(1)	Above Market Stock Award(s) (#)(2)	Securities Underlying Options (#)	All Other Compensation (\$)(3)
G. G. Nadig	2003	502,000	208,780	12,000		330,030(12)	14,922
Chairman, President and Chief Executive Officer (CEO)	2002	485,000		12,000	86,800(7)		13,197
(resigned April 17, 2003)	2001	470,000		12,000	52,000(8)		12,674
J. J. Waclawik, Sr.	2003	211,000	106,455(6)	16,057		64,788(12)	12,100
Vice President, Chief Financial Officer and Secretary (CFO)	2002	211,000		4,000	18,100(7)		60,979
	2001	192,400		20,000	13,000(10)		9,704
F. J. Lazowski, Jr.	2003	177,000	76,682(6)	8,774		27,487(12)	16,506
Senior Vice President, Human Resources	2002	177,000		9,156	10,700(7)		43,778
	2001	172,000(4)		8,852	6,100(8)		25,778
R. L. Millar, Jr.	2003	205,000	138,188(6)	36,980	1,000(9)	71,121(12)	13,392
President of Material Sciences Corporation, Engineered Materials and Solutions Group, Inc.	2002	180,375	66,743	28,586	20,700(11)		12,025
	2001	159,256	85,953	11,188	5,000(8)	2,100(13)	54,553
R.J. Mataya	2003	177,000(5)	52,467	12,000		23,869(12)	15,286
Vice President, Business Planning and Development	2002	171,000(5)		12,000	9,800(7)		24,034
	2001	161,000(5)		12,000	4,800(8)		12,895

- (1) Includes perquisites such as an automobile allowance, cash in lieu of vacation time per policy and other personal benefits paid to the executive.
- (2) As of February 28, 2003, the last day our fiscal year, the named executive officers held the number of shares of restricted stock, with a value based on the closing price of our common stock on such date (\$10.26), as follows: Mr. Nadig (86,800 shares/ \$890,568); Mr. Waclawik (18,100 shares/ \$185,706); Mr. Lazowski (10,700 shares/ \$109,782); Mr. Millar (19,900 shares/ \$204,174); and Mr. Mataya (9,800 shares/ \$100,548). If a dividend is paid on our common stock, the executive officers also receive dividends on their restricted stock.
- (3) In 2003, includes (a) matching contributions to the Savings and Investment Plan (Mr. Nadig \$6,702, Mr. Waclawik \$6,600, Mr. Lazowski \$6,246, Mr. Millar \$6,872 and Mr. Mataya \$6,600); and (b) payments to the Defined Contribution Plan (Mr. Nadig \$8,220, Mr. Waclawik \$5,500, Mr. Lazowski \$10,260, Mr. Millar \$6,520 and Mr. Mataya \$8,686).

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- (4) Includes deferred salary of \$12,900 in fiscal 2001 under our deferred compensation plan.
- (5) Includes deferred salary of \$16,000 in 2003, \$24,000 in fiscal 2002 and \$37,000 in fiscal 2001 under our deferred compensation plan.
- (6) Represents (a) EVA incentive payments (Mr. Waclawik \$76,455, Mr. Lazowski \$61,682 and Mr. Millar \$129,188) and (b) other incentive payments (Mr. Waclawik \$30,000, Mr. Lazowski \$15,000 and Mr. Millar \$9,000).

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- (7) Grant of restricted stock under the 2001 Long-Term Incentive/Leveraged Stock Awards Program at market value (\$8.70). The restrictions were removed on April 17, 2003 pursuant to Mr. Nadig's separation agreement.
- (8) Grant of restricted stock under the 2000 Long-Term Incentive/Leveraged Stock Awards Program at market value (\$14.00). The executive paid \$1.40 per share for the award. The restrictions were removed on February 28, 2003.
- (9) Represents shares of restricted stock granted under our Merit/Stock Exchange Program at market value (\$10.00) in lieu of all or a portion of the executive's merit increase for fiscal 2003. The restrictions were removed on February 28, 2003.
- (10) 11,800 shares of restricted stock were granted under the 2000 Long-Term Incentive/Leveraged Stock Awards Program at market value (\$14.00). The executive paid \$1.40 per share for the award. The restrictions were removed on February 28, 2003. 1,200 shares of restricted stock were granted under our Merit/Stock Exchange Program at market value (\$14.00) in lieu of all or a portion of the executive's merit increase for fiscal 2001. The restrictions were removed on February 28, 2001.
- (11) 15,400 shares of restricted stock were granted under the 2001 Long-Term Incentive/Leveraged Stock Awards Program at market value (\$8.70). The restrictions will be removed on February 29, 2004, assuming Mr. Millar is still employed with MSC. 4,500 shares of restricted stock were granted for compensation related to Mr. Millar's promotion in fiscal 2002 at market value (\$10.10). The restrictions will be removed on December 18, 2004, assuming Mr. Millar is still employed with MSC. 800 shares of restricted stock were granted under our Merit/Stock Exchange Program at market value (\$8.70) in lieu of all or a portion of Mr. Millar's merit increase for fiscal 2002. The restrictions were removed on February 28, 2002.
- (12) See Option Grants in Last Fiscal Year below.
- (13) Options granted in lieu of Mr. Millar's merit increase in fiscal 2001 at market value (\$14.00) under our Merit/Stock Exchange Program. The options vested immediately and expire on February 28, 2010.

**Option Grants in Last Fiscal Year**

The following table sets forth information with respect to option grants to the named executive officers listed in the Summary Compensation Table above during fiscal 2003:

Name	Number of Options Granted (1)	% of Total Options Granted to Employees in Fiscal Year	Exercise Price (\$/Share)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(5)	
					5%(\$)	10%(\$)
G.G. Nadig	330,030(1)	36.3	10.00	02/28/2007	911,812	2,014,066
J.J. Waclawik, Sr.	67,488(2)	7.4	10.00	02/29/2012	195,977	438,568
F.J. Lazowski, Jr.	27,487(3)	3.0	10.00	02/29/2012	84,404	191,408
R. L. Millar						