

Business Partnerships

SPARTECH CORPORATION

2ND QUARTER 1999 REPORT

Strategic Expansions



Product Transformations

COMMITTED TO GENERATING VALUE

New Alloy Plastics

Dear Fellow Shareholder:

We are pleased to report that SPARTECH Corporation again posted gains in sales and earnings for the second quarter of fiscal 1999, representing the Company's 30th consecutive quarter of increased year-over-year results. The following summarizes our 1999 interim results, which are presented in more detail in the financial summary section of this report:

Second Quarter Financial Highlights

- Sales were \$196.9 million...up 19% from 1998.
- Operating earnings totaled \$22.8 million...28% greater than 1998's \$17.8 million.
- Net earnings increased to \$11.1 million, or \$.38 per diluted share...approximately 25% greater than the \$8.9 million, or \$.31 per diluted share, reported in 1998.

First Half Financial Highlights

- Sales rose by 22% to \$364.7 million.
- Operating earnings increased to \$41.9 million... up 32% from 1998.
- Net earnings totaled \$20.3 million, or \$.70 per diluted share...28% greater than the \$15.9 million, or \$.56 per diluted share, reported for the first half of 1998.

Operational Review By Segment

Spartech Plastics, the Company's Extruded Sheet & Rollstock group, generated sales of \$125.4 million during the second quarter of 1999, as compared to \$121.1 million during the same period last year. Base volume increased by 7% during the second quarter, as a result of strong sales to the packaging and recreation & leisure markets, while the recent acquisition of Lustrо Plastics added another 5% to sales. Price and product mix changes had a negative 8% effect on sales during the quarter.

Operating margins for the Extruded Sheet & Rollstock unit improved to 11.6% in 1999 from the 11.1% recorded in the second quarter of 1998. Ongoing improvements in production efficiencies, coupled with volume increases at most Spartech Plastics plants, allowed the group to post record operating margins.

The Color & Specialty Compound group's sales increased 70% to \$57.1 million in the second quarter of 1999, including incremental revenues of approximately \$21.5 million generated by our 1998 acquisitions of Polycom Huntsman and Plasticolour. The unit's growth in base volume of 12% was partially offset by a 6% price/mix decline in sales dollars.

The Color & Specialty Compounds division continued its string of operating margin improvements, with 14.1% recorded in the second quarter of 1999 compared to 10.2% in 1998. A combination

of strong cost containment efforts and increased throughput in most plants, primarily related to the Polycom acquisition, drove the unit's margin improvement.

The Company's Molded & Profile Products segment generated \$14.4 million in sales and \$2.3 million in operating earnings for the quarter. The approximate 30% increase in both amounts, from the prior year, was primarily due to the October 1998 acquisition of Anjac-Doron.

Strategic Expansion

On May 4, 1999, SPARTECH entered into an agreement to acquire the net assets of Alltrista Corporation's Plastic Packaging Division—a well-established manufacturer of extruded sheet & rollstock packaging materials based in Muncie, Indiana. Alltrista's food packaging operation, with annual sales approaching \$30 million, will become part of our Spartech Plastics' segment, thereby increasing this group to 19 production facilities strategically located throughout North America.

This acquisition will (1) significantly increase our thin-gauge extrusion capacity, (2) broaden our product and service capabilities in the high-barrier, co-extruded rollstock market, and (3) add a state-of-the-art packaging technical laboratory to better serve our customers in this segment of the plastics industry. The purchase was completed -- with the Muncie operation being formally welcomed to Spartech's family of plastic processing companies -- on May 24, 1999.

Annual Meeting and Future Outlook

We appreciate the significant turnout at our recent Annual Shareholders' Meeting and the positive response given to the Company's new Pyramids of Productivity Earnings Enhancement effort. For a more detailed discussion on the Annual Meeting, including vote results, please see the back cover of this report.

As we look forward to the balance of 1999, we remain optimistic. Based upon the strength of our current backlog, benefits anticipated from our recently-announced acquisitions of Lustrо Plastics & Alltrista's Plastic Packaging Division, along with ongoing productivity improvement efforts, we expect our year-to-year earnings comparisons to continue favorable through the second half of fiscal 1999.



Bradley B. Buechler
Chairman, President and CEO



David B. Mueller
Executive V.P. and COO

May 27, 1999

Consolidated Balance Sheet

(Dollars in thousands)

	May 1, 1999 (Unaudited)	October 31, 1998
<u>Assets</u>		
Current Assets		
Cash	\$ 6,248	\$ 7,247
Receivables, net	107,517	91,631
Inventories	64,414	64,859
Prepayments and other	6,825	9,459
Total Current Assets	<u>185,004</u>	<u>173,196</u>
Property, Plant and Equipment, net	211,646	206,887
Goodwill	150,095	148,668
Other Assets	<u>6,493</u>	<u>4,558</u>
	<u>\$553,238</u>	<u>\$533,309</u>
<u>Liabilities and Shareholders' Equity</u>		
Current Liabilities		
Current maturities of long-term debt	\$ 8,960	\$ 8,948
Accounts payable	63,015	59,578
Accrued liabilities	29,464	32,466
Total Current Liabilities	<u>101,439</u>	<u>100,992</u>
Long-Term Debt, Less Current Maturities	200,226	245,272
Other Liabilities	<u>36,531</u>	<u>33,449</u>
Total Long-Term Liabilities	<u>236,757</u>	<u>278,721</u>
Convertible Preferred Securities	50,000	—
Shareholders' Equity	<u>165,042</u>	<u>153,596</u>
	<u>\$553,238</u>	<u>\$533,309</u>

Consolidated Statement of Operations

Periods ended May 1, 1999 and May 2, 1998

(Unaudited and dollars in thousands, except per share amounts)

	Three Months		Six Months	
	1999	1998	1999	1998
Sales	<u>\$196,937</u>	<u>\$165,707</u>	<u>\$364,738</u>	<u>\$298,788</u>
Costs and Expenses				
Cost of sales	161,871	137,789	299,475	248,390
Selling and administrative	11,285	9,368	21,410	17,529
Amortization of intangibles	1,001	709	1,998	1,250
	<u>174,157</u>	<u>147,866</u>	<u>322,883</u>	<u>267,169</u>
Operating Earnings	22,780	17,841	41,855	31,619
Interest	3,541	2,995	7,392	5,340
Distributions on Preferred Securities	<u>509</u>	<u>—</u>	<u>509</u>	<u>—</u>
Earnings Before Income Taxes	18,730	14,846	33,954	26,279
Income taxes	<u>7,625</u>	<u>5,983</u>	<u>13,692</u>	<u>10,395</u>
Net Earnings	<u>\$ 11,105</u>	<u>\$ 8,863</u>	<u>\$ 20,262</u>	<u>\$ 15,884</u>
Earnings Per Common Share:				
Basic	<u>\$.41</u>	<u>\$.33</u>	<u>\$.75</u>	<u>\$.60</u>
Diluted	<u>\$.38</u>	<u>\$.31</u>	<u>\$.70</u>	<u>\$.56</u>

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Annual Meeting Report

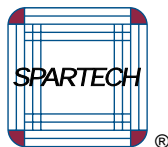


SPARTECH Corporation's 1999 Annual Meeting of Shareholders was held in St. Louis on March 10th, with approximately 125 shareholders in attendance. Of the Company's outstanding shares, more than 94 percent were represented, either in person or by proxy.

At the meeting, shareholders (1) elected three Class C Directors, Messrs. Ralph B. Andy, W.R. Clerihue, and Jackson W. Robinson, each to serve a three-year term and (2) ratified Management's selection of Arthur Andersen LLP as auditors of the Company for the 1999 fiscal year. All items received an affirmative vote of at least 99 percent.

Following the declaration of vote results, Bradley B. Buechler, President & CEO, reviewed fiscal year 1998 and first quarter 1999 results, discussed the Company's strategy for future growth, and then answered questions from the audience.

The meeting concluded with the announcement that W.R. (Ran) Clerihue would step down as Chairman of the Board, and Mr. Buechler would assume his responsibilities as Chairman on March 15, 1999.



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