

LAMSON & SESSIONS CO
Form 10-Q
May 01, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
F O R M 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 March 31, 2007

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 1-313

THE LAMSON & SESSIONS CO.

(Exact name of Registrant as specified in its charter)

Ohio

34-0349210

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

25701 Science Park Drive
Cleveland, Ohio

44122-7313

(Address of principal executive offices)

(Zip Code)

216/464-3400

(Registrant's telephone number, including area code)

(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 the Registrant is a large accelerated filer; an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

(Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of April 27, 2007 the Registrant had outstanding 15,848,270 common shares.

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CONSOLIDATED INCOME STATEMENTS (Unaudited)**

<i>(Dollars in thousands, except per share data)</i>	First Quarter Ended			
	2007		2006	
NET SALES	\$ 116,007	100.0%	\$ 135,401	100.0%
Cost of products sold	94,178	81.2%	104,418	77.1%
GROSS PROFIT	21,829	18.8%	30,983	22.9%
Selling and marketing expenses	8,428	7.3%	8,747	6.5%
General and administrative expenses	4,999	4.3%	5,706	4.2%
Research and development expenses	532	0.4%	585	0.4%
Total operating expenses	13,959	12.0%	15,038	11.1%
OPERATING INCOME	7,870	6.8%	15,945	11.8%
Interest expense, net	567	0.5%	1,117	0.8%
INCOME BEFORE INCOME TAXES	7,303	6.3%	14,828	11.0%
Income tax provision	2,751	2.4%	5,608	4.2%
NET INCOME	\$ 4,552	3.9%	\$ 9,220	6.8%
Net earnings per share:				
Basic	\$ 0.29		\$ 0.60	
Diluted	\$ 0.28		\$ 0.58	

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)

	First Quarter	Year	First
	Ended	Ended	Quarter
<i>(Dollars in thousands)</i>	2007	2006	Ended
	2007	2006	2006
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 1,464	\$ 3,324	\$ 2,438
Accounts receivable, net of allowances of \$1,975, \$1,625 and \$2,248, respectively	66,484	55,111	73,616
Inventories, net			
Raw materials	4,243	4,846	5,873
Work-in-process	4,792	5,198	6,057
Finished goods	43,701	38,447	43,159
	52,736	48,491	55,089
Deferred tax assets	8,499	9,054	10,928
Prepaid expenses and other	2,304	2,345	3,789
TOTAL CURRENT ASSETS	131,487	118,325	145,860
PROPERTY, PLANT AND EQUIPMENT			
Land	3,320	3,320	3,320
Buildings	24,829	25,436	25,552
Machinery and equipment	120,333	120,031	120,822
	148,482	148,787	149,694
Less allowances for depreciation and amortization	95,498	95,211	99,027
Total Net Property, Plant and Equipment	52,984	53,576	50,667
GOODWILL	21,402	21,402	21,441
PENSION ASSETS	13,848	13,605	34,696
DEFERRED TAX ASSETS	4,437	4,437	684
OTHER ASSETS	4,133	4,265	3,796
TOTAL ASSETS	\$ 228,291	\$ 215,610	\$ 257,144
LIABILITIES AND SHAREHOLDERS EQUITY			
CURRENT LIABILITIES			
Accounts payable	\$ 27,798	\$ 19,885	\$ 35,756
Accrued compensation and benefits	8,036	13,779	10,395
Customer volume & promotional accrued expenses	3,694	5,463	5,812
Other accrued expenses	8,578	5,999	8,449
Taxes	5,495	3,791	3,588

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Current maturities of long-term debt	16,305	13,829	5,775
TOTAL CURRENT LIABILITIES	69,906	62,746	69,775
LONG-TERM DEBT	7,005	7,131	60,140
POST-RETIREMENT BENEFITS AND OTHER LONG-TERM LIABILITIES	17,654	17,481	22,510
SHAREHOLDERS EQUITY			
Common shares	1,584	1,579	1,538
Other capital	102,209	101,230	95,196
Retained earnings	43,810	39,258	9,335
Accumulated other comprehensive income (loss)	(13,877)	(13,815)	(1,350)
Total Shareholders Equity	133,726	128,252	104,719
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 228,291	\$ 215,610	\$ 257,144

See notes to Consolidated Financial Statement (Unaudited)

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW (Unaudited)

<i>(Dollars in thousands)</i>	First Quarter Ended	
	2007	2006
OPERATING ACTIVITIES		
Net income	\$ 4,552	\$ 9,220
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and Amortization	2,320	2,245
Stock based compensation	831	1,505
Deferred income taxes	555	2,468
Net change in working capital accounts:		
Accounts receivable	(11,373)	(5,109)
Inventories	(4,245)	(11,102)
Prepaid expenses and other	41	(102)
Accounts payable	7,913	4,813
Accrued expenses and other current liabilities	(3,229)	(6,940)
Pension plan contributions	(74)	(480)
Other long-term items	71	15
CASH USED IN OPERATING ACTIVITIES	(2,638)	(3,467)
INVESTING ACTIVITIES		
Net additions to property, plant and equipment	(1,807)	(4,008)
CASH USED IN INVESTING ACTIVITIES	(1,807)	(4,008)
FINANCING ACTIVITIES		
Net borrowings under secured credit agreement	2,500	5,200
Payments on other long-term borrowings	(68)	(86)
Purchase and retirement of treasury stock (15,617 and 24,782 shares in 2007 and 2006, respectively)	(459)	(421)
Exercise of stock options (38,000 and 306,000 shares issued in 2007 and 2006, respectively)	303	1,452
Tax benefit from exercise of stock options	309	2,558
CASH PROVIDED BY FINANCING ACTIVITIES	2,585	8,703
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,860)	1,228
Cash and cash equivalents at beginning of year	3,324	1,210
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,464	\$ 2,438

See notes to Consolidated Financial Statements (Unaudited)

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**THE LAMSON & SESSIONS CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

NOTE A BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and changes in accounting estimates) considered necessary for a fair presentation have been included. Certain 2006 amounts have been reclassified to conform with 2007 classifications.

NOTE B INCOME TAXES

The year-to-date 2007 income tax provision was calculated based on management's estimate of the annual effective tax rate of 37.7% for the year compared with the annual effective tax rate of 36.9% in 2006.

The Company adopted the provisions of FASB Interpretation No. 48, (FIN 48) Accounting for Uncertainty in Income Taxes, on December 31, 2006. There was no material effect realized from implementation. At December 31, 2006, the Company had \$1.2 million in unrecognized tax benefits, the recognition of which would have an effect of \$1.0 million on the effective tax rate. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the first quarters of 2007 and 2006 these amounts are immaterial. As of December 31, 2006 the Company is subject to U.S. Federal income tax examinations for the tax years 2004 through 2006, and to non-U.S. income tax examinations for the tax years of 2002 through 2006. In addition, the Company is subject to various state and local income tax examinations for the tax years 2001 through 2006. There were no significant changes to any of these amounts during the first quarter 2007.

NOTE C BUSINESS SEGMENTS

The Company's reportable segments are as follows:

Carlson Industrial, Residential, Commercial, Telecommunications and Utility Construction: The major customers served are electrical contractors and distributors, original equipment manufacturers, electric power utilities, cable television (CATV), telephone and telecommunications companies. The principal products sold by this segment include electrical and telecommunications raceway systems and a broad line of enclosures, electrical outlet boxes and fittings. Examples of the applications for the products included in this segment are multi-cell duct systems and High Density Polyethylene (HDPE) conduit designed to protect underground fiber optic cables, allowing future cabling expansion and flexible conduit used inside buildings to protect communications cable.

Lamson Home Products Consumer: The major customers served are home centers and mass merchandisers for the do-it-yourself (DIY) home improvement market. The products included in this segment are electrical outlet boxes, liquidtight conduit, electrical fittings, door chimes and lighting controls.

PVC Pipe: This business segment primarily supplies electrical, power and communications conduit to the electrical distribution, telecommunications, consumer, power utility and sewer markets. The electrical and telecommunications conduit is made from polyvinyl chloride (PVC) resin and is used to protect wire or fiber optic cables supporting the infrastructure of power or telecommunications systems.

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE C BUSINESS SEGMENTS (Continued)

<i>(Dollars in thousands)</i>	First Quarter Ended	
	2007	2006
Net Sales		
Carlton	\$ 55,213	\$ 64,056
Lamson Home Products	30,940	26,979
PVC Pipe	29,854	44,366
	\$ 116,007	\$ 135,401
 Operating Income (Loss)		
Carlton	\$ 6,837	\$ 7,690
Lamson Home Products	6,525	2,568
PVC Pipe	(2,990)	8,952
Corporate Office	(2,502)	(3,265)
	\$ 7,870	\$ 15,945
 Depreciation and Amortization		
Carlton	\$ 805	\$ 847
Lamson Home Products	470	428
PVC Pipe	1,045	970
	\$ 2,320	\$ 2,245

Total assets by business segment at March 31, 2007, December 30, 2006 and April 1, 2006 are as follows:

<i>(Dollars in thousands)</i>	March 31, 2007	December 30, 2006	April 1, 2006
Identifiable Assets			
Carlton	\$ 88,593	\$ 81,833	\$ 92,969
Lamson Home Products	48,471	44,019	42,069
PVC Pipe	56,723	52,911	66,065
Corporate Office (includes deferred tax and pension assets)	34,504	36,847	56,041
	\$ 228,291	\$ 215,610	\$ 257,144

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE D COMPREHENSIVE INCOME

The components of comprehensive income for the first quarters of 2007 and 2006 are as follows:

<i>(Dollars in thousands)</i>	First Quarter Ended	
	2007	2006
Net income	\$ 4,552	\$ 9,220
Foreign currency translation adjustments	(62)	30
Comprehensive income	\$ 4,490	\$ 9,250

The components of accumulated other comprehensive income (loss), at March 31, 2007, December 30, 2006 and April 1, 2006 are as follows:

<i>(Dollars in thousands)</i>	March 31, 2007	December 30, 2006	April 1, 2006
Foreign currency translation adjustments	\$ (422)	\$ (360)	\$ (254)
Pension and Other Benefits	(13,455)	(13,455)	(1,096)
Accumulated other comprehensive income (loss)	\$ (13,877)	\$ (13,815)	\$ (1,350)

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE E EARNINGS PER SHARE CALCULATION

The following table sets forth the computation of basic and diluted earnings per share:

<i>(Dollars and shares in thousands, except per share amounts)</i>	First Quarter Ended	
	2007	2006
Basic Earnings-Per-Share Computation		
Net Income	\$ 4,552	\$ 9,220
 Average Common Shares Outstanding	 15,725	 15,318
 Basic Earnings Per Share	 \$ 0.29	 \$ 0.60
Diluted Earnings-Per-Share Computation		
Net Income	\$ 4,552	\$ 9,220
 Basic Shares Outstanding	 15,725	 15,318
Stock Based Awards Calculated Under the Treasury Stock Method	517	683
 Total Shares	 16,242	 16,001
 Diluted Earnings Per Share	 \$ 0.28	 \$ 0.58

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE F PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

The Company sponsors several qualified and non-qualified pension plans and other post-retirement benefit plans for its current and former employees. As of January 1, 2003 the Company eliminated the salary defined benefit pension plan for future employees. This action makes all defined benefit pension and other post-retirement benefit plans closed to new entrants and will reduce future service costs.

The components of net periodic benefit cost (income) are as follows:

<i>(Dollars in thousands)</i>	First Quarter Ended			
	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Service cost	\$ 391	\$ 349	\$	\$
Interest cost	1,388	1,306	111	183
Expected return on assets	(1,821)	(1,774)		
Net amortization and deferral	235	324	(210)	(74)
Defined contribution plans	330	288		
	\$ 523	\$ 493	\$ (99)	\$ 109

NOTE G ASSERTED AND UNASSERTED CLAIMS

From time to time the Company incurs product related claims that are incidental to the business. In the first quarter the Company became aware of certain product asserted and unasserted claims. The Company has accrued its best estimate of the known asserted claims. We are unable to estimate an additional range of loss in excess of our accruals due to the uncertainty inherent in the estimation process. It is at least reasonably possible that actual costs will differ from estimates, but based upon information presently available, such future costs are not expected to have a material adverse effect on our financial position or our ongoing results of operations. However, such costs could be material to results of operations in a future period.

NOTE H STOCK COMPENSATION PLANS

The Company granted 62,000 Stock Appreciation Rights with an exercise price of \$30.23 and 31,475 shares of restricted stock to associates and directors in the first quarter 2007. Total stock compensation expense recorded in the first quarter 2007 was \$0.8 million compared with \$1.5 million in the first quarter 2006. Included in these charges was approximately \$0.4 million and \$1.2 million in the first quarter 2007 and 2006, respectively, of stock compensation that was required to be expensed immediately as the associates are retirement-eligible. As of March 31, 2007 there was \$3.2 million of total unrecognized compensation cost related to non-vested share based compensation, which is expected to be recognized over a weighted average period of 1.5 years.

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Item 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company's consolidated results of operations and financial condition. The discussion should be read in conjunction with the Consolidated Financial Statements.

Executive Overview

In the first quarter 2007, the Company had \$116.0 million in net sales, a decline of \$19.4 million compared with the first quarter 2006. This was primarily a result of declining unit selling prices in the PVC Pipe business segment and some decline in electrical product shipments as inventories were reduced in the distribution channel and due to the effects of a slowdown in residential new home construction.

The cost of PVC pipe resin and HDPE resins have fallen significantly (PVC compounds to a lesser degree) since the very high levels in the first quarter of 2006. Consequently, PVC pipe and HDPE conduit selling prices have reflected this decline. This decline has caused, in the PVC Pipe segment, a dramatic narrowing of spreads between the selling price of PVC conduit and the cost of PVC pipe resin, lowering the segment's operating results by almost \$12.0 million compared with the first quarter 2006. By the end of the first quarter 2007, however, PVC pipe resin costs have begun to increase due to feedstock cost increases and improving demand.

The Lamson Home Products segment had increased volume of electrical product shipments to certain retail home improvement customers as the customers replenished inventory levels and the Company gained market share.

In summary, net income declined to \$4.6 million in the first quarter 2007 compared with \$9.2 million in the first quarter 2006, resulting in \$0.28 diluted earnings per share in the current quarter versus \$0.58 diluted earnings per share in the prior year quarter.

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The following table sets forth, for the periods indicated, items from the Consolidated Income Statements as a percentage of net sales for the first quarter ended 2007 and 2006:

<i>(Dollars in thousands)</i>	First Quarter Ended			
	2007		2006	
Net Sales	\$ 116,007	100.0%	\$ 135,401	100.0%
Cost of products sold	94,178	81.2%	104,418	77.1%
Gross profit	21,829	18.8%	30,983	22.9%
Total operating expenses	13,959	12.0%	15,038	11.1%
Operating income	7,870	6.8%	15,945	11.8%
Interest expense, net	567	0.5%	1,117	0.8%
Income before income taxes	7,303	6.3%	14,828	11.0%
Income tax provision	2,751	2.4%		