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LAMSON & SESSIONS CO
Form 10-K
March 07, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED JANUARY 1, 2005

COMMISSION FILE NUMBER 1-313

THE LAMSON & SESSIONS CO.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

OHIO

34-0349210

(STATE OF INCORPORATION)

(I.R.S. EMPLOYER IDENTIFICATION NO.)

25701 SCIENCE PARK DRIVE, CLEVELAND, OHIO 44122

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

216-464-3400

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS

NAME OF EACH EXCHANGE ON WHICH
REGISTERED

COMMON SHARES, WITHOUT PAR VALUE

NEW YORK STOCK EXCHANGE
PACIFIC STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

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 [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the

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best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K []

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [X] No []

The aggregate market value of the voting stock held as of July 3, 2004 (the last trading day of the Company's fiscal 2004 second quarter) by non-affiliates of the Registrant was \$113,647,372, based on the close price of \$8.25 on the New York Stock Exchange.

As of February 4, 2005 the Registrant had outstanding 13,894,213 common shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on April 29, 2005 are incorporated by reference into Part III of this report.

THE LAMSON & SESSIONS CO.

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FOR THE FISCAL YEAR ENDED JANUARY 1, 2005

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PART I

ITEM 1. BUSINESS

The Lamson & Sessions Co., an Ohio corporation, (the "Company" or "Lamson & Sessions"), founded in 1866, is a diversified manufacturer and distributor of a broad line of thermoplastic electrical, consumer, telecommunications and engineered sewer products for major domestic markets. The markets for thermoplastic electrical conduit, related fittings and accessories, wiring devices and sewer pipe include: the construction, utility and telecommunications industries, municipalities, other government agencies, and contractors; and "do-it-yourself" home remodelers.

PRINCIPAL PRODUCTS AND MARKETS

The Company is engaged in the manufacture and distribution of a broad line of thermoplastic electrical, telecommunications and engineered sewer products. In addition, the Company distributes a wide variety of consumer electrical wiring devices, home security devices, wireless electrical and other wireless products.

All of the Company's thermoplastic electrical products compete with and serve as substitutes for similar metallic products. The Company's thermoplastic electrical products offer several advantages over these other products. Specifically, non-metallic electrical and telecommunications conduit and related fittings and accessories are generally less expensive, lighter and easier to install than metallic products. They do not rust, corrode or conduct electricity. Thermoplastics, either polyvinyl chloride (PVC) or high density polyethylene (HDPE), are the materials of choice to protect fiber optic cable.

Three business segments serve specific markets, each of which has unique product and marketing requirements. These markets are:

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 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 PVC resin and is used to protect wire or fiber optic cables supporting the infrastructure of power or telecommunications systems.

A breakdown of net sales as a percent of total net sales by major business segments for 2004, 2003 and 2002 is as follows:

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(Dollars in thousands)	2004		2003		2002	
Carlton	\$183,800	48%	\$154,090	45%	\$149,037	48%
Lamson Home Products	86,510	22%	81,514	24%	69,440	22%
PVC Pipe	116,829	30%	104,883	31%	93,952	30%
	\$387,139	100%	\$340,487	100%	\$312,429	100%
	=====	=====	=====	=====	=====	=====

See discussion of business segments' results in Note L to the consolidated financial statements.

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COMPETITION

Each of the three segments in which the Company presently operates is highly competitive based on service, price and quality. Most of the competitors are either national or smaller regional manufacturers who compete with limited product offerings. Unlike a majority of the Company's competitors, the Company manufactures a broad line of thermoplastic products, complementary fittings and accessories. The Company believes that with its breadth of product line and investment in information technology infrastructure, it will continue to compete favorably. However, certain of the Company's competitors have greater financial resources than the Company, which occasionally can adversely affect the Company through price competition strategies in selected products and markets.

DISTRIBUTION

The Company distributes its products through a nationwide network of more than 108 manufacturers' representatives and a direct field sales force of approximately 23.

RAW MATERIALS

The Company is a large purchaser of pipe grade PVC and HDPE resins. The Company has entered into long-term supply contracts for PVC resin. PVC resin producers are operating at near capacity with no substantial net capacity additions planned in the next couple of years. Sustained demand and high energy costs are expected to support historically high resin costs for the foreseeable future. The Company is generally able to pass through these raw material cost increases, in its Carlton and PVC Pipe Business Segments, depending on the end-market strength. HDPE is purchased by the Company from various sources and has historically been readily available.

PATENTS AND TRADEMARKS

The Company owns various patents, patent applications, licenses, trademarks and trademark applications relating to its products and processes. While the Company considers that, in the aggregate, its patents, licenses and trademarks are of importance in the operation of its business, it does not consider that any individual patent, license or trademark, or any technically-related group, is of such importance that termination would materially affect its business.

SEASONAL FACTORS

Two of the Company's three business segments experience moderate seasonality caused principally by a decrease in construction activity during the winter months. They are subject also to the economic cycles affecting the residential, commercial, industrial and telecommunications construction markets. The Company's consumer products business segment is affected by existing home sales, consumer spending and consumer confidence.

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MAJOR CUSTOMERS

Sales to Affiliated Distributors, a cooperative buying group reported within the Carlon and PVC Pipe segments not otherwise affiliated with the Company, totaled approximately 11.0% of consolidated net sales in 2004, 14.0% of consolidated net sales in 2003, and 15.0% of consolidated net sales in 2002. Sales to Home Depot, a customer of the Lamson Home Products segment not otherwise affiliated with the Company, totaled approximately 10.2% of consolidated net sales in 2003.

BACKLOG

In the Company's three business segments, the order-to-delivery cycle ranges from several days to a few weeks. Therefore, the measurement of backlog is not a significant factor in the evaluation of the Company's prospects.

RESEARCH AND DEVELOPMENT

The Company is engaged in product development programs, which concentrate on identifying, creating and introducing innovative applications for thermoplastic and wireless electrical products. The Company maintains a material testing lab and development center in its Cleveland, Ohio headquarters to facilitate this effort and

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to improve manufacturing processes. The Company's research and development expenditures totaled \$2.2 million, \$1.9 million and \$2.2 million in 2004, 2003 and 2002, respectively.

ENVIRONMENTAL REGULATIONS

The Company believes that its current operations and its use of property, plant and equipment conform in all material respects to applicable environmental laws and regulations presently in effect. The Company has facilities at numerous geographic locations, which are subject to a range of federal, state and local environmental laws and regulations. Compliance with these laws has, and will, require expenditures on a continuing basis. See also Note F to the Consolidated Financial Statements.

ASSOCIATES

At January 1, 2005, the Company had 1,189 associates, 1,004 of whom were employed at the Company's manufacturing facilities and distribution centers. The remainder of associates were primarily employed at the Company's corporate headquarters.

FOREIGN OPERATIONS

The net sales, operating earnings and assets employed outside the United States are not significant. Export sales were approximately 4.6% of consolidated net sales in 2004, and 3.0% of consolidated net sales in 2003 and 2002, respectively, and were made principally to customers in Canada and the Caribbean.

The Company files annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports and other information with the Securities and Exchange Commission ("SEC"). The public can obtain copies of these materials by visiting the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20549, by calling the SEC at 1-800-SEC-0330, or by accessing the SEC's Web site at <http://www.sec.gov>. In addition, as soon as reasonably practicable, after such materials are filed with or furnished to the SEC, the Company makes copies available to the public, free of charge, on or through its Web site at <http://www.lamson-sessions.com>.

ITEM 2. PROPERTIES

The Company owns (O) or leases (L) manufacturing and distribution facilities,

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which are suitable and adequate for the production and marketing of its products. The Company owns a building which houses its executive and administrative offices (located in Cleveland, Ohio), which occupy 68,000 square feet in a suburban office complex. The following is a list of the Company's manufacturing and distribution center locations:

MANUFACTURING FACILITIES	APPROXIMATE SQUARE FEET
Woodland, California(O)	71,000
High Springs, Florida(O)	110,000
Tennille, Georgia(O)	41,000
Clinton, Iowa(O)	124,000
Mountain Grove, Missouri(O)	36,000
Bowling Green, Ohio(O)	67,000
Oklahoma City, Oklahoma(O)	172,000
Nazareth, Pennsylvania(O)	61,000
Erie, Pennsylvania(L)	56,000
Cranesville, Pennsylvania(L)	10,000
DISTRIBUTION CENTERS	
Columbia, South Carolina(L)	350,000
Woodland, California(L)	127,000
Fort Myers, Florida(O)	4,000

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The above manufacturing facilities were operated at approximately 72.0% of their productive capacity during 2004.

ITEM 3. LEGAL PROCEEDINGS

On September 23, 1999, the Company announced that a United States District Court jury in the Northern District of Illinois found that the Company willfully infringed on a patent held by Intermatic Incorporated ("Intermatic") of Spring Grove, Illinois, relating to the design of an in-use weatherproof electrical outlet cover, and awarded Intermatic \$12.5 million in damages plus pre-judgment interest of approximately \$1.5 million. The Company pursued a vigorous appeal and on December 17, 2001 the United States Court of Appeals ruled that, as a matter of law, Lamson & Sessions' products did not infringe Intermatic's patent and that the Company has no liability to Intermatic. The trial jury's earlier verdict in favor of Intermatic in the amount of \$12.5 million, plus pre-judgment and post-judgment interest estimated to be in excess of \$3.0 million, was reversed. Intermatic filed for a rehearing of the ruling to the Court of Appeals en banc, which was denied. Intermatic then filed a petition for certiorari with the United States Supreme Court. The United States Supreme Court reversed the decision of the Court of Appeals and remanded the case back to it. In March 2003, the Court of Appeals remanded this litigation back to the United States District Court for reconsideration. On September 17, 2004, the Company announced the settlement of this litigation arrived at through a mediation process. The net effect (\$1.7 million) of that settlement has been reflected in the 2004 operating results.

The Company is also a party to various other claims and matters of litigation incidental to the normal course of its business. Management believes that the final resolution of these matters will not have a material adverse effect on the Company's financial position, cash flows or results of operations.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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EXECUTIVE OFFICERS OF THE REGISTRANT

JOHN B. SCHULZE
Chairman, President and Chief Executive Officer

Executive Officer since January 1988. Age 67.

JAMES J. ABEL
Executive Vice President, Secretary, Treasurer and Chief Financial Officer

Executive Officer since December 1990. Age 58.

NORMAN E. AMOS
Vice President

Executive Officer since February 21, 2001. Vice President Supply Chain Management since August 1, 2000. Manager, Transportation and Logistics with Xerox Corporation July 1995 - July 2000. Age 59.

ALBERT J. CATANI, II
Vice President

Executive Officer since February 27, 1997. Vice President, Manufacturing since August 1995. Age 57.

EILEEN E. CLANCY
Vice President

Executive Officer since January 2, 2002. Vice President, Human Resources since January 2, 2002. Director of Human Resources Development, December 1995 - December 2001. Age 54.

DONALD A. GUTIERREZ
Senior Vice President

Executive Officer since February 26, 1998. Senior Vice President since February 21, 2001. Vice President, Carlson since March 1998. Age 47.

CHARLES W. HENNON
Vice President

Executive Officer since February 25, 1999. Vice President and Chief Information Officer since April 1998. Manager, Business Support Services with Ferro Corporation, 1993 - April 1998. Age 59.

LORI L. SPENCER
Vice President

Executive Officer since February 27, 1997. Vice President and Controller since August 1997. Age 46.

NORMAN P. SUTTERER
Senior Vice President

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Executive Officer since February 29, 1996. Senior Vice President since February 18, 2003. Vice President, Lamson Home Products since March 1998. Age 55.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on the New York Stock Exchange and the Pacific Stock Exchange. High and low close prices for the Common Stock are included in Note N to the Consolidated Financial Statements. No dividends were paid in 2004, 2003 or 2002. The approximate number of shareholders of record of the Company's Common Stock at January 1, 2005 was 1,224.

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ITEM 6. SELECTED FINANCIAL DATA FIVE-YEAR CONSOLIDATED FINANCIAL SUMMARY

	FISCAL YEARS ENDED			
(Dollars in thousands except per share data, associates and percentages)	2004	2003	2002	2001
<hr style="border-top: 1px dashed black;"/>				
OPERATIONS:				
NET SALES(3)	\$387,139	\$340,487	\$312,429	\$350,9
OPERATING INCOME(1)	17,669	14,658	18,509	6,1
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	9,744	6,131	8,926	(5,4
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	6,148	3,740	5,026	(3,8
Income (loss) from discontinued operations, net of income taxes	401	(2,738)	--	
Cumulative effect of change in accounting principle, net of income taxes	--	--	(46,250)	
NET INCOME (LOSS)	\$ 6,549	\$ 1,002	\$ (41,224)	\$ (3,8
<hr style="border-top: 1px dashed black;"/>				
BASIC EARNINGS (LOSS) PER COMMON SHARE:				
Earnings (Loss) from continuing operations before change in accounting principle	\$ 0.45	\$ 0.27	\$ 0.36	\$ (0.
Earnings (Loss) from discontinued operations, net of tax	\$ 0.03	\$ (0.20)	--	
Cumulative effect of change in accounting principle, net of tax	--	--	\$ (3.36)	
NET EARNINGS (LOSS)	\$ 0.47	\$ 0.07	\$ (2.99)	\$ (0.
<hr style="border-top: 1px dashed black;"/>				
DILUTED EARNINGS (LOSS) PER COMMON SHARE:				
Earnings (Loss) from continuing operations before change in accounting principle	\$ 0.43	\$ 0.27	\$ 0.36	\$ (0.
Earnings (Loss) from discontinued operations, net of tax	\$ 0.03	\$ (0.20)	--	
Cumulative effect of change in accounting principle, net of tax	--	--	\$ (3.36)	
NET EARNINGS (LOSS)	\$ 0.46	\$ 0.07	\$ (2.99)	\$ (0.

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YEAR-END FINANCIAL POSITION:

Current Assets	\$100,745	\$ 81,377	\$ 84,764	\$ 94,0
Total Assets	218,502	208,313	213,705	273,8
Current Liabilities(2)	131,112	57,026	64,112	62,8
Long-Term Debt(2)	11,876	82,990	84,350	104,2
Other Long-Term Liabilities	30,138	29,782	29,067	25,4
Shareholders' Equity	45,376	38,515	36,176	81,2

STATISTICAL INFORMATION:

Number of associates	1,189	1,122	1,116	1,1
Market price per share	\$ 9.10	\$ 5.50	\$ 3.40	\$ 5.
Market capitalization	\$126,371	\$ 75,829	\$ 46,844	\$ 72,1
Gross profit as a % of net sales	16.4%	15.9%	19.2%	17
Total operating expenses as a % of net sales	11.4%	11.6%	13.3%	14
Operating income as a % of net sales	4.5%	4.3%	5.9%	1

-
- (1) In 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which eliminated the amortization of goodwill. Operating expenses in 2001 and 2000 include \$4,605 and \$971 in goodwill amortization, respectively.
 - (2) In 2004, the Company's Secured Credit Agreement of \$75 million was classified as current as it matures in August 2005. (See Note C to the Consolidated Financial Statements.)
 - (3) Net sales were reduced for the reclassification of service commissions and co-operative advertising paid to certain retail customers in accordance with Emerging Issues Task Force (EITF) 01-9. There was no impact on net income (see Note A to the Consolidated Financial Statements.)

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

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 and footnotes.

EXECUTIVE OVERVIEW

The year 2004 was characterized by revenue growth across all segments of the business. The most encouraging of these increases came in the 25.0% growth in net sales of the Company's telecom products. After three years of declining demand, there are signs that the major telecommunications companies are beginning to reinvest to support Fiber-to-the-Premise projects. This activity was strong all year even through the typically slower fourth quarter of 2004.

The Company's foremost challenge in 2004 came from rising resin costs, both PVC and HDPE, which were supported by high oil and gas prices, restrained supplies and a robust global and domestic end-market. Both the Carlon and PVC Pipe business segments were able to partially offset these higher costs with price increases throughout 2004, however, Lamson Home Products was unable, in 2004, to obtain any price increases from its retail customers.

Transportation costs and availability, especially flatbeds, have become a

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significant concern in 2004 with the increased economic activity, higher fuel costs, regulatory changes, driver shortages and the lack of investment in new equipment by carriers. The Company has worked throughout 2004 to develop tactical logistic alternatives to ensure customer service, but has also experienced higher freight rates that are not expected to ease anytime soon.

In September 2004 the Company settled its patent infringement litigation as a result of a mediation process. In connection with the settlement, the Company recorded a net charge of \$1.7 million (see also Note E).

During 2004 the Company was able to rationalize some of its manufacturing capacity by selling its Pasadena, Texas facility. Most of the production equipment was moved to the Clinton, Iowa facility. The net expense for the sale of this facility and relocation of production equipment and termination of employees (\$213,000) are included in other expenses (see also Note M).

Late in the first quarter of 2004, the Company was notified that YSD Industries, Inc. ("YSDI"), a business the Company sold in 1988, was selling the assets of the business and would be unable to fund certain post-retirement medical and life insurance benefits, for which the Company was contingently liable. This obligation extends through February 2011, and the estimated liability of \$2.7 million (net of tax) was recorded in 2003, based on the deteriorating financial condition of YSDI, as a charge from discontinued operations. As part of the asset sale by YSDI in the first quarter of 2004, the Company was able to recover \$668,000 of notes receivable that had been previously written off. The Company assumed this post-retirement obligation and the funding of benefits at the end of the first quarter of 2004. The net impact of \$401,000 (net of tax) has been recorded as income from discontinued operations in the current year.

The Company's Secured Credit Agreement is classified as a current debt as of January 1, 2005 as its maturity date is August 2005. At the end of 2004 the Company was in violation of its leverage ratio covenant. A waiver of this covenant has been obtained along with an amendment that adjusts the covenant for the first quarter of 2005. It is anticipated that the Company will refinance this obligation in the first half of 2005, subject to the conclusion of the evaluation of various strategic alternatives pursued by management and the Company's investment bankers. As announced in October 2004, the Company is reviewing various strategic alternatives to enhance shareholder value, including the possible sale of part or all of the Company. This process is continuing. (Also see Note C).

Finally, at the end of 2003, the Company had been operating under a compliance plan with the New York Stock Exchange since November 2002, which called for the Company to be in compliance with continued listing standards by the end of the first quarter of 2004. The Company was notified by the New York Stock Exchange in April 2004 that it is considered in good standing and in compliance with the Exchange's continued listing standards.

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RESULTS OF CONTINUING OPERATIONS

The following table sets forth for the periods indicated certain items from the Consolidated Statements of Operations as a percentage of net sales for years ended:

(Dollars in thousands)	2004		2003		2002	
	-----		-----		-----	
Net Sales	\$387,139	100.0%	\$340,487	100.0%	\$312,429	100.0%

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Cost of products sold	323,455	83.6%	286,300	84.1%	252,499	80.8%
	-----		-----		-----	
Gross profit	63,684	16.4%	54,187	15.9%	59,930	19.2%
Total operating expenses	44,074	11.4%	39,529	11.6%	41,421	13.3%
Litigation settlement	1,728	0.4%	--	0.0%	--	0.0%
Other expense	213	0.1%	--	0.0%	--	0.0%
	-----		-----		-----	
Operating income	17,669	4.6%	14,658	4.3%	18,509	5.9%
Interest expense, net	7,925	2.0%	8,527	2.5%	9,583	3.1%
	-----		-----		-----	
Income from continuing operations before income taxes	9,744	2.5%	6,131	1.8%	8,926	2.9%
Income tax provision	3,596	0.5%	2,391	0.7%	3,900	1.2%
	-----		-----		-----	
Income from continuing operations	\$ 6,148	1.6%	\$ 3,740	1.1%	\$ 5,026	1.6%
	=====		=====		=====	

Net sales for 2004 were \$387.1 million compared with \$340.5 million in 2003, an increase of 13.7% or \$46.6 million. Carlon, which experienced the highest segment net sales growth rate, was favorably impacted by the increased rollouts of telecom customers' Fiber-to-the-Premise projects. Additional market share growth resulted in the increased net sales in the Lamson Home Products business segment. Price increases instituted to offset rising resin costs were the primary reason for net sales increases in the PVC Pipe segment. Operationally, the Company continues to focus on a key strategic objective of on-time, in-full, error-free delivery of products and services to our customers. This objective is tracked daily to limit the amount of backorders and time to ship. There has been a sustained high level of performance in the Company's delivery metrics allowing it to obtain opportunities for market share expansion, especially with its electrical distributors and retail customers.

Net sales for 2003 were \$340.5 million, or 9.0% higher than the \$312.4 million net sales reported in 2002. Much of the Company's underlying markets, especially commercial, industrial and telecom construction, trended lower in 2003 compared with 2002. Each of the business segments increased their net sales primarily through price increases, introduction of product line expansions or the expansion of market share. Lamson Home Products had the largest increase in net sales of \$12.1 million, which primarily reflects additional market share in non-metallic electrical boxes at its major customer. Carlon introduced a Key Account Management Program, which helped to grow market share at strategic accounts. While the PVC Pipe business segment grew primarily from price increases that represented partial pass through of resin cost increases and growth in demand for its large diameter sewer pipe.

Gross profit increased to \$63.7 million, or 16.4% of net sales, in 2004 from \$54.2 million, or 15.9% of net sales, in 2003. Raw material costs including PVC resin and compounds, HDPE resin and steel components climbed by more than double-digit percentages in 2004. Many of these increases were passed on during the year as sales price increases, except in the Lamson Home Products business segment. Freight costs also escalated throughout 2004 due to fuel cost increases and driver and equipment shortages, lowering gross margin by 0.2%. The Company was able as a whole to maintain, and slightly improve gross margins in 2004 compared with 2003 due to higher capacity utilization (72.0% in 2004 versus 68.0% in 2003) of the manufacturing facilities. This occurred primarily in the HDPE extrusion plants as lines were run to keep up with the improving telecom demand. Lastly, the Company continued to see favorable leveraging of its predominately fixed cost distribution operations where costs rose by approximately 6.0% while shipping activity increased by almost 10.0%.

Gross profit in 2003 was \$54.2 million compared with \$59.9 million gross profit in 2002. Gross margins were unfavorably impacted by higher raw material costs, of approximately \$3.0 million, that were not able to be completely recovered with price increases and higher employee benefit costs of \$1.0 million. The manufacturing facilities experienced higher capacity utilization this year going from 61.0% in 2002 to 68.0% in 2003. The increase was primarily in the PVC and HDPE pipe extrusion facilities as the molding facilities have continuously run at consistently higher rates the last several years. The overall cost of the Company's supply chain, including distribution and freight costs, were higher in the current year by only 4.0%, while the increased shipping activity rose in excess of 10%. This was caused by the distribution operations successfully focusing on improving bin accuracy, therefore, raising their productivity throughout the year. Meanwhile, freight costs are trending upward slightly, \$0.4 million, due to the rising fuel costs and carrier consolidations. The Company monitors key transportation metrics to attempt to control freight costs while still serving our customers.

Operating income for 2004 was \$17.7 million, or 4.6% of net sales, an increase of \$3.0 million, or 20.5% over the \$14.7 million, or 4.3% of net sales, earned in 2003. This improvement was primarily driven by the growing gross profit. Selling and marketing expenses reflect higher variable selling expenses generated in 2004 by the higher net sales levels. In addition, incentive compensation is approximately \$4.0 million higher due to the significantly improved results this year, legal and professional fees exceeded 2003 levels by about \$700 thousand from incremental Sarbanes-Oxley compliance efforts and expenditures made to support our announced strategic alternatives review. Partially offsetting these increases were reductions in pension and retiree medical expense totaling \$2.0 million and the collection of a previously written off account receivable of \$0.3 million. Overall, operating expenses have declined to 11.4% of net sales (\$44.1 million) in 2004 from 11.6% of net sales (\$39.5 million) in 2003. Included in operating results in 2004 were the net effects of a litigation settlement of \$1.7 million (see Note E) and the sale and closure of the Company's Pasadena, Texas facility (see Note M).

Operating income in 2003 was \$14.7 million, or 4.3% of net sales, compared with \$18.5 million, or 5.9% of net sales, in 2002. This lower level of operating income was the result of the reduced gross profit in 2003 as operating expenses were down by \$1.9 million to \$39.5 million from \$41.4 million in 2002. Selling and marketing costs declined primarily by favorable bad debt experience (\$1.0 million) in 2003. General and administrative costs were impacted by higher pension and retiree medical expense of \$3.3 million in 2003. These higher costs were offset by a significant decline in incentive compensation awards (\$2.2 million) as operating financial goals were, for the most part, not met in 2003.

Interest expense continued its downward trend in 2004, declining to \$7.9 million from \$8.5 million in 2003 and \$9.6 million in 2002. Both the average borrowings and interest rates that the Company is paying have declined. Average borrowings were \$99.5 million, \$102.5 million and \$110.0 million in 2004, 2003 and 2002, respectively. The average interest rates were 5.70%, 6.21% and 6.86% in 2004, 2003 and 2002, respectively. While variable LIBOR rates have increased, the Company's average rate has improved as higher interest bearing term debt is being paid down and the Company's interest rate spread under its Secured Credit Agreement has declined in recent quarters as a result of improved leverage ratios.

The income tax provision for 2004 reflects an effective tax rate of 36.9% compared with 39.0% in 2003 and 43.7% in 2002. The provision is primarily a non-cash charge due to the Company's net operating loss carry-forward position. During 2004 the Company settled certain state tax matters which resulted in a

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reduction of the current state and local income tax expense by approximately \$200 thousand.

During the second quarter of 2002, the Company completed the transitional review for goodwill impairments required under SFAS No. 142 "Goodwill and Other Intangible Assets." The review indicated that goodwill recorded in the telecom reporting unit of the Carlon business segment was impaired as of the beginning of fiscal 2002. Accordingly, the Company measured and recognized a transitional goodwill impairment loss of \$60.0 million (\$46.3 million after tax). This has been recorded as a cumulative effect of a change in accounting principle in the statement of operations (see Note B). No impairment was noted in subsequent tests in 2002, 2003 or 2004 due to improved operating conditions and projected telecom market activity in the telecom reporting unit of the Carlon business segment.

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BUSINESS SEGMENTS

CARLON

Net sales in 2004 were \$183.8 million, an increase of \$29.7 million, or 19.3%, over the \$154.1 million net sales level in 2003. Approximately \$18.0 million of the increase came from the strong rebound in telecom product sales. This market demand expansion of almost 25.0% over 2003 is primarily due to the increased rollout of Fiber-to-the-Premise projects, which utilize HDPE conduit. Carlon was able to raise pricing in 2004 in response to the higher raw material resin costs being incurred, which resulted in approximately \$6.0 million higher net sales than 2003. Finally, the Carlon business segment net sales were supported by a steady residential construction market and a slow upturn in non-residential construction activity late in 2004.

Net sales in the Carlon business segment increased by \$5.1 million (a 3.4% increase) to \$154.1 million in 2003 from \$149.0 million in 2002. The entire increase came from higher sales of electrical products as the telecom product sales remained relatively flat in 2003. Carlon introduced a Key Account Management program in 2003 with the objectives of focusing on selling and marketing, along with other support services, on strategic accounts that have higher long-term growth potential. This effort increased net sales by approximately \$0.8 million while selective product line expansions added \$4.0 million in net sales in 2003. Other than residential construction, which continued its double-digit growth, the markets serviced by Carlon including commercial, industrial and telecom construction continued their contraction in 2003 as businesses put off new investments.

Gross margin has expanded throughout 2004 with the higher telecom sales volume and the price increases on electrical products that were realized this year. Plant utilization of the HDPE conduit facilities was about five points higher than 2003. The sales volume increase also helped Carlon realize benefits from leveraging fixed costs, especially in the Company's distribution centers.

Gross margins in 2003 were adversely affected in this business segment as raw material cost increases, primarily PVC and HDPE resins, were not able to be fully passed on as higher selling prices. This business segment is impacted by capacity utilization primarily in the molding and HDPE extrusion facilities. The molding facilities continued to experience good utilization, exceeding an average of 90.0% for 2003. The HDPE extrusion facilities, while recording better utilization in 2003, still are using less than 50.0% of their available capacity.

Operating income for Carlon was \$16.8 million, 9.2% of net sales, in 2004 compared with \$11.8 million, 7.7% of net sales in 2003, an increase of \$5.0

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million or 42.2%. Included in operating income in 2004 is a charge of approximately \$864,000 for this business segment's share of a litigation settlement (see Notes E and L). The growth in operating income comes primarily from the higher net sales and resultant higher gross margins, which were offset slightly by increased variable selling expenses of \$1.4 million.

The operating income for this business segment fell in 2003 to \$11.8 million, or 7.7% of net sales, from \$14.4 million, or 9.7% of net sales, in 2002. Actual operating expenses were lower by \$2.9 million in 2003 as the business segment implemented cost containment programs and had \$1.0 million less in bad debt expenses during the year. The entire decline in 2003 operating margins came from higher cost of sales as described above.

LAMSON HOME PRODUCTS

Net sales in the Lamson Home Products business segment continued its steady rise reaching \$86.5 million in 2004, a \$5.0 million or 6.1% increase over the \$81.5 million in net sales level in 2003. The underlying economics of the "do-it-yourself" home improvement market remains very solid; supported by strong existing and new home sales and low interest rates. In addition, the Company has maintained its high level of operational performance this year. The net sales in 2004 include the full year impact of the additional market share obtained in mid-2003 of approximately \$2.0 million. Lamson Home Products has added its door chimes product line to a couple of major retail customers in the second half of 2004 impacting net sales by \$3.0 million. None of the net sales growth in 2004 is attributable to price increases despite the significant cost increases absorbed in 2004.

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Net sales in 2003 for Lamson Home Products was favorably impacted by strong existing home sales, low interest rates and rising consumer confidence, increasing its net sales to \$81.5 million, a \$12.1 million, or 17.4% increase, over the \$69.4 million in net sales in 2002. Various supply chain initiatives were undertaken over the last several years, including leveraging the Company's enterprise resource planning system, have resulted in fill rates (the number of order line items filled with the first shipment) that average above 98.0% for the entire year. The operational performance, along with innovation on new products and product line expansions, resulted in this business segment gaining additional market share totaling \$7.0 million with various customers. In particular, Lamson Home Products was named sole source for all of Home Depot's non-metallic electric box business in mid-2003. The rollout of this additional business was substantially complete at the 2003 year-end.

Lamson Home Products' segment gross margins were affected unfavorably by the over 15.0% increase in PVC compound cost during 2004. As indicated above, no selling price increases were obtained from the retail customer base to offset these cost increases causing an erosion of over 400 basis points of gross margin. In addition, higher distribution expenses were incurred in 2004, \$1.9 million, from the substantial increased volume of shipments. Lamson Home Products was unable to pass through the higher raw material costs realized in 2003. However, through the evolution of sales mix to higher margin products, the continued favorable utilization of the molding facilities that support this business segment and the spreading of relatively fixed distribution costs over higher volume, Lamson Home Products was able to maintain gross margins at approximately the same rate as 2002.

Operating income was \$8.8 million, 10.1% of net sales in 2004, compared with \$13.8 million, 16.9% of net sales, in 2003. The \$5.0 million decline in operating income comes primarily from reduced gross margins. In addition, like Carlon, this business segment was charged with \$864,000 for its share of a litigation settlement in 2004 (see Notes E and L). Lamson Home Products also

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incurred higher variable selling expenses, \$0.4 million, and product development costs, \$0.3 million, to support, the expansion of the chimes and lighting control product lines.

The business segment realized \$13.8 million, or 16.9% of net sales, in operating income in 2003, an increase of \$3.4 million, or 33.3% over the 2002 operating income of \$10.3 million, or 14.9% of net sales. Operating expenses for this segment remained fairly steady with 2002 as higher variable selling and marketing expenses were offset by lower incentive compensation expense.

PVC PIPE

The PVC Pipe business segment experienced net sales growth of \$11.9 million, or 11.4%, to \$116.8 million in 2004 from \$104.9 million in 2003. Rigid pipe sales volume was very strong in the fourth quarter of 2004 exceeding the fourth quarter 2003 by 16.7% and bringing total year volume of pounds sold in 2004 approximately even with 2003. Non-residential and telecom infrastructure construction spending began rebounding late in the year while residential construction activity was healthy throughout 2004. This business segment was able to raise pricing by around 12.2% in 2004, which helped to offset PVC resin cost increases. Finally, this segment experienced higher sales, \$2.3 million, of the Vylon large diameter sewer pipe products to support several sewer infrastructure projects.

The year 2003 was a difficult one for the PVC Pipe business segment, as the commercial, industrial and telecom construction markets continued their downward trend. The majority of the Company's pipe pounds are sold into these markets while the strong residential construction market consumes smaller pipe sizes and thus, a lower percentage of volume. Total PVC resin pounds sold in 2003 was down approximately 1.0% from 2002 while pricing was up an average of 8.4% over the prior year. Overall, the PVC Pipe business segment increased net sales in 2003 to \$104.9 million from \$94.0 million, a rise of \$10.9 million, or 11.6%. As part of the PVC Pipe business, Lamson Vylon Pipe, was able to produce additional net sales of \$4.8 million in 2003 by introducing small diameter sizes of sewer pipe.

Gross margins in the PVC Pipe business segment improved in 2004 as net sales prices increased to offset much of the approximate 19.0% increase in resin costs. In addition, the segment experienced favorable product mix, with Vylon pipe and telecommunication duct becoming a higher percentage of sales. Finally, the segment

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has begun to realize some of the cost savings from capital investments made to increase productivity and reduce costs, such as the blend plant additions and automation projects completed in 2003.

Gross margins in 2003 eroded in this business segment as resin costs averaged 25.0% higher than in 2002, while only about a third of this cost increase was able to be recovered as a price increase from customers. On a positive note, the PVC Pipe extrusion facilities increased their capacity utilization by almost five basis points due to the reduction of PVC inventory in 2002.

Operating results for the PVC Pipe business were greatly improved in 2004. The operating loss was narrowed from a \$5.1 million loss, 4.9% of net sales, in 2003 to \$1.5 million loss, 1.3% of net sales, in 2004. This improvement comes primarily from better gross margins as operating expenses have increased this year as a result of higher variable selling expenses.

Operating expenses in 2003 for the PVC Pipe segment remained fairly constant with the prior year while the operating loss for 2003 totaled \$5.1 million versus a \$0.8 million loss in 2002 due to lower gross profit levels.

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LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity and capital resources is cash generated from operating activities and availability under its Secured Credit Agreement.

Cash provided by operating activities in 2004 was \$11.8 million compared with \$9.7 million in 2003 and \$26.5 million in 2002. Despite improved operating results in 2004, cash flow from operations was negatively impacted by a \$10.2 million increase in accounts receivable primarily from exceptionally high fourth quarter net sales in 2004. Accounts receivable at the end of 2004 totaled \$48.4 million compared with \$38.2 million at the end of 2003. Days sales outstanding improved at 2004 year-end representing 51.1 days down from 52.5 days and 53.0 days at 2003 and 2002 year-end, respectively.

Inventories at the end of 2004 were higher by \$6.7 million, at \$36.9 million, up from the \$30.1 million 2003 year-end balance. In both 2003 and 2002 inventory balances declined by \$2.1 million and \$9.9 million, respectively. Due to the higher sales levels in 2004, inventory turns continued to improve to 7.5 times from 7.4 times in 2003 and 6.5 times in 2002.

The pounds of PVC resin inventory at January 1, 2005 are approximately the same as the prior year; however, the cost per pound is 30.0% higher than such costs at January 3, 2004 which itself had risen by over 12.0% compared with the cost per pound at 2002 year-end. HDPE per pound resin costs in inventory at January 1, 2005 have also increased by over 35.0% since the beginning of the year. The Company is investing more in inventory this year to support the dramatic increase in telecom product sales and for the rollout of additional chimes and lighting control sales to several retail customers.

The inventory increase in 2004 was offset by higher accounts payable balances. Due to the timing of the 2002 year-end (December 28, 2002), a number of payments of certain vendor liabilities were made in 2003, primarily resin and lease payments, compared with 2002 or 2004.

The Company made cash contributions of \$4.1 million to support pension and other post-retirement benefit plans in 2004 (\$3.0 million in 2003), primarily either into pension plan trust funds or for retiree medical payments. In 2002, contributions totaled \$8.6 million as the Company made a discretionary \$6.0 million voluntary contribution to its defined benefit pension plans in order to more fully fund the plans after the significant decline in pension asset market values.

The Company's cash used in investing activities totaled \$5.0 million, \$9.4 million and \$5.0 million in 2004, 2003 and 2002, respectively. Capital expenditures declined slightly this year to \$6.4 million after investing \$8.6 million in addition in 2003, of which \$3.5 million was spent improving the supply chain by adding blend plants at two extrusion facilities. The current year's capital expenditures were spent on replacement and upgrading of molds and extrusion equipment, continued factory automation and tooling and molds for product line expansions. In 2004, the Company also received \$1.6 million proceeds from the sale of fixed assets, primarily the Pasadena, Texas plant.

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The Company's cash used in financing activities was \$6.6 million, \$1.4 million and \$20.2 million in 2004, 2003 and 2002, respectively. In 2002, the Company was able to pay down \$23.0 million on the Secured Credit Agreement as the Company refinanced its corporate headquarters and reduced the investment in accounts receivable and inventories with the decline in business volume. In the last two years, a total of \$7.0 million was paid to reduce the outstanding debt on the

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Secured Credit Agreement, a slower pay-down rate from 2002, as the Company has increased the amount invested in working capital to support the growth in business. The Company continues to have adequate credit capacity with availability of \$14.0 million at January 1, 2005, which is adequate to fund the seasonal needs of the business. At the end of 2004, the Company's leverage ratio of 2.9 did not meet the required covenant level of 2.75. The Company has received a waiver for this deficiency and an amendment to increase the leverage ratio to 3.1, which reflects current and future working capital requirements. The Company was in compliance with all other debt covenants at January 1, 2005 and is expected to maintain compliance throughout the remainder of the term of the agreement. Despite not meeting the covenant requirement, the Company did lower its leverage ratio, which will, in turn, be reflected as a 50 basis point decline in the Secured Credit Agreement interest rate during the first quarter 2005. As noted earlier, the Company's Secured Credit Agreement matures in August 2005. The Company does not expect any difficulty in refinancing this obligation in the first half of 2005, subject to the outcome of the strategic review. Cash from operating activities, along with the current and planned refinancing of credit facilities, will be adequate to fund future cash-flow requirements. Lastly, in 2004, due to rising stock prices, the Company received \$0.6 million as 121,000 shares were issued from the exercise of stock options.

OUTLOOK FOR 2005

In 2004, particularly during the second half of the year, the telecom spending on Fiber-to-the-Premise projects grew rapidly. Verizon announced that they were connecting a million homes with fiber optic cable in 2004 and at least 2 million homes in 2005. Meanwhile, SBC has also announced major anticipated investments in their Fiber-to-the-Premise project initiatives for the next several years. Carlon, as the largest supplier of HDPE conduit in North America for the major telecom customers (telephone and cable companies), is poised to benefit, as we did in 2004, from this build-out of the last mile of the telecom network. Despite increasing telecom sales by 25.0% in 2004, the Company still has about 40.0% of the capacity in its HDPE plants available to meet this forecasted growth in demand.

Residential construction remained unexpectedly strong in 2004 with housing starts reaching almost 2.0 million units added for the year, a 9.5% increase in construction value over 2003. Projections for 2005 are for a slight downturn in the number of units started to 1.8 million, which is still a solid level. Existing home sales, a key driver in sales activity in the Lamson Home Products business segment, climbed to nearly 7.0 million units sold in 2004, up 8.8% from the 2003 levels. It is anticipated that home sales will remain at healthy levels in 2005 as unemployment rates decline and interest rates increase modestly.

Commercial and industrial construction, as expected, improved only slightly in 2004. Some increase in net sales was realized by the Company through Carlon's key account program. We anticipate that commercial and industrial construction will begin to experience a recovery in 2005 as corporate profits and, therefore, investments rise and the unemployment rates drop. In addition, the broad growth in residential construction over the last few years should spur the need for additional commercial construction. Any increase in commercial or industrial construction will benefit the Carlon and PVC Pipe segments.

Due to increased global and domestic demand, along with tight supply of feedstocks and high oil and gas prices, PVC and HDPE resins ended 2004 on average 20.0% to 30.0% higher than the end of 2003. With a strong outlook for the general economy in 2005 and resin producer operating rates over 90.0% with no significant capacity net additions planned, the cost of resin is forecasted to be another 10.0% to 15.0% higher in 2005. All three business segments, including Lamson Home Products for the first time, have announced price increases going into 2005 in order to mitigate these continuing rising costs.

With the closure of the Pasadena, Texas plant in 2004, the Company anticipates

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realizing about \$1.2 million to \$1.5 million in cost improvements in 2005. Management continues to look for productivity improvements in order to reduce the Company's cost structure. Capital spending in 2005 is expected to be \$7.0 to \$9.0 million,

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focused primarily on equipment additions and upgrades, incremental tooling to support telecom growth and new products.

Cash flow from operating activities will continue to improve in 2005 from expected higher operating results and the leveling off of working capital requirements.

The Company's Secured Credit Agreement is scheduled to expire in August 2005. It is management's intent to replace the facility in the first half of 2005, subject to the conclusion of the review of strategic alternatives to enhance shareholder value, which may include the sale of part or all of the Company. This evaluation is expected to conclude by the end of the first quarter of 2005. The Company does not anticipate any further covenant violations through the term of the debt.

In summary, we estimate that net sales in 2005 will increase 8.0% to 11.0% to a range of \$420.0 million to \$430.0 million, reflecting the strengthening conditions in the telecom, commercial and industrial construction markets. Based on this projected net sales growth and higher operating capacity utilization, the Company anticipates that net income will rise to a range of \$10.0 to \$11.5 million, or \$0.70 to \$0.80 per diluted share in 2005, a 55.0% to 70.0% improvement over 2004 results. For the first quarter of 2005, the Company estimates that net sales should grow to a range of \$94.0 million to \$96.0 million, an increase of 13.0% to 16.0% over the first quarter of 2004. This improved level of net sales may result in net income of \$1.1 million to \$1.4 million, or \$0.08 cents to \$0.10 cents per diluted share in the first quarter of 2005.

CRITICAL ACCOUNTING POLICIES

The Company is required to make estimates and judgments in the preparation of its financial statements. These estimates and judgments affect the asset and liability amounts reported, as well as revenues and expenses and other disclosures. The Company routinely reviews these estimates and the underlying assumptions to ensure they are appropriate for the circumstances. Changes in estimates or judgments by management could have a significant impact on the Company's financial results. The Company believes the following are the most significant accounting policies, which utilize estimates that are inherently uncertain and, therefore, based on management's judgment.

ACCOUNTS RECEIVABLE ALLOWANCES

The Company maintains allowances against accounts receivable for amounts that may come uncollectible in the future. The Company records reserves for bad debt based on a variety of factors including customer's operating results and financial condition, the length of time receivables are past due and historical collection experience. If the financial condition of the Company's customers were to deteriorate, the Company may be required to record additional bad debt allowances. The Company also has a significant volume of customer deductions, as is customary in the retail and electrical product markets.

These deductions primarily relate to pricing, freight and shipment quantity discrepancies. The Company strives to resolve these discrepancies on a timely basis to limit the accounts receivable collectibility issues. Estimates are made by management, based primarily on historical experience, as to the collectibility of deductions. Historically, except for the recovery of accounts

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receivables written off due to bankruptcies, there have not been material changes in estimates to the accounts receivable allowance.

INVENTORY VALUATION

The Company routinely evaluates its inventories to ensure they are carried at lower cost or market value and to identify obsolete or excess inventory. A sudden decline in PVC or HDPE resin costs, coupled with a slow-down in sales volume, could result in the write-down of inventory valuations. In recent years, resin prices and end markets have improved resulting in no inventory valuation write-downs. In addition, with some of the supply chain improvements made in the last couple of years, the Company carries less than two months worth of resin in inventory, which helps to mitigate the risk of write-downs.

Reserves are provided for obsolete and excess inventory by comparing future expected inventory usage to actual quantities on hand. The total reserve at January 1, 2005 is \$0.7 million and has remained fairly consistent from year to year. Much of the Company's products, when scrapped, can be re-ground and the

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material put back into the manufacturing process. There has not been a significant change in estimates relating to this inventory reserve in the last several years.

PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

The measurement of liabilities related to pension plans and other post-retirement benefits is impacted by management's assumptions related to discount rates, expected return on plan assets, rate of compensation increases and healthcare trend rates. Variations in the pension plan assumptions including changes in discount rates, actual pension plan asset performance and actual compensation rate increases will either increase or decrease the unamortized actuarial gains or losses, which affects future pension expense. The Company currently has a \$36.7 million unrecognized actuarial loss for its defined benefit pension plans. This is primarily the result of lower discount rates, going from 7.5% in 2000 to 5.7% in 2004, which impacted the funded status by approximately \$12.0 million in this time period. The current discount rate was selected by management based on an analysis of expected future interest rates that would be incurred to settle this liability. The remainder of the unrecognized loss is caused by net asset actuarial loss (actual return was less than the assumed rate of return) of about \$24.0 million since 2000. The plans incurred actuarial loss of \$35.5 million in 2001 and 2002 reflecting the reduction in stock market equity values. In 2003 and 2004, the Company has experienced \$11.7 million of actuarial asset gains as the stock market has rebounded and exceeded management's expected rate of return. As of January 1, 2005, the expected rate of return on plan assets is 8.5%, down from 9.5% in 2000. This is the rate of return anticipated by management in the long-term, based on plan asset mix.

The salary rate of increase is estimated to be 4.0% and has over the past few years, been representative of actual results. Likewise, variations between actual and estimated healthcare trend rates will affect retiree medical expense in the future (See Note D to the Consolidated Financial Statements).

ENVIRONMENTAL AND LEGAL OBLIGATIONS

Management also makes judgments and estimates in recording liabilities for environmental cleanup and litigation. Liabilities for environmental remediation are subject to change because of matters such as changes in laws, regulations and their interpretation; the determination of additional information on the extent and nature of site contamination; and improvements in technology. At January 1, 2005 the Company has \$4.3 million accrued for environmental matters at a property sold by the Company in 1981. The liability is re-estimated

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periodically and includes the costs of certain remediation activities which are anticipated to take place over an extended period of time. Based on the current year updated study, the Company recognized a \$0.2 million change in estimate, reducing this reserve. Historically, there have not been any material changes in estimates (see Note F to the Consolidated Financial Statements). Actual litigation costs can vary from estimates, based on the facts and circumstances and application of laws in individual cases. At January 1, 2005 the Company did not have any unsettled litigation that required accrual. During 2004, the Company settled a patent infringement case with the net effect of the settlement of \$1.7 million reflected in the 2004 operating results (see Note E to the Consolidated Financial Statements).

DEFERRED TAX ASSETS

As of January 1, 2005, the Company had approximately \$21.9 million of net deferred tax assets, including loss carryforwards that expire through 2022 and other temporary differences. Significant factors considered by management in the determination of the probability of the realization of deferred tax assets include historical operating results, estimates of future taxable income, and the extended period of time over which tax deductible goodwill is amortized and other post-retirement medical benefits will be paid. The Company would need to generate approximately \$27.0 million in taxable income prior to the expiration of the net operating loss carryforward (2012 to 2022) in order to realize the benefits on its tax return. The Company has never had a net operating loss carryforward expire without being used. Current expectations of operating results are sufficient to sustain realization of these net assets. However, should taxable income estimates for the carryforward period be significantly reduced, the full realization of net deferred tax assets may not occur. At January 1, 2005 and January 3, 2004 the Company had a valuation allowance of \$0.4 million against its

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deferred tax assets to reflect management's assessment that a portion of the Company's \$1.3 million general business tax credits, which expire in 2005 and 2006, have a low probability of being realized.

GOODWILL VALUATION

As disclosed in the Company's consolidated financial statements, the Company has goodwill of \$21.5 million, the majority of which relates to the telecom reporting unit in the Carlon business segment. An annual impairment test of goodwill is performed as of the first day of the fourth quarter, or more frequently as conditions warrant. The latest test as of October 3, 2004 resulted in no impairment. The process of evaluating goodwill for impairment involves the determination of the fair value of the telecom reporting unit. Inherent in such fair value determinations, which use both discontinued cash flow and market multiple methodologies, are certain judgments and estimates, including the interpretation of economic indicators and market valuations and assumptions about our strategic plans. To the extent that our strategic plans change, or that economic and market conditions worsen, it is possible that our conclusion regarding goodwill impairment could change and result in a material write-down of goodwill.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have off-balance sheet arrangements, financings or other relationships with unconsolidated entities known as "special purpose entities" (SPEs). In the ordinary course of business, the Company leases certain real properties and equipment with unrelated third parties as disclosed in Note C to the Consolidated Financial Statements.

CONTRACTUAL OBLIGATIONS

The following table summarizes the Company's contractual obligations as of

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January 1, 2005:

(Dollars in thousands)	PAYMENT DUE BY PERIOD				
	TOTAL	2005	2006 TO 2007	2008 TO 2009	AFTER
Contractual Obligations:					
Long-Term Debt Obligations	\$ 87,751	\$75,875	\$1,753	\$1,004	\$ 9,119
Capital Lease Obligations	--	--	--	--	--
Operating Lease Obligations	17,117	4,458	6,221	3,810	2,628
Purchase Obligations	--	--	--	--	--
Other Long-Term Liabilities	--	1,000	--	--	--
Total	\$104,868	\$81,333	\$7,974	\$4,814	\$11,747
	=====	=====	=====	=====	=====

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expected as a result of a variety of factors, such as: (i) the impact, outcome and effects of the Company's exploration of strategic alternatives, (ii) the volatility of resin pricing, (iii) the ability of the Company to pass through raw material cost increases to its customers, (iv) maintaining a stable level of housing starts, telecommunications infrastructure spending, consumer confidence and general construction trends, (v) the continued availability and reasonable terms of bank financing and (vi) any adverse change in the recovery trend of the country's general economic condition affecting the markets for the Company's products. Because forward-looking statements are based on a number of beliefs, estimates and assumptions by management that could ultimately prove to be inaccurate, there is no assurance that any forward-looking statement will prove to be accurate.

ITEM 7(a). QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion about the Company's market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. The Company is

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exposed to market risk related to commodity prices for PVC and HDPE resins and changes in interest rates. The Company does not use derivative financial instruments for speculative or trading purposes.

Raw materials used in the manufacture of the Company's products include PVC and HDPE resins and compounds. The Company's financial results could be affected by the availability and changes in prices of these materials. The Company closely monitors its inventory levels and requirements for these materials and utilizes multiple suppliers where possible. The Company does not actively hedge or use derivative instruments in the management of its inventories.

The Company's Secured Credit Agreement obligation bears interest at a variable rate. In order to mitigate the risk associated with interest rate fluctuations, in the first quarter of 2001, the Company entered into two interest rate swap agreements. The notional amount is used to calculate the contractual cash flow

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to be exchanged and does not represent exposure to credit loss.

A summary of these instruments outstanding at January 1, 2005 follows:

(Dollars in thousands)

INTEREST RATE SWAPS	HEDGE TYPE	NOTIONAL AMOUNT	INTEREST RATES		VARIABLE INTEREST RATE BASIS
			RECEIVED	PAID	
Variable to Fixed	Cash Flow	\$48,500	1.98%	5.48%	3-month LIBOR
Variable to Fixed	Cash Flow	\$10,000	1.91%	5.41%	3-month LIBOR

These risks and others that are detailed in this Form 10-K must be considered by any investor or potential investor in the Company.

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FINANCIAL STATEMENTS:

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

BOARD OF DIRECTORS AND SHAREHOLDERS
THE LAMSON & SESSIONS CO.

We have audited the accompanying consolidated balance sheets of The Lamson & Sessions Co. and Subsidiaries as of January 1, 2005 and January 3, 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three fiscal years in the period ended January 1, 2005.

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Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Lamson & Sessions Co. and Subsidiaries at January 1, 2005 and January 3, 2004, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended January 1, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note B to the consolidated financial statements, in 2002 the Company changed its method of accounting for goodwill.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of January 1, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2005 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio
February 25, 2005

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	FISCAL YEARS		
	2004	2003	2002
(Dollars in thousands, except per share data)	-----	-----	-----
NET SALES	\$387,139	\$340,487	\$312,429
Cost of products sold	323,455	286,300	252,499
	-----	-----	-----
GROSS PROFIT	63,684	54,187	59,930
Selling and marketing expenses	26,527	23,787	24,963
General and administrative expenses	15,349	13,831	14,274
Research and development	2,198	1,911	2,184
	-----	-----	-----

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TOTAL OPERATING EXPENSES	44,074	39,529	41,421
Litigation settlement	1,728	--	--
Other, net	213	--	--
	-----	-----	-----
OPERATING INCOME	17,669	14,658	18,509
Interest expense, net	7,925	8,527	9,583
	-----	-----	-----
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	9,744	6,131	8,926
Income tax provision	3,596	2,391	3,900
	-----	-----	-----
INCOME FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	6,148	3,740	5,026
Income (loss) from discontinued operations, net of income tax of \$256 in 2004 and benefit of \$1,750 in 2003 (Note G)	401	(2,738)	--
	-----	-----	-----
Income before cumulative effect of change in accounting principle	6,549	1,002	5,026
Cumulative effect of change in accounting principle, net of income tax benefit of \$13,750	--	--	(46,250)
	-----	-----	-----
NET INCOME (LOSS)	\$ 6,549	\$ 1,002	\$ (41,224)
	=====	=====	=====
BASIC EARNINGS (LOSS) PER COMMON SHARE:			
Earnings from continuing operations before cumulative effect of change in accounting principle	\$ 0.45	\$ 0.27	\$ 0.36
Income (loss) from discontinued operations, net of tax	0.03	(0.20)	--
Cumulative effect of change in accounting principle, net of tax	--	--	(3.36)
	-----	-----	-----
NET EARNINGS (LOSS)	\$ 0.47*	\$ 0.07	\$ (2.99)*
	=====	=====	=====
DILUTED EARNINGS (LOSS) PER COMMON SHARE:			
Earnings from continuing operations before cumulative effect of change in accounting principle	\$ 0.43	\$ 0.27	\$ 0.36
Income (loss) from discontinued operations, net of tax	0.03	(0.20)	--
Cumulative effect of change in accounting principle, net of tax	--	--	(3.36)
	-----	-----	-----
NET EARNINGS (LOSS)	\$ 0.46	\$ 0.07	\$ (2.99)*
	=====	=====	=====

* Earnings per share do not sum to total, due to rounding.

See notes to consolidated financial statements.

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FISCAL YEARS

	2004	2003	2002
	-----	-----	-----
(Dollars in thousands)			

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OPERATING ACTIVITIES

Net income (loss)	\$ 6,549	\$ 1,002	\$ (41,224)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Loss from discontinued operations	--	2,738	--
Cumulative effect of change in accounting principle	--	--	46,250
Depreciation	9,140	9,195	10,074
Amortization	1,599	1,599	1,599
Net gain on sale of fixed assets	(933)	--	--
Deferred income taxes	3,913	2,280	4,645
Net change in working capital accounts:			
Accounts receivable	(10,195)	(1,510)	2,518
Inventories	(6,717)	2,087	9,853
Prepaid expenses and other	313	(689)	610
Accounts payable	7,285	(4,281)	(766)
Accrued expenses and other current liabilities	926	(2,041)	2,441
Pension plan contributions	(1,866)	(1,126)	(6,477)
Other long-term items	1,821	457	(3,003)
	-----	-----	-----
CASH PROVIDED BY OPERATING ACTIVITIES	11,835	9,711	26,520
INVESTING ACTIVITIES			
Net additions to property, plant and equipment	(6,370)	(8,562)	(3,952)
Proceeds from sale of fixed assets	1,595	--	--
Acquisitions and related items	(250)	(813)	(1,000)
	-----	-----	-----
CASH USED IN INVESTING ACTIVITIES	(5,025)	(9,375)	(4,952)
FINANCING ACTIVITIES			
Net payments under secured credit agreement	(6,400)	(600)	(23,000)
Proceeds from refinancing	--	--	4,250
Payments on other long-term borrowings	(599)	(772)	(1,487)
Purchase and retirement of treasury stock	(205)	--	--
Exercise of stock options	609	8	--
	-----	-----	-----
CASH USED IN FINANCING ACTIVITIES	(6,595)	(1,364)	(20,237)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	215	(1,028)	1,331
Cash and cash equivalents at beginning of year	468	1,496	165
	-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 683	\$ 468	\$ 1,496
	=====	=====	=====

See notes to consolidated financial statements.

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

January 1, 2005 and January 3, 2004

	2004	2003
(Dollars in thousands)	-----	-----

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ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 683	\$ 468
Accounts receivable, net of allowances of \$1,522 and \$1,532, respectively	48,391	38,196
Inventories, net		
Raw materials	3,504	2,560
Work-in-process	5,160	3,266
Finished goods	28,196	24,317
	-----	-----
	36,860	30,143
Deferred tax assets	9,683	7,996
Prepaid expenses and other	5,128	4,574
	-----	-----
TOTAL CURRENT ASSETS	100,745	81,377

PROPERTY, PLANT AND EQUIPMENT

Land	3,320	3,537
Buildings	25,130	25,776
Machinery and equipment	119,622	121,887
	-----	-----
	148,072	151,200
Less allowances for depreciation and amortization	100,111	99,874
	-----	-----

TOTAL NET PROPERTY, PLANT AND EQUIPMENT 47,961 51,326

GOODWILL 21,480 21,519

PENSION ASSETS 30,513 30,016

DEFERRED TAX ASSETS 12,255 17,612

OTHER ASSETS 5,548 6,463

TOTAL ASSETS \$218,502 \$208,313
=====

See notes to consolidated financial statements.

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

January 1, 2005 and January 3, 2004

(Dollars in thousands, except per share data) 2004 2003

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 24,213	\$ 16,928
Accrued compensation and benefits	12,595	10,633

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Customer volume & promotional accrued expenses	6,648	6,024
Other accrued expenses	8,509	8,273
Taxes	3,272	3,408
Secured Credit Agreement - current	75,000	11,000
Current maturities of long-term debt	875	760
	-----	-----
TOTAL CURRENT LIABILITIES	131,112	57,026
LONG-TERM DEBT	11,876	82,990
POST-RETIREMENT BENEFITS AND OTHER LONG-TERM LIABILITIES	30,138	29,782
SHAREHOLDERS' EQUITY		
Common shares, without par value, stated value of \$0.10 per share, authorized 20,000,000 shares; outstanding, 13,886,963 shares in 2004 and 13,787,145 shares in 2003	1,389	1,379
Other capital	76,130	75,534
Retained earnings (deficit)	(27,280)	(33,829)
Accumulated other comprehensive income (loss)	(4,863)	(4,569)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	45,376	38,515
	-----	-----
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$218,502	\$208,313
	=====	=====

See notes to consolidated financial statements.

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in thousands)	COMMON SHARES	OTHER CAPITAL	RETAINED EARNINGS (DEFICIT)	ACCUMULATIVE OTHER COMPREHENSIVE INCOME (LOS		
				INTEREST RATE SWAPS	FOREIGN CURRENCY TRANSLATION	MI PE LIA
BALANCE AT DECEMBER 29, 2001	\$1,378	\$ 75,499	\$ 6,393	\$ (1,034)	\$ (591)	\$
Net loss	--	--	(41,224)	--	--	
Other comprehensive income (loss):						
Foreign currency translation	--	--	--	--	(23)	
Minimum pension liability net of \$2,100 tax	--	--	--	--	--	
Interest rate swaps	--	--	--	(516)	--	
Total comprehensive income (loss)	-----	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 28, 2002	\$1,378	\$ 75,499	\$ (34,831)	\$ (1,550)	\$ (614)	\$ (
Net income	--	--	1,002	--	--	
Other comprehensive income:						
Foreign currency translation	--	--	--	--	173	

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Minimum pension liability, net of \$266 tax	--	--	--	--	--	--
Interest rate swaps, net of \$454 tax	--	--	--	711	--	--
Total comprehensive income						
Issuance of 9,537 shares under employee benefit plans	1	35	--	--	--	--
BALANCE AT JANUARY 3, 2004	\$1,379	\$ 75,534	\$(33,829)	\$ (839)	\$ (441)	\$ ()
Net income	--	--	6,549	--	--	--
Other comprehensive income (loss):						
Foreign currency translation	--	--	--	--	70	--
Minimum pension liability, net of \$661 tax	--	--	--	--	--	--
Interest rate swaps, net of \$429 tax	--	--	--	670	--	--
Total comprehensive income						
Issuance of 125,897 shares under employee benefit plans	12	799	--	--	--	--
Purchase and retirement of 26,079 shares of treasury stock	(2)	(203)	--	--	--	--
BALANCE AT JANUARY 1, 2005	\$1,389	\$ 76,130	\$(27,280)	\$ (169)	\$ (371)	\$ ()
	=====	=====	=====	=====	=====	=====

See notes to consolidated financial statements.

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three fiscal years ended January 1, 2005

NOTE A - ACCOUNTING POLICIES

Fiscal Year: The Company's fiscal year end is the Saturday closest to December 31.

Principles of Consolidation and Presentation: The consolidated financial statements include the accounts of the Company and all domestic and foreign subsidiaries after elimination of intercompany items. Certain 2003 and 2002 items have been reclassified to conform with the 2004 financial statement presentation.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Company considers all investments with an original maturity of three months or less on their acquisition date to be cash equivalents.

Inventories: Inventories are valued at the lower of first-in, first-out (FIFO)

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cost or market. The Company provides a reserve for obsolete or excess inventory (less than 2.0% of gross inventory) based on historical and estimated future usage.

Financial Instruments: The Company's carrying value of its financial instruments approximates fair value. The Company recognizes all derivative financial instruments as either assets or liabilities at fair value. Derivative instruments that are not hedges must be adjusted to fair value through net income. Changes in the fair value of derivative instruments that are classified as cash flow hedges are recognized in other comprehensive income until such time as the hedged items are recognized in net income.

Property and Depreciation: Property, plant and equipment are recorded at cost. For financial reporting purposes, depreciation and amortization are computed principally by the straight-line method over the estimated useful lives of the assets. Buildings are depreciated over periods up to 31.5 years. Machinery and equipment is depreciated over periods ranging from 3 years to 15 years. Accelerated methods of depreciation are used for federal income tax purposes. Repair and maintenance costs are expensed as incurred and amounted to \$7.8 million, \$7.9 million and \$8.0 million in 2004, 2003 and 2002, respectively.

Impairment of Long-Lived Assets: During 2002, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Accordingly, the Company evaluates the recoverability of long-lived assets and the related estimated remaining lives at each balance sheet date. The Company would record an impairment charge or change in useful life whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, using undiscounted cash flows, or the useful life has changed. Any impairment would be recognized based on its then fair value. No impairments were incurred in 2002 through 2004. During 2003, the Company adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The Statement is effective for disposal activities initiated after December 31, 2002. The adoption of this Standard did not have a material effect on the Company's results of operations, financial condition or liquidity.

Goodwill: Goodwill represents the cost in excess of fair value of net assets acquired in business combinations accounted for by the purchase method. Goodwill is no longer amortized, but instead is tested for impairment at least annually (see Note B).

Stock Compensation Plans: At January 1, 2005, the Company has three stock-based employee (and non-employee directors) compensation plans, which are described more fully in Note I. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE A - ACCOUNTING POLICIES - CONTINUED

value of the underlying common stock on the date of grant. In accordance with SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," the following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

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		FISCAL YEARS		
		2004	2003	2002
(Dollars in thousands, except per share data)				
Net income (loss)	As reported	\$6,549	\$1,002	\$(41,224)
Total stock-based employee compensation, net of tax		(504)	(646)	(761)
Net income (loss)	Pro forma	\$6,045	\$ 356	\$(41,985)
Basic earnings (loss) per share	As reported	\$ 0.47	\$ 0.07	\$ (2.99)
	Pro forma	0.44	0.03	(3.05)
Diluted earnings (loss) per share	As reported	\$ 0.46	\$ 0.07	\$ (2.99)
	Pro forma	0.43	0.03	(3.05)

For pro forma calculations, the fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants:

	2004	2003	2002
Expected volatility	57.2%	58.6%	56.8%
Risk-free interest rates	3.79%	2.98%	4.56%
Average expected life	5 years	5 years	5 years

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), Share-Based Payment, which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation," Statement 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends FASB Statement No. 95, "Statement of Cash Flows." Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. Statement 123(R) must be adopted no later than July 3, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued. The Company will adopt Statement 123(R) on July 3, 2005 and is still in the process of determining the impact on operating results.

The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. Statement 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized in prior periods for such excess tax deductions was not material.

Revenue Recognition: Revenues are derived from sales to unaffiliated customers and are recognized when products are shipped and title has transferred. Cash

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discounts, volume and price rebates, allowances and promotional costs are estimated based on contractual commitments and experience and are recorded as a reduction in net sales in the period in which the sale is recognized. In 2003, the Company began paying certain

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE A - ACCOUNTING POLICIES - CONTINUED

retail customers service commissions directly replacing third party agencies. These commission allowances of \$2.5 million in 2004 and \$1.0 million in 2003 have been recorded as reductions in net sales in accordance with Emerging Issues Task Force (EITF) 01-9. Previous reporting periods reflect this reclassification from selling and marketing expenses. Management analyzes historical write-offs, current economic trends and specific customer circumstances when evaluating the adequacy of accounts receivable related reserves and accruals.

Shipping and Handling Costs: All shipping and handling costs are included in the cost of products sold in the Consolidated Statements of Operations.

Advertising: The majority of the Company's advertising activities are funded by co-operative advertising allowances provided to customers which are accounted for in compliance with EITF 01-9 as a reduction of net sales, and totaled \$2.8 million, \$2.4 million and \$2.0 million in 2004, 2003 and 2002, respectively. Previous reporting periods reflect a reclassification for these allowances lowering both net sales and selling and marketing expenses. The remaining advertising costs of \$0.7 million in 2004 and \$0.8 million in 2003 and 2002, are expensed as incurred.

Research and Development Costs: Research and Development (R&D) costs consist of Company-sponsored activities to develop new value-added products. R&D costs are expensed as incurred and expenditures were \$2.2 million, \$1.9 million and \$2.2 million in 2004, 2003 and 2002, respectively.

Income Taxes: The Company accounts for income taxes using the provisions of SFAS No. 109, "Accounting for Income Taxes."

NOTE B - GOODWILL AND INTANGIBLE ASSETS

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," on December 30, 2001 (beginning of fiscal 2002). Goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to impairment tests at least annually. Other intangible assets continue to be amortized over their useful lives.

Pursuant to the adoption of this Standard, Lamson completed a transitional impairment review for goodwill during the second quarter of 2002 for each of its reporting units. It was determined that the carrying value of the telecom reporting unit (component of the Carlon business segment) exceeded its estimated fair value as determined by utilizing various valuation techniques. Given the indication of a potential impairment, primarily caused by the significant decline in demand for telecom products, which drove pricing and margins down and resulted in low capacity utilization, the Company completed the assessment of the implied fair value of the goodwill for the telecom reporting unit, which resulted in an impairment loss of \$60.0 million (\$46.3 million after tax). The fair value was determined using discounted cash flow and market multiple approaches. This transitional impairment loss was recognized as a cumulative effect of a change in accounting principle as of the beginning of fiscal 2002.

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The transitional impairment loss is a one-time, non-cash charge. No reclassifications were required between intangible assets and goodwill pursuant to the adoption of this Standard. Subsequent annual impairment tests have resulted in no additional impairment being recorded. Of the \$21.5 million of goodwill remaining on the balance sheet at January 1, 2005, approximately \$20.0 million relates to the telecom reporting unit in the Carlon business segment and the remainder is included in the Lamson Home Products business segment.

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE B - GOODWILL AND INTANGIBLE ASSETS - CONTINUED

The Company's other intangible assets and related accumulated amortization is as follows:

(Dollars in thousands)	NON-COMPETE AGREEMENTS	PATENTS	TOTAL
	-----	-----	-----
JANUARY 1, 2005			
Gross	\$ 6,500	\$ 2,358	\$ 8,858
Accumulated amortization	(5,552)	(1,686)	(7,238)
	-----	-----	-----
Net value	\$ 948	\$ 672	\$ 1,620
	=====	=====	=====
JANUARY 3, 2004			
Gross	\$ 6,500	\$ 2,150	\$ 8,650
Accumulated amortization	(4,252)	(1,386)	(5,638)
	-----	-----	-----
Net value	\$ 2,248	\$ 764	\$ 3,012
	=====	=====	=====

All non-compete agreements are included in the Carlon business segment and the majority of patents are included in the Lamson Home Products business segment. Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for each of the three succeeding years will be \$1.3 million, \$0.2 million and \$0.01 million for 2005 through 2007, respectively. The change in goodwill in 2004 is due to the timing of realization of certain tax deductible goodwill.

NOTE C - LONG-TERM DEBT AND COMMITMENTS

Long-term debt consists of the following:

(Dollars in thousands)	FISCAL YEARS	
	-----	-----
	2004	2003
	-----	-----
Secured Credit Agreement:		
Term	\$ 1,705	\$14,300
Revolver	73,295	67,100
	-----	-----

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	75,000	81,400
Industrial Revenue Bonds	8,685	9,195
Mortgage	4,066	4,155
	-----	-----
	87,751	94,750
Less amounts classified as current	75,875	11,760
	-----	-----
	\$11,876	\$82,990
	=====	=====

In August 2000, the Company completed the refinancing of its previous Secured Credit Agreement by entering into a new five-year, \$125 million revolving credit agreement with a consortium of banks led by Harris Trust of Chicago. In December 2000, in conjunction with the acquisition of Ameriduct, the agreement was amended and increased to a \$194 million facility, consisting of \$48.5 million in term debt and \$145.5 million in a revolver. As of March 27, 2002 the agreement was amended reducing the credit commitments of the lenders to an aggregate \$150 million of which \$110 million represents a revolving credit facility with the remainder representing term debt. In addition, this amendment provided for a 1.0% term loan fee and an increase of 1.0% in the term loan interest rate if the term loan was not paid in full by September 30, 2002. Since the term loan was not paid in full by September 2002, the increase in interest rate and additional fee were realized. The term portion of this agreement requires a final principal payment of \$1.7 million on

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE C - LONG-TERM DEBT AND COMMITMENTS - CONTINUED

March 31, 2005. This agreement is secured by substantially all of the Company's assets. Interest on the revolver portion of the facility is at LIBOR plus 1.5% to 4.0% and LIBOR plus 2.5% to 5.0% for the term portion. The specific rate is determined based on the ratio of indebtedness to adjusted earnings before interest, taxes, depreciation and amortization (leverage ratio) and is calculated quarterly. The average interest rate at January 1, 2005 is 5.95%. In addition to amounts borrowed, letters of credit related to Industrial Revenue Bond financings and other contractual obligations total approximately \$14.4 million under the agreement. Total availability at January 1, 2005, under the Secured Credit Agreement, approximates \$14.0 million. The Company's credit agreement contains various restrictive covenants pertaining to maintenance of net worth, certain financial ratios and prohibits stock repurchases and dividend payments. At the end of 2004 the Company's leverage ratio of 2.9 did not meet the required covenant level of 2.75. In February 2005, the Company received a waiver and amendment for this deficiency and an increase in the future leverage covenant to 3.1 which reflects current and future working capital requirements. The Company was in compliance with all other debt covenants at January 1, 2005 and is expected to maintain compliance throughout the remainder of the term of the credit agreement. The Company did lower its leverage ratio at the 2004 year-end, which will, in turn, be reflected as a 50 basis point decline in the Secured Credit Agreement interest rate during the first quarter 2005.

The Company's Industrial Revenue Bond financings include several issues due in annual installments from 2005 through 2023 with interest at variable rates. The weighted average rate for these bonds at January 1, 2005 was 2.01%. When consideration is given to the cost of related letters of credit, the effective weighted-average interest rate is 5.51% at January 1, 2005.

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The mortgage on the Company's headquarters is payable in equal monthly installments of \$26,000 through 2012 with interest at prime rate plus 0.25% (5.50% at January 1, 2005).

The aggregate minimum combined maturities of long-term debt for the year 2006 through 2009 are approximately \$786,000, \$967,000, \$497,000 and \$507,000, respectively, with \$9,119,000 due thereafter.

During the first quarter of 2001, the Company entered into two interest rate swap agreements for a total notional amount of \$58.5 million, \$18.5 million of which is outstanding at January 1, 2005, which effectively fixes interest rates on its variable rate debt at 5.41% and 5.48%, plus the Company's risk premium of 1.5% to 4.0%, respectively. These transactions are considered cash flow hedges and, therefore, the fair market value at the end of 2004 of a \$169,000 (net of \$107,000 in tax) loss has been recognized in other comprehensive income (loss). There is no ineffectiveness on the cash flow hedges, therefore, all changes in the fair value of these derivatives are recorded in equity and not included in the current period's income statement. Approximately \$276,000 loss on the fair value of the hedges is classified in current other accrued expenses.

Interest paid was \$6,468,000, \$8,609,000 and \$8,752,000 in 2004, 2003 and 2002, respectively.

Rental expense was \$5,848,000, \$5,620,000 and \$5,777,000 in 2004, 2003 and 2002, respectively. Aggregate future minimum payments related to non-cancelable operating leases with initial or remaining terms of one year or more for the years 2005 through 2009 are approximately \$4,458,000, \$3,421,000, \$2,800,000, \$2,480,000 and \$1,330,000, respectively, with \$2,628,000 due thereafter.

NOTE D - 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 and non-employee directors. As of January 1, 2003 the Company eliminated the salary defined benefit plan for future employees. This action makes all pension and other post-retirement benefit plans closed to new entrants and will reduce future service costs. As of April 2004 the

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE D - PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS - CONTINUED

Company assumed certain post-retirement medical and life insurance benefits of YSD Industries, Inc. ("YSDI"), a business which the Company sold in 1988 (see Note G).

The following table provides a reconciliation of the changes in the benefit obligations and fair value of plan assets over each of the two years in the period ended January 1, 2005 and January 3, 2004, respectively, and a statement of the funded status at both years' end:

PENSION BENEFITS		OTHER BENEFITS	
2004	2003	2004	2003

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(Dollars in thousands)	-----	-----	-----	-----
CHANGE IN BENEFIT OBLIGATION				
Obligation at beginning of year	\$81,242	\$77,504	\$18,800	\$13,488
Service cost	1,192	1,069	7	9
Interest cost	4,874	5,044	917	1,168
Plan participants' contribution	--	--	613	129
Plan amendment	--	--	(3,174)	1,487
Actuarial loss (gain)	7,451	4,243	(1,604)	4,511
Assumption of YSDI benefits (see Note G)	--	--	3,521	--
Benefits paid	(6,449)	(6,618)	(2,876)	(1,992)
	-----	-----	-----	-----
Obligation at end of year	\$88,310	\$81,242	\$16,204	\$18,800
	=====	=====	=====	=====

The actuarial losses reflected for pension benefits in 2004 and 2003 related primarily to lower discount rates in each year. Other benefits were reduced in 2004 by \$3.2 million for plan amendments that capped the Company's payments for all current and future salaried retiree medical reimbursements.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In accordance with FASB Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," the effects of the subsidy resulted in a \$0.6 million reduction of the accumulated post-retirement benefit obligation and is reflected as an actuarial gain in 2004 in the table above, while other benefit costs were reduced by \$0.1 million in 2004.

(Dollars in thousands)	PENSION BENEFITS		OTHER BENEFITS	
	2004	2003	2004	2003
	-----	-----	-----	-----
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	\$72,362	\$62,877	\$ --	\$ --
Actual return on plan assets	8,011	14,977	--	--
Employer contributions	1,866	1,126	2,263	1,863
Plan participants' contributions	--	--	613	129
Benefits paid	(6,449)	(6,618)	(2,876)	(1,992)
	-----	-----	-----	-----
Fair value of plan assets at end of year	\$75,790	\$72,362	\$ --	\$ --
	=====	=====	=====	=====

Plan assets include 860,856 shares of the Company's common stock with a fair market value at January 1, 2005 of \$7.8 million and \$5.0 million at January 3, 2004.

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The pension plan weighted-average asset allocation at year ended 2004 and 2003 and target allocation for 2005 are as follows:

ASSET CATEGORY -----	TARGET 2005 -----	PLAN ASSETS -----	
		2004 -----	2003 -----
Equity securities	70.0%	72.3%	75.0%
Debt securities	29.0%	26.8%	22.2%
Other	1.0%	0.9%	2.8%
	-----	-----	-----
	100.0%	100.0%	100.0%
	=====	=====	=====

The Company's defined benefit plan assets are managed by institutional investment managers who have been selected based upon their respective investment discipline and historical performance. The asset allocation has a strong bias towards equities because of their higher investment return potential compared with fixed income alternatives. The participants in the defined benefit plans total approximately 3,500 at the beginning of 2004 of which approximately 46.0% are retired and receiving benefit payments. In order to maintain an appropriate funding level, the Company believes that it is necessary and prudent to accept the higher risk associated with equities in order to achieve higher return levels over the long-term.

The Company expects to contribute \$1.7 to \$2.0 million to its defined benefit pension plans in 2005.

The expected benefit payments for the Company's benefits plans are as follows:

(Dollars in thousands)	PENSION PLANS -----	OTHER BENEFITS -----
2005	\$6,476	\$2,155
2006	6,345	1,997
2007	6,190	1,941
2008		