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LAMSON & SESSIONS CO
Form 10-Q
July 30, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

F O R M 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 5, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-313

T H E L A M S O N & S E S S I O N S C O .

(Exact name of Registrant as specified in its charter)

Ohio

34-0349210

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

25701 Science Park Drive
Cleveland, Ohio

44122-7313

(Address of principal executive offices)

(Zip Code)

216/464-3400

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last
report.)

Indicate by check mark whether the Registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during
the preceding 12 months (or for such shorter period that the Registrant was
required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days. Yes X No

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

APPLICABLE ONLY TO ISSUERS INVOLVED

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IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No
 --- ---

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of July 5, 2003 the Registrant had outstanding 13,785,520 common shares.

PART I

ITEM 1 - FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED) THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

(Dollars in thousands, except per share data)

	SECOND QUARTER ENDED				
	2003		2002		
NET SALES	\$87,072	100.0%	\$89,198	100.0%	\$166,51
Cost of products sold	71,016	81.6%	69,699	78.1%	137,19
GROSS PROFIT	16,056	18.4%	19,499	21.9%	29,32
Operating expenses	11,043	12.7%	12,527	14.1%	21,72
OPERATING INCOME	5,013	5.7%	6,972	7.8%	7,60
Interest expense, net	2,125	2.4%	2,596	2.9%	4,33
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	2,888	3.3%	4,376	4.9%	3,26
Income tax provision	1,185	1.3%	1,968	2.2%	1,34
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	1,703	2.0%	2,408	2.7%	1,92

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Cumulative effect of change in accounting principle, net of income tax of \$13,750	-	0.0%	-	0.0%	
	-----		-----		-----
NET INCOME (LOSS)	\$ 1,703	2.0%	\$ 2,408	2.7%	\$ 1,92
	=====		=====		=====
BASIC EARNINGS (LOSS) PER COMMON SHARE:					
Earnings before cumulative effect of change in accounting principle	\$ 0.12		\$ 0.17		\$ 0.1
Cumulative effect of change in accounting principle, net of tax	-		-		
	-----		-----		-----
NET EARNINGS (LOSS)	\$ 0.12		\$ 0.17		\$ 0.1
	=====		=====		=====
DILUTED EARNINGS (LOSS) PER COMMON SHARE:					
Earnings before cumulative effect of change in accounting principle	\$ 0.12		\$ 0.17		\$ 0.1
Cumulative effect of change in accounting principle, net of tax	-		-		
	-----		-----		-----
NET EARNINGS (LOSS)	\$ 0.12		\$ 0.17		\$ 0.1
	=====		=====		=====

See notes to Consolidated Financial Statements (Unaudited).

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

(Dollars in thousands)

	SECOND QUARTER ENDED	YEAR ENDED	SECOND END
	-----	-----	-----
	2003	2002	20
	-----	-----	-----
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 1,318	\$ 1,496	\$ 3
Accounts receivable, net of allowances of \$1,946, \$1,924 and \$2,701, respectively	48,240	36,686	46
Inventories, net			
Finished goods and work-in-process	39,247	28,881	30
Raw materials	3,480	3,349	3

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	42,727	32,230	34
Deferred tax assets	9,979	9,979	6
Prepaid expenses and other	4,323	4,373	4
	-----	-----	-----
TOTAL CURRENT ASSETS	106,587	84,764	95
PROPERTY, PLANT AND EQUIPMENT			
Land	3,537	3,537	3
Buildings	25,119	24,910	24
Machinery and equipment	119,296	116,595	115
	-----	-----	-----
	147,952	145,042	143
Less allowances for depreciation and amortization	96,987	93,293	88
	-----	-----	-----
TOTAL NET PROPERTY, PLANT AND EQUIPMENT	50,965	51,749	54
GOODWILL	21,558	21,558	21
PENSION ASSETS	30,449	30,882	23
DEFERRED TAX ASSETS	15,629	16,879	21
OTHER ASSETS	6,714	7,873	8
	-----	-----	-----
TOTAL ASSETS	\$ 231,902	\$ 213,705	\$ 225
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	\$ 33,390	\$ 21,209	\$ 24
Accrued compensation and benefits	9,049	11,660	8
Other accrued expenses	15,020	15,617	16
Taxes	3,751	3,854	4
Current maturities of long-term debt	11,755	11,772	12
	-----	-----	-----
TOTAL CURRENT LIABILITIES	72,965	64,112	66
LONG-TERM DEBT	91,443	84,350	98
POST RETIREMENT BENEFITS AND OTHER LONG-TERM LIABILITIES	29,088	29,067	24
SHAREHOLDERS' EQUITY			
Common shares	1,379	1,378	1
Other capital	75,525	75,499	75
Retained earnings (deficit)	(32,902)	(34,831)	(38)
Accumulated other comprehensive income (loss)	(5,596)	(5,870)	(2)
	-----	-----	-----
TOTAL SHAREHOLDERS' EQUITY	38,406	36,176	36
	-----	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 231,902	\$ 213,705	\$ 225
	=====	=====	=====

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See notes to Consolidated Financial Statements (Unaudited).

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

(Dollars in thousands)

	FIRST HALF ENDED	
	2003	2002
	-----	-----
OPERATING ACTIVITIES		
Net income (loss)	\$ 1,929	\$(44,598)
Adjustments to reconcile net income (loss) to cash (used) provided by operating activities:		
Cumulative effect of change in accounting principle	-	46,250
Depreciation	4,553	5,185
Amortization	800	800
Deferred income taxes	1,111	1,177
Net change in working capital accounts:		
Accounts receivable	(11,554)	(7,381)
Inventories	(10,497)	7,819
Prepaid expenses and other	50	781
Accounts payable	12,181	2,144
Accrued expenses and other current liabilities	(2,955)	1,221
Other long-term items	1,233	(1,551)
	-----	-----
CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(3,149)	11,847
INVESTING ACTIVITIES		
Net additions to property, plant and equipment	(3,605)	(1,910)
Acquisitions and related items	(500)	(500)
	-----	-----
CASH USED IN INVESTING ACTIVITIES	(4,105)	(2,410)
FINANCING ACTIVITIES		
Net borrowings (payments) under secured credit agreement	7,300	(5,500)
Payment on other long-term borrowings	(224)	(369)
	-----	-----
CASH PROVIDED (USED) BY FINANCING ACTIVITIES	7,076	(5,869)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(178)	3,568
Cash and cash equivalents at beginning of year	1,496	165
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,318	\$ 3,733
	=====	=====

See notes to Consolidated Financial Statements (Unaudited).

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and changes in accounting estimates) considered necessary for a fair presentation have been included. Certain 2002 amounts have been reclassified to conform with 2003 classifications.

NOTE B - GOODWILL AND INTANGIBLE ASSETS

The Company adopted Statement of Financial Accounting Standard (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 will 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 including discounted cash flows. Given the indication of a potential impairment, 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). This transitional impairment loss was recognized as a cumulative effect of a change in accounting principle as of the beginning of fiscal 2002. The transitional impairment loss is a one-time, non-cash charge. No reclasses were required between intangible assets and goodwill pursuant to the adoption of this Standard. Of the \$21.6 million of goodwill remaining on the balance sheet approximately \$20.1 million relates to the telecom reporting unit in the Carlon business segment and the remainder is included in the Lamson Home Product business segment.

NOTE C - INCOME TAXES

The year-to-date 2003 income tax provision was calculated based on management's estimate of the annual effective tax rate of 41.0% for the year. The provisions for 2003 and 2002 are primarily non-cash charges.

NOTE D - BUSINESS SEGMENTS

The Company's reportable segments are as follows:

Carlon - 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 nonmetallic enclosures, electrical outlet boxes and fittings. Examples of the applications for the products included in this segment are multi-cell duct systems and High Density Polyethylene (HDPE) conduit

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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" home improvement market. The products included in this segment are electrical outlet boxes, liquidtight conduit, electrical fittings, door chimes and lighting controls.

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTE D - BUSINESS SEGMENTS - CONTINUED

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

(Dollars in thousands)

	SECOND QUARTER ENDED		FIRST HALF ENDED	
	2003	2002	2003	2002
NET SALES				
Carlton	\$ 39,145	\$ 41,937	\$ 73,124	\$ 76,928
Lamson Home Products	19,011	17,511	37,575	33,803
PVC Pipe	28,916	29,750	55,818	46,550
	\$ 87,072	\$ 89,198	\$ 166,517	\$ 157,281
	=====	=====	=====	=====
OPERATING INCOME (LOSS)				
Carlton	\$ 3,675	\$ 5,099	\$ 5,681	\$ 8,256
Lamson Home Products	3,225	2,541	5,848	4,534
PVC Pipe	(8)	1,257	(709)	(1,507)
Corporate Office	(1,879)	(1,925)	(3,213)	(3,256)
	\$ 5,013	\$ 6,972	\$ 7,607	\$ 8,027
	=====	=====	=====	=====
DEPRECIATION AND AMORTIZATION				
Carlton	\$ 1,721	\$ 1,895	\$ 3,448	\$ 3,841
Lamson Home Products	420	492	853	1,016
PVC Pipe	523	558	1,052	1,128
	\$ 2,664	\$ 2,945	\$ 5,353	\$ 5,985
	=====	=====	=====	=====

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Total assets by business segment at July 5, 2003, December 28, 2002 and June 29, 2002 are as follows:

(Dollars in thousands)

	JULY 5, 2003 -----	DECEMBER 28, 2002 -----	JUNE 29, 2002 -----
IDENTIFIABLE ASSETS			
Carlton	\$ 89,534	\$ 83,750	\$ 92,889
Lamson Home Products	31,172	27,222	28,453
PVC Pipe	46,596	35,862	41,179
Corporate Office (includes deferred tax and pension assets)	64,600	66,871	62,802
	-----	-----	-----
	\$231,902	\$213,705	\$225,323
	=====	=====	=====

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTE E - COMPREHENSIVE INCOME

The components of comprehensive income (loss) for the second quarter and the first half of 2003 and 2002 are as follows:

(Dollars in thousands)

	SECOND QUARTER ENDED		FIRST HALF ENDED	
	JULY 5, 2003 -----	JUNE 29, 2002 -----	JULY 5, 2003 -----	JUNE 29, 2002 -----
Net income (loss)	\$1,703	\$ 2,408	\$1,929	\$ (44,598)
Foreign currency translation adjustments	47	40	57	15
Interest rate swaps, net of tax	99	(454)	217	(128)
	-----	-----	-----	-----
Comprehensive income (loss)	\$1,849	\$ 1,994	\$2,203	\$ (44,711)
	=====	=====	=====	=====

The components of accumulated other comprehensive income (loss), at July 5, 2003, December 28, 2002 and June 29, 2002 are as follows:

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(Dollars in thousands)

	JULY 5, 2003	DECEMBER 28, 2002	JUNE 29, 2002
	-----	-----	-----
Foreign currency translation adjustments	\$ (557)	\$ (614)	\$ (576)
Minimum pension liability adjustments, net of tax	(3,706)	(3,706)	(421)
Interest rate swaps, net of tax	(1,333)	(1,550)	(1,162)
	-----	-----	-----
Accumulated other comprehensive income (loss)	\$ (5,596)	\$ (5,870)	\$ (2,159)
	=====	=====	=====

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTE F - EARNINGS PER SHARE CALCULATION

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

(Dollars in thousands, except per share amounts)

	SECOND QUARTER ENDED		FIRST HALF ENDED	
	2003	2002	2003	2002
	-----	-----	-----	-----
Basic Earnings-Per-Share Computation				
Net Income (Loss)	\$ 1,703	\$ 2,408	\$ 1,929	\$ (44,598)
	=====	=====	=====	=====
Average Common Shares Outstanding	13,786	13,778	13,784	13,778
	=====	=====	=====	=====
Basic Earnings (Loss) Per Share	\$ 0.12	\$ 0.17	\$ 0.14	\$ (3.24)
	=====	=====	=====	=====
DILUTED EARNINGS-PER-SHARE COMPUTATION				
Net Income (Loss)	\$ 1,703	\$ 2,408	\$ 1,929	\$ (44,598)
	=====	=====	=====	=====
Basic Shares Outstanding	13,786	13,778	13,784	13,778
Stock Options Calculated Under the Treasury Stock Method	83	45	45	-

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	-----	-----	-----	-----
Total Shares	13,869	13,823	13,829	13,778
	=====	=====	=====	=====
Diluted Earnings (Loss) Per Share	\$ 0.12	\$ 0.17	\$ 0.14	\$ (3.24)
	=====	=====	=====	=====

In 2002, the weighted average shares issuable upon the exercise of stock options were excluded from the computation of the year-to-date diluted earnings per share due to their antidilutive effect.

NOTE G - DERIVATIVES AND HEDGING

The Company recognizes all derivative financial instruments as either assets or liabilities at fair value. Derivative instruments that are not hedges are adjusted to fair value through net income. Changes in the fair value of derivative instruments that are classified as fair value hedges are offset against changes in the fair value of the hedged assets, liabilities, or firm commitments, 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.

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTE G - DERIVATIVES AND HEDGING - CONTINUED

During the first quarter of 2001, the Company entered into two interest rate swap agreements for a total notional amount of \$58.5 million, of which \$36.5 million was outstanding at July 5, 2003. The swap agreements effectively fix the interest rate 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 the second quarter 2003 of a \$1,333,000 (net of \$852,000 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 \$1,528,000 loss on the fair value of the hedges is classified in current accrued liabilities, with the remaining \$657,000 loss classified as a long-term liability.

The Company has no derivative instruments that are classified as fair value hedges.

NOTE H - CONTINGENCY

The Company is contingently liable for certain post-retirement benefits of a business previously sold in 1988. The business is being impacted unfavorably by the poor economic outlook in their markets and may be unable to continue funding these benefits. The Company continues to monitor the situation and is in the process of determining the potential liability to the Company in the event the business is not able to meet its obligation.

NOTE I - STOCK COMPENSATION PLANS

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The Company currently has two stock-based employee compensation plans. 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 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 FASB Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

(Dollars in thousands, except per share data)

		SECOND QUARTER ENDED		FIRST HALF ENDED	
		2003	2002	2003	2002
Net income (loss)	As reported	\$ 1,703	\$ 2,408	\$ 1,929	\$ (44,598)
Total stock-based employee compensation, net of tax		(148)	(191)	(302)	(371)
Net income (loss)	Pro forma	\$ 1,555	\$ 2,217	\$ 1,627	\$ (44,969)
Basic earnings per share	As reported	\$ 0.12	\$ 0.17	\$ 0.14	\$ (3.24)
	Pro forma	0.11	0.16	0.12	(3.26)
Diluted earnings per share	As reported	\$ 0.12	\$ 0.17	\$ 0.14	\$ (3.24)
	Pro forma	0.11	0.16	0.12	(3.26)

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

RESULTS OF OPERATIONS

Net sales decreased by 2.4%, or \$2.1 million, in the second quarter 2003 compared with the second quarter of 2002. The Carlon segment declined by \$2.8 million, or 6.7%, compared with the same quarter of the prior year. There has been a decline in telecom raceway system spending for inside plant projects. This slow down correlates to the generally soft commercial construction spending that continues as businesses defer or scale back infrastructure investments. The remainder of telecom products sales held steady with the prior year. The Lamson Home Products business segment had net sales increase by \$1.5 million, or 8.6%, in the second quarter of 2003 compared with the second quarter of 2002. This segment continues to realize the benefits of market share gains made during the second half of 2002 with several customers, while the home improvement market

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remained strong overall. This activity is supported by low mortgage rates and active existing home sales. Finally, the PVC Pipe business segment experienced a net sales decline of \$0.8 million, or 2.8%, in the current quarter compared with the prior year. The selling prices for PVC Pipe were up 22.0% in the current quarter compared with the same period last year as resin costs remained at very high levels, however, pipe pounds sold were down almost 30.0% for the same periods. This sales volume is in line with the first quarter of 2003, and was affected by the poor weather in much of the country this spring and the continued weak demand in the commercial and industrial construction market.

For the first half of 2003, net sales increased by 5.9%, or \$9.2 million, compared with the first half of 2002. About \$5.0 million of this increase was a result of an extra week occurring in the first fiscal quarter compared with the prior year. The Carlon business segment's net sales declined by \$3.8 million, or 4.9%, in the first half of 2003 which was offset by an 11.2% increase in Lamson Home Products net sales during the same period. The Carlon net sales shortfall was almost entirely from telecommunications-related product lines, primarily premise raceway projects as described above. The Lamson Home Products net sales increases, as in the second quarter, were primarily attributable to market share gains. The PVC Pipe business segment accounted for the largest increase in year-to-date net sales increasing by \$9.3 million, or 19.9%, over the prior year first half period. Although the volume of pipe shipments is down 9.0%, the average selling price is 22.0% higher in the first half of 2003 compared with the first half of 2002.

The gross margin percentage in the second quarter of 2003 declined to 18.4% from the 21.9% gross margin that was realized in the second quarter of 2002. The primary reason for this decline is the relatively unfavorable product mix occurring in the Carlon business segment. In addition, the PVC Pipe business segment is experiencing narrower margins compared with the prior year as resin costs have increased almost 50.0%. Due to softness in the commercial and industrial construction demand in the current quarter only about half of this material cost increase has been recovered through increased selling prices. Lamson Home Products business segment gross margin has increased from the prior year due to the additional sales generated and fixed nature of the business support costs. Manufacturing costs so far this year have been unfavorably impacted by higher medical benefits and general insurance costs. The overall percent of capacity utilization in the manufacturing facilities improved to the high 70's in the current quarter compared with the mid 70's in the prior-year period. Lower utilization of the PVC Pipe extrusion facilities was more than offset by the higher capacity utilization in the injection molding and HDPE conduit production facilities.

Operating income for the second quarter of 2003 totaled \$5.0 million, or 5.7% of net sales, compared with the \$7.0 million, or 7.8% of net sales, in the prior year's second quarter. The entire decline in operating income is due to the lower gross profit as previously discussed. Operating expenses are lower by \$1.5 million, or 11.8%, in the second quarter 2003 compared with the same quarter in the prior year. Higher pension and medical costs, both current employee and retiree, were offset by lower variable selling and marketing expenses and reduced legal, incentive compensation and bad debt expenses.

Year-to-date operating income is \$7.6 million, or 4.6% of net sales, in 2003 compared with \$8.0 million, or 5.1% of net sales, for the first half of 2002. Operating expenses for the current year-to-date are \$1.2 million lower than

the prior year. Higher variable selling and marketing expense, pension and overall medical costs were incurred. However, the Company experienced lower

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legal, consulting, compensation and bad debt expense.

During the second quarter of 2002, the Company completed the transitional review for goodwill impairment 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) as of the beginning of fiscal 2002.

Net interest expense declined by approximately \$0.7 million for the first half of 2003 compared with the first half of 2002. Over the last 12 months, debt has been paid down by almost \$7.3 million and average borrowing rates have declined to 6.2% in the second quarter 2003 (6.3% in the first half of 2003) from 7.0% in the second quarter of 2002.

The income tax provision was recorded using an annualized estimated effective rate of 41.0% for 2003, while the 2002 year-to-date income tax provision reflects an estimated tax rate of 42.0%.

The Company's earnings before interest, taxes, depreciation and amortization (EBITDA) were \$7.7 million for the second quarter of 2003, and \$13.0 million for the first half of 2003 compared with \$9.9 million, and \$14.0 million for the respective periods in 2002.

The components of this calculation are as follows:

(Dollars in thousands)

	SECOND QUARTER		FIRST HALF	
	2003	2002	2003	2002
Operating income	\$5,013	\$6,972	\$ 7,607	\$ 8,027
Depreciation	2,264	2,545	4,553	5,185
Amortization	400	400	800	800
	-----	-----	-----	-----
EBITDA	\$7,677	\$9,917	\$12,960	\$14,012
	=====	=====	=====	=====

EBITDA is a calculation used by management to measure operating performance. EBITDA is not a recognized term under accounting principles generally accepted in the United States and does not purport to be an alternative to operating income or cash flows from operating activities as a measure of liquidity.

FINANCIAL CONDITION

Working capital (current assets less current liabilities) was \$33.6 million at the end of the second quarter of 2003, an increase of \$4.5 million from last year's second quarter, but \$12.9 million higher than from the 2002 year-end. During the first half of the year, the Company usually builds inventory and incurs higher accounts receivable balances which reduce operating cash flow.

Accounts receivable were \$48.2 million at the end of the second quarter of 2003. This represents an increase of 3.6%, or \$1.7 million, from the prior year's

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second quarter. This increase is directly attributed to the higher sales late in the current quarter compared with the prior year. Days sales outstanding calculated using a 3-month rolling average, were approximately 48.1 days in the second quarter of 2003, which is virtually the same as the second quarter of 2002. The quality of accounts receivable has been maintained through close monitoring and diligent collection efforts.

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At the end of the first half of 2003, the Company had approximately \$42.7 million in inventory. The inventory level is up \$10.5 million, or 32.6%, from year-end 2002, and higher by \$8.5 million, or 24.7%, from the end of the first half of 2002. The cost per pound of the primary raw material, PVC resin, has continued to increase steadily during the first half of 2003, and is approximately 22.9% higher at the end of the first half of 2003 compared with the same quarter of 2002 and 16.3% higher than at year-end 2002. In addition, pounds of PVC resin in inventory at the end of the second quarter of 2003 were almost 34.0% more than at year-end 2002, and 16.0% more than the second quarter of 2002. The Company has built inventories of PVC resin products to support the start up of new blend operations in the fourth quarter of 2003. On an overall basis, inventory turns, based on a 3-month rolling average, were 6.1 times at July 5, 2003 versus 6.8 times at June 29, 2002.

Accounts payable has increased from year-end 2002 by \$12.2 million and is \$9.3 million higher than the prior year first half which primarily reflects the higher inventory levels. The reduction in expense accruals from year-end 2002 during the first half of 2003 reflects the routine payments of annual incentive compensation and customer sales and marketing programs.

Capital expenditures totaled \$3.6 million in the first half of 2003 primarily for production improvements and critical tooling. The Company plans to spend approximately \$8-10 million on selective plant capacity increases, equipment upgrades, enhanced business system capabilities and tooling to support new product introductions during 2003.

The Company has credit availability of over \$25.0 million, which is adequate for its current operational expenses and the capital spending plans described above. On July 29, 2003 the Company entered into a fifth amendment to its secured credit agreement which resets its financial covenants consistent with management's expectations of future results considering the continued delay in the economic recovery. Based on the Company's second quarter leverage ratio, the interest rate spread pursuant to the Company's secured credit agreement remained unchanged.

The Company continues to operate under a Business Plan (the "Plan") accepted by the New York Stock Exchange (the "Exchange") in December 2002. The Company submitted its Plan to the Exchange in October 2002 in order to comply with the listing requirements of the Exchange. This effort follows a formal notice from the Exchange that the Company was, at the time of the notice, below the Exchange's continued listing criteria of a total market capitalization of not less than \$50.0 million over a 30-day trading period and shareholders' equity of not less than \$50.0 million. The Company's Plan will be reviewed quarterly for ongoing compliance with its goals and objectives. The Company's total market capitalization, based on 13.786 million shares of common stock outstanding at a closing price of \$5.15 on July 29, 2003 was \$71.0 million. The market capitalization was above \$50 million over a 30-day trading period, as required by the Exchange's listing criteria. The Company believes the Plan, when implemented, should continue to achieve the requirements of the Exchange for market capitalization and to achieve the requirements of the

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Exchange for shareholders' equity. At the end of the second quarter 2003, the Company's shareholder equity was \$38.4 million.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Inherent in the Company's results of operations are certain estimates, assumptions and judgments including reserves against accounts receivable for doubtful collections, inventory costing and valuation allowances and an assumed rate of return on invested pension assets. The Company maintains allowances against accounts receivable and inventory obsolescence and valuation reserves that are reasonable and that are based on the Company's historical experience and current expectations for future performance of operations.

A sudden and prolonged deterioration in the economy could adversely affect the Company's customers (especially related to the telecom or retail market) requiring the Company to increase its allowances for doubtful accounts. A sudden or unexpected decline in PVC resin costs coupled with a slow-down in sales volume could result in write downs of inventory valuations. If such adverse conditions would occur, the Company cannot

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readily predict the effect on its financial condition or results of operations as any such effect depends on both future results of operations and the magnitude and timing of the adverse conditions.

The Company's policy of amortizing unrecognized gains or losses in accordance with SFAS No. 87, the significant deterioration in the stock market and resulting reduction in defined benefit pension plan assets has caused an increase of approximately \$2.4 million in the reported pension expense to be included in the Company's results of operations in 2003. The Company made a voluntary contribution of \$6.0 million to the Company's defined benefit plans in the fourth quarter of 2002. In addition, any further decline in defined benefit pension plan assets or discount rates during the next year will increase the future contribution levels required for the Company's defined benefit pension plans.

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. Likewise, actual litigation costs can vary from estimates based on the facts and circumstance and application of laws in individual cases.

As of July 5, 2003, the Company had approximately \$25.6 million of net deferred tax assets primarily related to loss carryforwards that expire through 2022 and other timing differences. The realization of these net assets is based primarily upon estimates of future taxable income. 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.

As disclosed in the Company's consolidated financial statements, the Company has goodwill of \$21.6 million, the majority of which relates to the telecom reporting unit in the Carlon business segment. An annual impairment test of goodwill is performed by an independent third party as of the first day of the fourth quarter (or as conditions warrant). The test as of September 29, 2002 resulted in no additional impairment being identified from the impairment recorded as of the first day of fiscal 2002 in connection with the adoption of

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SFAS No. 142, "Goodwill and Other Intangible Assets." However, the process of evaluating goodwill for additional impairment involves the determination of the fair value of the telecom reporting unit. Inherent in such fair value determinations 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 effect on our financial position or results of operations.

OUTLOOK

Certain sections of this Quarterly Report on Form 10-Q, including this Outlook Section, contain forward-looking comments. The comments are subject to, and the actual future results may be impacted by, the cautionary limitations and factors outlined in the following narrative comments.

Despite continued poor weather conditions in most of the country during this quarter, housing starts and building permits both remained at very high levels. This activity has continued to support electrical related sales in all three business segments. It is anticipated that housing starts will slow down modestly in the second half of 2003. The non-residential construction market remains very soft with no improvement in volume anticipated until late 2003 or into 2004 as both industrial and commercial property markets have excess capacity.

The Company believes that while the telecommunications infrastructure market has continued to decline, we have experienced stable demand for our products in the first half and believes overall that demand will be flat through the remainder of 2003 for these products. We believe that the Regional Bell Operating Companies are acquiring existing network assets from insolvent owners instead of spending capital on new infrastructure. Therefore, investments have been delayed or scaled back until the economics improve. Due to the increased use of the internet for a variety of applications, we continue to anticipate that the build-out of the metropolitan area fiber optic networks, the

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expansion of the corporate and institutional high-speed networks and the expansion of broadband services to the home remain long-term growth opportunities.

As expected, PVC resin costs increased in response to higher oil and natural gas prices and capacity restrictions on some feedstocks. We anticipate that these costs will level off and decline only slightly throughout the remainder of 2003. Due to weakness in end market demand, especially commercial construction, we were unable to pass on to customers some part of these increases, resulting in lower margins and breakeven results in the PVC Pipe business segment. These margins are expected to improve modestly in the second half.

On a positive note, operationally the Company has performed very well throughout the first half of 2003 with fill rates and on-time shipments at record levels. Due in a large part to this performance, Lamson Home Products, as in 2002, has been able to secure additional market share with several of its customers. We anticipate that this business will improve Lamson Home Products sales growth in the second half of 2003 and operating performance in 2004.

In summary, management continues to expect that net sales for 2003 will increase by 8-10% over 2002. This comes primarily from higher price levels in the PVC Pipe business segment and market-share improvement in Lamson Home Products. We continue to anticipate that net income will experience a 10-15% improvement over 2002, prior to the change in accounting for SFAS No. 142, "Goodwill and Other

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Intangible Assets," from a higher sales level, improved customer service and operational efficiencies.

This Management's Discussion and Analysis of Financial Condition and Results of Operations contain expectations that are 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 volatility of resin pricing, (ii) the ability of the Company to pass through raw material cost increases to its customers, (iii) maintaining a stable level of housing starts, telecommunications infrastructure spending, consumer confidence and general construction trends, (iv) the continued availability and reasonable terms of bank financing and (v) 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 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We have no material changes to the disclosure on this matter since the end of our most recent fiscal year, December 28, 2002.

ITEM 4 - CONTROLS AND PROCEDURES

Within 90 days before the filing date of this Quarterly Report on Form 10-Q for the quarter ended July 5, 2003, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's controls and procedures. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls of the Company subsequent to their evaluation.

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PART II

ITEM 1 - 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 has reversed the decision of the Court of Appeals and remanded the case back to it. In March

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2003, the Court of Appeals remanded this litigation back to the United States District Court for reconsideration. The Company does not expect this matter to be finally determined in 2003.

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.

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

On April 30, 2003, the Company held its Annual Meeting of Shareholders. At the meeting 12,583,064 Common Shares (91.33% of the Common Shares outstanding) were voted.

The following three directors were elected to Class II and received the votes indicated next to their names.

CLASS II	FOR	WITHHELD AUTHORITY
John C. Dannemiller	12,450,513	132,551
George R. Hill	12,452,113	130,951
William H. Coquillette	12,452,453	130,611

In addition, the following director was elected to Class I and received the votes indicated next to his name.

CLASS I	FOR	WITHHELD AUTHORITY
D. Van Skilling	12,448,253	134,811

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ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

10(a) Fifth Amendment to the Amended and Restated Credit Agreement, entered into as of July 29, 2003, among The Lamson & Sessions Co., the Guarantors party thereto, the Lenders party thereto, and Harris Trust and Savings Bank, as Administrative Agent for the Lenders.

99(a) Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

1. The Company's Current Report on Form 8-K, dated April 30, 2003, relating to the certifications made by the Company's Chief Executive Officer and Chief Financial Officer with respect to the Company's Quarterly Report on Form 10-Q for the period ended April 5, 2003 pursuant to Section 906 of the Sarbanes-Oxley Act.
2. The Company's Current Report on Form 8-K, dated April 30, 2003, relating to the Company's earnings for first quarter 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE LAMSON & SESSIONS CO.

(Registrant)

July 30, 2003

By: /s/ James J. Abel

James J. Abel
Executive Vice President, Secretary,
Treasurer and Chief Financial Officer

I, John B. Schulze, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Lamson & Sessions Co.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

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- c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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- 5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and
- 6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

July 30, 2003

/s/ John B. Schulze

John B. Schulze
Chairman of the Board, President
and Chief Executive Officer

I, James J. Abel, Chief Financial Officer, certify that:

- 1. I have reviewed this quarterly report on Form 10-Q of The Lamson & Sessions Co.
- 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;
- 4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:

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- a) Designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- b) Evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

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- c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent function):
- a) All significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and
6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

July 30, 2003

/s/ James J. Abel

James J. Abel
Executive Vice President, Secretary,
Treasurer and Chief Financial Officer

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