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LAMSON & SESSIONS CO  
Form 10-Q  
July 27, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 2, 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-313

THE LAMSON & SESSIONS CO.

-----  
(Exact name of Registrant as specified in its charter)

Ohio

34-0349210

-----  
(State or other jurisdiction of  
incorporation or organization)

(IRS Employer Identification No.)

25701 Science Park Drive  
Cleveland, Ohio

44122-7313

-----  
(Address of principal executive offices)

(Zip Code)

216/464-3400

-----  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required  
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during  
the preceding 12 months (or for such shorter period that the Registrant was  
required to file such reports), and (2) has been subject to such filing  
requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act).

Yes  No

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 2, 2005 the Registrant had outstanding 14,204,324 common shares.

#### PART I

#### ITEM 1 - FINANCIAL STATEMENTS

##### CONSOLIDATED INCOME STATEMENTS (UNAUDITED) THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

(Dollars in thousands, except per share data)

	SECOND QUARTER ENDED				FIR	
	2005		2004		2005	
NET SALES	\$ 124,010	100.0%	\$ 102,148	100.0%	\$ 222,802	100.0%
Cost of products sold	100,995	81.4%	83,870	82.1%	182,810	82.1%
GROSS PROFIT	23,015	18.6%	18,278	17.9%	39,992	17.9%
Selling and marketing expenses	7,528	6.1%	7,141	7.0%	14,602	6.5%
General and administrative expenses	4,326	3.5%	3,769	3.7%	8,138	3.6%
Research and development expenses	462	0.4%	549	0.5%	938	0.4%
Total operating expenses	12,316	10.0%	11,459	11.2%	23,678	10.7%
Other expense (income), net	-	0.0%	298	0.3%	-	0.0%
OPERATING INCOME	10,699	8.6%	6,521	6.4%	16,314	7.3%
Interest expense, net	2,211	1.8%	1,950	1.9%	4,213	1.9%
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	8,488	6.8%	4,571	4.5%	12,101	5.4%
Income tax provision	3,261	2.6%	1,826	1.8%	4,670	2.1%
INCOME FROM CONTINUING OPERATIONS	5,227	4.2%	2,745	2.7%	7,431	3.3%
Income from discontinued						

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operations, net of income tax of \$256	-	0.0%	-	0.0%	-
	-----		-----		-----
NET INCOME	\$ 5,227	4.2%	\$ 2,745	2.7%	\$ 7,431
	=====		=====		=====
BASIC EARNINGS PER COMMON SHARE:					
Earnings from continuing operations	\$ 0.37		\$ 0.20		\$ 0.53
Earnings from discontinued operations, net of tax	-		-		-
	-----		-----		-----
NET EARNINGS	\$ 0.37		\$ 0.20		\$ 0.53
	=====		=====		=====
DILUTED EARNINGS PER COMMON SHARE:					
Earnings from continuing operations	\$ 0.35		\$ 0.19		\$ 0.51
Earnings from discontinued operations, net of tax	-		-		-
	-----		-----		-----
NET EARNINGS	\$ 0.35		\$ 0.19		\$ 0.51
	=====		=====		=====

See notes to Consolidated Financial Statements (Unaudited).

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

(Dollars in thousands, except per share data)

	SECOND QUARTER ENDED	YEAR ENDED	SECOND QUAR ENDED
	2005	2004	2004
	-----	-----	-----
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 1,422	\$ 683	\$ 1,
Accounts receivable, net of allowances of \$1,883, \$1,522 and \$1,772, respectively	64,388	48,391	57,
Inventories, net			
Raw materials	4,170	3,504	3,
Work-in-process	5,635	5,160	4,
Finished goods	33,401	28,196	32,
	-----	-----	-----
	43,206	36,860	40,
Deferred tax assets	8,171	9,683	8,
Prepaid expenses and other	5,034	5,128	5,
	-----	-----	-----
TOTAL CURRENT ASSETS	122,221	100,745	113,

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PROPERTY, PLANT AND EQUIPMENT			
Land	3,320	3,320	3,
Buildings	25,182	25,130	24,
Machinery and equipment	123,282	119,622	117,
	-----	-----	-----
	151,784	148,072	145,
Less allowances for depreciation and amortization	104,233	100,111	98,
	-----	-----	-----
TOTAL NET PROPERTY, PLANT AND EQUIPMENT	47,551	47,961	47,
GOODWILL	21,480	21,480	21,
PENSION ASSETS	30,873	30,513	30,
DEFERRED TAX ASSETS	11,901	12,255	13,
OTHER ASSETS	5,152	5,548	6,
	-----	-----	-----
TOTAL ASSETS	\$ 239,178	\$ 218,502	\$ 232,
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	\$ 28,766	\$ 24,213	\$ 35,
Accrued compensation and benefits	11,332	12,595	13,
Customer volume & promotional accrued expenses	4,704	6,648	6,
Other accrued expenses	7,929	8,509	9,
Taxes	4,930	3,272	3,
Secured credit agreement - current	5,000	75,000	8,
Current maturities of long-term debt	875	875	
	-----	-----	-----
TOTAL CURRENT LIABILITIES	63,536	131,112	77,
LONG-TERM DEBT	90,562	11,876	84,
POST-RETIREMENT BENEFITS AND OTHER LONG-TERM LIABILITIES	29,762	30,138	27,
SHAREHOLDERS' EQUITY			
Common shares	1,420	1,389	1,
Other capital	78,514	76,130	75,
Retained earnings (deficit)	(19,849)	(27,280)	(29,
Accumulated other comprehensive income (loss)	(4,767)	(4,863)	(4,
	-----	-----	-----
TOTAL SHAREHOLDERS' EQUITY	55,318	45,376	43,
	-----	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 239,178	\$ 218,502	\$ 232,
	=====	=====	=====

See notes to Consolidated Financial Statements (Unaudited).

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

(Dollars in thousands)

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	----- 2005 -----	
OPERATING ACTIVITIES		
Net income	\$ 7,431	\$
Adjustments to reconcile net income to cash (used) provided by operating activities:		
Depreciation	4,485	
Amortization	806	
Gain on sale of property, plant and equipment	-	
Deferred income taxes	2,298	
Net change in working capital accounts:		
Accounts receivable	(15,997)	
Inventories	(6,346)	
Prepaid expenses and other	94	
Accounts payable	4,553	
Accrued expenses and other current liabilities	(1,697)	
Pension plan contributions	(697)	
Other long-term items	(501)	
	-----	-----
CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(5,571)	
INVESTING ACTIVITIES		
Net additions to property, plant and equipment	(4,075)	
Proceeds from sale of property, plant and equipment	-	
Acquisitions and related items	(124)	
	-----	-----
CASH (USED) PROVIDED BY INVESTING ACTIVITIES	(4,199)	
FINANCING ACTIVITIES		
Net borrowings (payments) under secured credit agreement	8,900	
Payments on other long-term borrowings	(214)	
Purchase and retirement of treasury stock	-	
Exercise of stock options (310,650 and 12,375 shares issued, respectively)	1,823	
	-----	-----
CASH PROVIDED (USED) BY FINANCING ACTIVITIES	10,509	
	-----	-----
INCREASE IN CASH AND CASH EQUIVALENTS	739	
Cash and cash equivalents at beginning of year	683	
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,422	\$
	=====	=====

See notes to Consolidated Financial Statements (Unaudited).

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion

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of management, all adjustments (consisting of normal recurring accruals and changes in accounting estimates) considered necessary for a fair presentation have been included. Certain 2004 amounts have been reclassified to conform with 2005 classifications. In particular, the Company has reclassified certain co-operative advertising allowances and service commissions in the Lamson Home Products business segment, reducing net sales and selling and marketing expenses by \$1.3 million and \$2.6 million in the second quarter and first half of 2004, respectively.

### NOTE B - INCOME TAXES

The year-to-date 2005 income tax provision was calculated based on management's estimate of the annual effective tax rate of 38.6% for the year. The provision for 2004 is primarily non-cash charges. The Company anticipates having to pay (cash) approximately 40.0% of the 2005 income tax provision due to alternative minimum tax requirements.

### NOTE C - BUSINESS SEGMENTS

The Company's reportable segments are as follows:

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

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

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

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### THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

### NOTE C - BUSINESS SEGMENTS - CONTINUED

(Dollars in thousands)

	SECOND QUARTER ENDED		FIRST HALF ENDED	
	2005	2004	2005	2004
NET SALES				
Carlton	\$ 59,004	\$ 49,467	\$ 106,207	\$ 87,630
Lamson Home Products	26,375	20,673	50,346	40,427

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PVC Pipe	38,631	32,008	66,249	57,086
	-----	-----	-----	-----
	\$ 124,010	\$ 102,148	\$ 222,802	\$ 185,143
	=====	=====	=====	=====
OPERATING INCOME (LOSS)				
Carlton	\$ 7,829	\$ 4,608	\$ 11,453	\$ 8,247
Lamson Home Products	4,570	2,468	8,113	4,852
PVC Pipe	349	1,019	362	(168)
Corporate Office	(2,049)	(1,276)	(3,614)	(2,916)
Other (Expense) Income (see Note I)	-	(298)	-	626
	-----	-----	-----	-----
	\$ 10,699	\$ 6,521	\$ 16,314	\$ 10,641
	=====	=====	=====	=====
DEPRECIATION AND AMORTIZATION				
Carlton	\$ 1,229	\$ 1,368	\$ 2,498	\$ 2,765
Lamson Home Products	454	465	916	935
PVC Pipe	935	877	1,877	1,738
	-----	-----	-----	-----
	\$ 2,618	\$ 2,710	\$ 5,291	\$ 5,438
	=====	=====	=====	=====

Total assets by business segment at July 2, 2005, January 1, 2005 and July 3, 2004 are as follows:

(Dollars in thousands)

	JULY 2, 2005	JANUARY 1, 2005	JULY 3, 2004
	-----	-----	-----
IDENTIFIABLE ASSETS			
Carlton	\$ 86,499	\$ 77,473	\$ 84,703
Lamson Home Products	36,405	34,190	33,806
PVC Pipe	54,535	44,650	50,595
Corporate Office (includes deferred tax and pension assets)	61,739	62,189	63,576
	-----	-----	-----
	\$ 239,178	\$ 218,502	\$ 232,680
	=====	=====	=====

THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTE D - COMPREHENSIVE INCOME

The components of comprehensive income for the second quarter and the first half of 2005 and 2004 are as follows:

(Dollars in thousands)

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	SECOND QUARTER ENDED		FIRST HALF ENDED	
	JULY 2, 2005	JULY 3, 2004	JULY 2, 2005	JULY 3, 2004
Net income	\$ 5,227	\$ 2,745	\$ 7,431	\$ 4,445
Foreign currency translation adjustments	(41)	3	(52)	(2)
Interest rate swaps, net of tax	59	292	148	40
Comprehensive income	\$ 5,245	\$ 3,040	\$ 7,527	\$ 4,833

The components of accumulated other comprehensive income (loss), at July 2, 2005, January 1, 2005 and July 3, 2004 are as follows:

(Dollars in thousands)

	JULY 2, 2005	JANUARY 1, 2005	JULY 3, 2004
Foreign currency translation adjustments	\$ (423)	\$ (371)	\$ (463)
Minimum pension liability adjustments, net of tax	(4,323)	(4,323)	(3,289)
Interest rate swaps, net of tax	(21)	(169)	(430)
Accumulated other comprehensive income (loss)	\$ (4,767)	\$ (4,863)	\$ (4,182)

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTE E - EARNINGS PER SHARE CALCULATION

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

(Dollars and shares in thousands, except per share amounts)

	SECOND QUARTER ENDED		FIRST HALF ENDED	
	2005	2004	2005	2004
BASIC EARNINGS-PER-SHARE COMPUTATION				
Net Income	\$ 5,227	\$ 2,745	\$ 7,431	\$ 4,445
Average Common Shares Outstanding	14,146	13,784	14,073	13,786



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Basic Earnings Per Share	\$ 0.37	\$ 0.20	\$ 0.53	\$ 0.32
DILUTED EARNINGS-PER-SHARE COMPUTATION				
Net Income	\$ 5,227	\$ 2,745	\$ 7,431	\$ 4,445
Basic Shares Outstanding	14,146	13,784	14,073	13,786
Stock Options Calculated Under the Treasury Stock Method	601	315	574	242
Total Shares	14,747	14,099	14,647	14,028
Diluted Earnings Per Share	\$ 0.35	\$ 0.19	\$ 0.51	\$ 0.32

NOTE F - 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.

During the first quarter of 2001, the Company entered into two interest rate swap agreements for a total notional amount of \$58.5 million, \$16.8 million of which is outstanding at July 2, 2005. The agreements expire in August 2005. 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 0.875% to 2.0%, respectively. These transactions are considered cash flow hedges and, therefore, the fair market value at the end of the second quarter of 2005 of \$21,000 (net of \$14,000 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. The entire \$35,000 of pretax loss on the fair value of the hedges is classified in current accrued liabilities.

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

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NOTE G - DISCONTINUED OPERATIONS

As of the end of the first quarter of 2004 the Company was informed that YSD Industries Inc. ("YSDI"), a business which the Company sold in 1988, was selling the assets of the business and would be unable to fund (defaulted on its obligations) certain post-retirement medical and life insurance benefits, for which the Company was contingently liable. The Company had recorded a net charge

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(\$2.7 million) in 2003 reflecting the actuarial calculation of this estimated liability for payments to certain eligible participants through February 2011 when the Company's obligation will end and to write-off notes (cash advances) to YSDI in 2003. As a result of YSDI's asset sale in 2004, the Company was able to realize payment of \$668,000 for these notes receivable that had been previously written off as uncollectible in 2003. The net impact of this recovery, \$401,000 (net of tax), has been recorded as income from discontinued operations in the first quarter of 2004.

### NOTE H - STOCK COMPENSATION PLANS

The Company currently has three stock 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	
		2005	2004	2005	2004
Net income	As reported	\$ 5,227	\$ 2,745	\$ 7,431	\$ 4,786
Total stock-based employee compensation, net of tax		(145)	(119)	(261)	(261)
Net income	Pro forma	\$ 5,082	\$ 2,626	\$ 7,170	\$ 4,525
Basic earnings per share	As reported	\$ 0.37	\$ 0.20	\$ 0.53	\$ 0.27
	Pro forma	0.36	0.19	0.51	0.26
Diluted earnings per share	As reported	\$ 0.35	\$ 0.19	\$ 0.51	\$ 0.26
	Pro forma	0.34	0.19	0.49	0.26

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 the beginning of fiscal year 2006. Early adoption will be permitted in periods in which financial statements have not yet been issued. The Company will adopt Statement 123(R) on January 1, 2006 and is still in the process of determining the impact on operating results.

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NOTE H - STOCK COMPENSATION PLANS - CONTINUED

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.

NOTE I - SALE OF ASSETS

At the end of 2003, the Company intended to vacate one of its manufacturing facilities and proceed with its efforts to sell the property during 2004. The asset had been written down in 2001 to its then estimated fair value. In the first quarter of 2004, the Company sold the manufacturing facility located in Pasadena, Texas for net proceeds of \$1.5 million, realizing a gain on the sale of \$924,000 included as other income in the Consolidated Income Statement. The Company relocated production equipment at this facility to other Lamson & Sessions facilities in 2004 and incurred approximately \$1.1 million in severance, training, moving and other costs as detailed below. As of July 2, 2005 all severance payments have been made. This plant sale affected 40 employees, all of whom left the Company by December 31, 2004.

(Dollars in thousands)

	SEVERANCE	TRAINING, MOVING AND OTHER COSTS	TOTAL
	-----	-----	-----
2004 charges	\$ 587	\$ 550	\$ 1,137
Payments in 2004	(151)	(550)	(701)
	-----	-----	-----
Balance at January 1, 2005	\$ 436	\$ -	\$ 436
Payments in first quarter 2005	(312)	-	(312)
	-----	-----	-----
Balance at April 2, 2005	\$ 124	\$ -	\$ 124
Payments in second quarter 2005	(124)	-	(124)
	-----	-----	-----
Balance at July 2, 2005	\$ -	\$ -	\$ -
	=====	=====	=====

NOTE J - PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

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

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post-retirement benefit plans closed to new entrants and will reduce future service costs.

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

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

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

(Dollars in thousands)

	SECOND QUARTER ENDED				FIR	
	PENSION BENEFITS		OTHER BENEFITS		PENSION BENEFIT	
	2005	2004	2005	2004	2005	2004
Service cost	\$ 374	\$ 298	\$ (1)	\$ 1	\$ 748	\$
Interest cost	1,212	1,219	37	130	2,424	2,
Expected return on assets	(1,563)	(1,486)	-	-	(3,126)	(2,
Net amortization and deferral	478	388	(132)	(165)	957	
Defined contribution plans	268	280	-	-	499	
	\$ 769	\$ 699	\$ (96)	\$ (34)	\$ 1,502	\$ 1,
	=====	=====	=====	=====	=====	=====

The above information includes the effect of YSDI's other post-retirement benefit costs which were assumed in April 2004 (see Note G).

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 FSP 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 in 2004 of the accumulated post-retirement benefit obligation with an annual reduction in other benefit costs of approximately \$0.1 million.

NOTE K - REFINANCING

On June 29, 2005 the Company entered into a Second Amended and Restated Credit Agreement ("Credit Facility") with a consortium of banks led by Harris N.A. The Credit Facility is for a total of \$125.0 million, \$40.0 million in term debt (payable \$1,250,000 quarterly) and an \$85.0 million revolver and replaces the \$110.0 million secured revolving credit facility which was due in August 2005. The Credit Facility is a five-year secured agreement with LIBOR-based pricing plus a spread ranging from 0.875% to 2.0%, depending on the Company's performance. It contains various restrictive covenants pertaining to maintenance of net worth, certain financial ratios and limitations on the payment of dividends or distributions. The agreement requires the prepayment of 50.0% of excess cash flow at each year-end if the Company has not achieved a leverage ratio of less than 2.0 to 1.0. The Company currently does not anticipate having

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to prepay term debt. The Company, at its own discretion, may increase the revolver by up to \$25.0 million. Total availability at July 2, 2005, under the Credit Facility, approximates \$30.0 million.

### NOTE L - SHAREHOLDER RIGHTS AGREEMENT

The Company's Board of Directors approved an amendment to the Company's shareholder rights agreement effective as of May 5, 2005. The amendment provides that any person may own up to 20% (an increase from the previous limit of 15%) of the Company's outstanding common stock before any "Triggering Event" (as defined in the Company's rights agreement) will be deemed to have occurred.

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

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

#### EXECUTIVE OVERVIEW

In the second quarter 2005, the Company repeated its record net sales from the first quarter 2005 as it saw telecom product demand grow by another 20.0% in the current quarter as major telecom service providers continue to invest in their infrastructure to support Fiber-to-the-Premise projects.

PVC and HDPE resin costs have stabilized in the second quarter 2005 at historically high levels. These resin costs have, for the most part, been reflected in higher average selling prices in the first half of 2005. High oil and natural gas demand worldwide have helped to justify the higher resin costs and have driven freight, mainly fuel, costs up over 15.0% from the prior year.

The Company is focused on continual improvement of its supply chain to produce and distribute the increased sales volume, sustaining its record of meeting customer service requirements including 98.0% order fill rates and continuing high inventory turn rates. Several initiatives are underway to address these challenges including improving our ability to work with customers to anticipate more accurately their demand for our products, evaluating additional low cost, reliable suppliers to supplement our manufacturing capabilities and performing logistics studies to determine how best to expand and improve our distribution capabilities.

With the rise in demand and, therefore, net sales levels in the first half of 2005, the Company has been able to leverage its fixed investments especially in its SAP enterprise information system. Due to its continued investment in state of the art technology, the Company continues to improve its productivity measure of net sales per associate.

Finally, this quarter the Company was able to renew its Secured Credit Agreement for an additional five years. As part of the Amended and Restated Agreement availability of credit for potential growth opportunities has been expanded while the effective interest rates have been lowered by over 100 basis points (see Note K).

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2005 COMPARED WITH 2004

### RESULTS OF CONTINUING OPERATIONS

The following table sets forth, for the periods indicated, items from the Consolidated Income Statements as a percentage of net sales for the second quarter and first half of 2005 and 2004 ended:

(Dollars in thousands)

	SECOND QUARTER ENDED				2004
	2005		2004		
Net Sales	\$ 124,010	100.0%	\$ 102,148	100.0%	\$ 222,802
Cost of products sold	100,995	81.4%	83,870	82.1%	182,810
Gross profit	23,015	18.6%	18,278	17.9%	39,992
Total operating expenses	12,316	10.0%	11,459	11.2%	23,678
Other expense (income)	-	0.0%	298	0.3%	-
Operating income	10,699	8.6%	6,521	6.4%	16,314
Interest expense, net	2,211	1.8%	1,950	1.9%	4,213
Income from continuing operations before income taxes	8,488	6.8%	4,571	4.5%	12,101
Income tax provision	3,261	2.6%	1,826	1.8%	4,670
Income from continuing operations	\$ 5,227	4.2%	\$ 2,745	2.7%	\$ 7,431
	=====		=====		=====

Net sales for the second quarter of 2005 climbed 21.4%, or \$21.9 million, to \$124.0 million compared with \$102.1 million in the second quarter of 2004. The Company experienced strong demand in all business segments led again by the telecom infrastructure, residential construction and the home improvement markets. Shipments of PVC Pipe also grew from the slow first quarter of 2005 as commercial and industrial construction activity began to modestly expand. Year-to-date 2005, net sales reached \$222.8 million, an increase of \$37.7 million, or 20.3% over the \$185.1 million in net sales recorded in the first half of 2004. Each business segment participated in this expansion with growth rates of at least 16.0%.

Gross profit in the second quarter of 2005 was \$23.0 million, or 18.6% of net sales, compared with \$18.3 million, or 17.9% of net sales, in the second quarter of 2004. Price increases were realized in the current quarter which helped to offset some of the raw material cost increases that have occurred since the beginning of 2004. Profit margins are also benefiting from the leverage of our distribution operations, the cost of which increased by approximately inflation despite the higher sales growth. Freight costs are being unfavorably impacted (15.0% increase) by higher fuel costs and equipment shortages. Finally, lower medical costs have favorably impacted gross profit by approximately \$500,000 due to improved experience and cost control plans. For the first half of 2005, gross profit was \$40.0 million, 17.9% of net sales, an \$8.4 million, or 26.6%,

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increase over the \$31.6 million, or 17.1% of net sales, earned during the first half of 2004. These results benefited from the same elements as the current quarter described above.

Operating income for the second quarter of 2005 was \$10.7 million, or 8.6% of net sales, an increase of \$4.2 million or 64.1%, over the \$6.5 million, or 6.4% of net sales, earned in the second quarter of 2004. Operating expenses were \$12.3 million in the current quarter, only \$0.8 million higher than the \$11.5 million incurred in the prior year second quarter. The majority of these higher expenses are from variable selling expenses (\$500,000). In addition, higher incentive compensation costs (\$500,000) were partially offset by lower medical costs for active employees (\$400,000). The first half of 2005 operating expenses at \$23.7 million, or 10.6% of net sales, were \$2.1 million higher than the first half of 2004 operating expenses of \$21.6 million, or 11.7% of net sales. Consistent with the second quarter, variable selling expenses and incentive compensation were \$1.0 million and \$1.2 million

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higher in year-to-date 2005 compared with the same period in 2004, while medical costs for active employees are approximately \$500,000 less than year-to-date compared with the prior year-to-date. In addition, the 2004 operating expenses were favorably impacted by a \$300,000 recovery of a previous bankruptcy claim. Operating income for the first half of 2005 was \$16.3 million, or 7.3% of net sales, compared with \$10.6 million, or 5.7% of net sales, for the first half of 2004. Included in the 2004 results is the impact of the sale of the Company's Pasadena, Texas facility during the first quarter of 2004. In the prior year second quarter, \$0.3 million of expenses were incurred primarily for severance costs which reduced the net gain on the sale, net of closure costs, to \$0.6 million in the first half of 2004.

Interest expense for the second quarter and first half of 2005 was \$261,000 and \$308,000 higher than the respective periods in 2004. Over two-thirds of this increase is caused by higher amortization of deferred fees while average borrowings are lower by about \$1.2 million for the first half of 2005 compared with the first half of 2004. Average interest rates paid were higher in 2005 at 6.10% compared with 5.62% in 2004.

The year-to-date income tax provisions are based on an annual effective tax rate of 38.6% in 2005 compared with 40.0% in 2004.

### BUSINESS SEGMENTS

#### CARLON

Carlton, the Company's largest business segment, had net sales of \$59.0 million in the second quarter 2005 and \$106.2 million in the first half of 2005, reflecting growth rates of 19.3%, (\$9.5 million) and 21.2%, (\$18.6 million) over the \$49.5 million and \$87.6 million recorded in the second quarter and first half of 2004, respectively. Approximately two-thirds of this growth (\$5.7 million in the second quarter of 2005 and \$12.3 million in the first half of 2005) for each period has come from expanded demand for telecom products, primarily HDPE conduit, to support the industry's rollout of Fiber-to-the-Premise projects. Net sales for these products grew by over 20.0% in the second quarter 2005 and over 25.0% in the first half of 2005. Electrical product sales also had modest growth in the second quarter 2005, while the price increases implemented throughout the first quarter improved the second quarter of 2005 net sales by about \$1.9 million and 2005 first half net sales by approximately \$4.2 million.

Gross profit for Carlton is about \$4.0 million better in the second quarter 2005

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compared with the prior year second quarter due to the higher sales volume which increased manufacturing utilization and leveraged the fixed cost nature of the distribution operations. In addition, margins were favorably improved by the realization of selling price increases that helped to offset material cost increases that have been incurred over the last year and a half. Gross profit for the first half of 2005 is \$5.2 million higher than the first half of 2004, mostly from the contribution coming from the higher net sales levels in the current year. After incurring transitional expenses related to the transfer of production from Pasadena, Texas and expansion costs to support increased demand for corrugated flexible conduit (\$300,000) in the first quarter of 2005, the business segment has begun to realize savings from the Pasadena, Texas closure and consolidation of operations of approximately \$400,000, primarily in the current quarter.

Operating income for this business segment rose 69.9%, or \$3.2 million, in the second quarter 2005 to \$7.8 million, or 13.3% of net sales, compared with \$4.6 million, or 9.3% of net sales, in the second quarter of 2004. The largest reason for this higher operating income comes from the improved gross profit described above. Carlon operating expenses were increased only by about \$400,000 for higher variable selling and marketing expenses and incentive compensation expenses, offset partially by lower medical expenses. Carlon realized \$11.5 million, or 10.8% of net sales, in operating income in the first half 2005 compared with \$8.2 million, or 9.4% of net sales, in the first half of 2004. Year-to-date operating expenses are up \$1.6 million in 2005 compared with the first two quarters of 2004. In addition to increased variable selling and marketing and incentive compensation expenses and lower medical costs described above, which impact the 2005 expense levels, Carlon's 2004 operating expenses were favorably impacted by the partial recovery (\$300,000) of an account receivable that was previously written-off.

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### LAMSON HOME PRODUCTS

Net sales in the Lamson Home Products business segment grew at a rate of 27.6%, or \$5.7 million, to \$26.4 million in the second quarter 2005 compared with \$20.7 million in the second quarter of 2004. The primary growth in this segment comes from across the board volume expansion with the business segment customers as the residential construction and home improvement markets remain strong. In addition, approximately \$1.0 million of this net sales increase was the result of price increases implemented in the first quarter 2005 in response to the significant cost increases for PVC resin and other raw materials. Net sales for the first half of 2005 reached \$50.3 million, an increase of \$9.9 million, or 24.5%, over net sales of \$40.4 million in the first half of 2004. Price increases accounted for \$2.0 million of this higher net sales level, gains from product line expansions at several customers were impacted by \$1.3 million and the remainder was due to continued market expansions from customer demand growth.

Gross margin for Lamson Home Products in the second quarter and first half of 2005 are about 2.0 percentage points better than the second quarter and first half of 2004. Current year price increases have stabilized the negative impact of rising resin costs, while higher volume has increased the injection molding plant utilization this quarter and distribution operations are being successfully leveraged.

Operating income was \$4.6 million, or 17.3% of net sales in the second quarter of 2005, an improvement of 85.2%, or \$2.1 million over the \$2.5 million, or 11.9% of net sales, earned in the second quarter 2004. These results brought operating income up to \$8.1 million, or 16.1% of net sales, for the first half of 2005 compared with \$4.9 million, 12.0% of net sales in the first half of



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2004. Operating expenses in both the second quarter of 2005 and year-to-date 2005 approximated the same levels of the prior year periods as higher incentive compensation was offset by medical and other cost containment.

### PVC PIPE

Net sales for the PVC Pipe segment in the second quarter 2005 rebounded from a weather-impacted, slow first quarter to increase by \$6.6 million, or 20.7%, to \$38.6 million from the \$32.0 million net sales level in the second quarter of 2004. PVC Pipe pounds shipped were approximately the same as the prior year second quarter while pricing was higher by about 16.0% in the second quarter 2005 compared with the second quarter 2004 reflecting solid end market demand and the higher PVC cost levels in the current year. This segment also continues to see strong demand for large diameter PVC sewer pipe with several sewer infrastructure projects increasing this quarter's net sales by \$1.6 million. Year-to-date 2005 net sales were \$66.2 million, an increase of \$9.1 million, or 16.1%, over the \$57.1 million in net sales in the first half of 2004. The volume of PVC Pipe pounds shipped are down 6.5% in 2005 compared with the first half of 2004, as January and February sales were negatively impacted by widespread inclement weather. The Company was able to recoup much of the PVC resin cost increases of around 24.0% as average selling prices are up 22.1% during the first half of 2005 compared with the first half of 2004. Finally, sales of large diameter PVC sewer pipe are \$1.9 million higher in year-to-date 2005 compared with 2004 for the same period.

Gross margin for the second quarter 2005 is down by a few points from the second quarter of 2004 despite selling prices offsetting the 16.0% increase in resin costs compared with the second quarter 2004. The business segment was negatively impacted by an 18.0% rise in outbound freight costs caused by higher fuel prices and flatbed equipment shortages. In addition, utilization of the manufacturing operations were 7.0 percentage points lower than the comparative period of 2004, as inventory levels were brought down after weak demand early in the year.

Operating income for the PVC Pipe segment reached \$0.3 million in the second quarter of 2005 compared with \$1.0 million in the second quarter of 2004. Most of this decline is at the gross margin line as operating expenses are approximately the same as 2004. Operating results for the first half of 2005 and 2004 are essentially breakeven.

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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 used by operating activities was \$5.6 million in the first half of 2005 compared with cash provided by operating activities of \$1.8 million in the first half of 2004. In general, the Company has used more cash this year to fund the sharp increase in net sales and related operations. At the end of the second quarter 2005, accounts receivable were \$64.4 million, a 33.0% or \$16.0 million, increase from year-end 2004 and 12.5%, or \$7.2 million more than the end of second quarter 2004. This increase is entirely due to the more than 20.0% rise in net sales in the first half of 2005, as days sales outstanding calculated using a 3-month rolling average, has actually declined to 46.6 days at July 2, 2005 compared with 49.3 days at July 3, 2004.

The Company continued its progress of improving inventory turns and, therefore, limiting its exposure to resin cost fluctuations. At the end of the second

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quarter 2005, inventory investment was \$43.2 million, up only \$2.5 million from second quarter 2004 and higher by \$6.3 million from year-end 2004. This resulted in inventory turns improving to 8.1 times, a new quarter-end high, compared with 7.6 times at the end of second quarter 2004. Pounds of PVC resin in inventory at July 2, 2005 were 7.0% less than at July 3, 2004, but 15.4% more than at 2004 year-end, while the average cost of PVC resin in inventory has increased 4.0% from the end of second quarter 2004 and remains about the same as 2004 year-end.

Accounts payable at July 2, 2005 were \$28.8 million, an increase of \$4.6 million since the 2004 year-end, but \$6.8 million less than the second quarter 2004 ending balance of \$35.5 million. The current year increase is primarily due to higher inventory levels since 2004 year-end.

Accrued expenses have declined by a total of \$1.7 million since the 2004 year-end as the Company has paid incentive compensation (\$4.0 million), and the final cash payment of \$1.0 million related to a 2004 litigation settlement during the first half of 2005. Accrued compensation and benefits balance of \$11.3 million is lower by \$1.8 million at July 2, 2005 compared with \$13.1 million accrued at July 3, 2004 primarily from lower anticipated pension contributions due in the next 12 months, and lower estimated retiree and active healthcare payments currently due, offset slightly by higher anticipated incentive compensation from the 2005 performance.

The Company's cash used in investing activities totaled \$4.2 million in the first half of 2005 compared with \$0.2 million provided by investing activities in the same period of 2004. Capital expenditures in 2005 of \$4.1 million included investments to improve molding and extrusion productivity, tooling to support product line extensions and selective capacity expansion for telecom related products. In 2004, the Company received \$1.5 million proceeds from the sale of its Pasadena, Texas facility and capital expenditures were only \$1.3 million.

Cash provided by financing activities totaled \$10.5 million in the first half of 2005, compared with a use of \$1.4 million in the first half of 2004. Year-to-date, the Company has borrowed \$8.9 million on its Credit Facility to support the growing operational needs and to fund required capital expenditures. As discussed in Note K, the Company has signed a new Amended and Restated Credit Facility on June 29, 2005, which expands credit availability. The Company has met all debt covenants at the end of the second quarter of 2005. Finally, in the first half of 2005 the Company received \$1.8 million from the issuance of 310,650 shares of stock from the exercise of stock options.

### CRITICAL ACCOUNTING ESTIMATES

We have no material changes to the disclosure on this matter since the end of our most recent fiscal year, January 1, 2005.

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### OUTLOOK FOR 2005

The second quarter of 2005 represents the fifth consecutive quarter of year-over-year growth in net sales of telecom products to support announced rollouts of (primarily Verizon's) Fiber-to-the-Premise projects. In addition to Verizon, other customers have announced major anticipated investments expected to begin later this year. Carlon is a primary supplier to these telecom customers, as the Company is the largest supplier of HDPE conduit in North America for this market segment. Carlon also supplies PVC Pipe to these customers and has developed specialized applications to assist in connecting individual premises to the operator's infrastructure system. The build-out of these last mile access networks may be extended over a longer period of time due

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to the difficulty of obtaining local rights-of-way and implementation delays related to engineering and project execution.

Residential construction and existing home sales activity continue to support electrical product sales, as housing starts remained at around the 2.0 million unit level and affordable mortgage rates are sustaining healthy home sales levels. It is still expected that residential construction will moderate in the second half of 2005 at a healthy 1.7 to 1.8 million units.

Conversely, non-residential construction (commercial and industrial) have shown very little growth in the first half of 2005 as the improving economy has only begun to generate some capacity expansion needs. Based on the review of various industry forecasts, management believes non-residential construction activity should grow 2.0% to 3.0% for the remainder of 2005. This has the potential to generate additional sales growth for both Carlon and PVC Pipe segments.

Despite higher oil and gas prices this past quarter, PVC and HDPE resin cost increases have moderated in the second quarter of 2005. The primary reason for the stabilizing of these costs, albeit at high historical levels, is the decline in export demand primarily driven by China. Resin producers maintained operating rates this quarter at over 90.0% of capacity. There are mixed forecasts of resin cost expectations in the third and fourth quarters with several producers announcing small PVC resin price increases and relatively high (\$0.5 to \$0.10 cents) increases in HDPE costs. Other indexes show PVC resin staying flat to down a couple of cents per pound. The Company's strategy to manage these unpredictable resin fluctuations is to lower the resin pounds kept in inventory to a little more than a month's demand, thereby matching more closely selling prices and resin costs.

As mentioned earlier, the Company has worked through, in the first half of this year, much of the transition issues related to the closure and realization of its Pasadena, Texas operations and expects to realize about \$0.6 million to \$0.8 million in savings over the remainder of 2005.

After using \$5.6 million in cash flow to support the growing net sales and operations during the first half of 2005, the Company is poised to generate substantial positive cash flow in the second half of 2005. Inventory turns ended the second quarter at record levels. It is management's challenge to maintain these levels and continue the excellent fill rate history expected by our customers as demand increases. Capital spending is expected to be in the range of \$7.0 million to \$9.0 million for 2005, focused on molding and extrusion productivity improvements, telecom product capacity increases and new products.

With the implementation of the new Credit Facility and the improving Company performance, management expects to lower its effective interest rate paid on debt by at least 100 basis points. Additionally, with the expiration of the prior debt agreement, substantial deferred financing fee amortization will be lower by about \$1.0 million annually.

In summary, based on the current strength in demand and operating results in the first half of 2005 and expected sustainability of this activity through the second half of 2005, the Company is anticipating net sales for the third quarter between \$118.0 million to \$121.0 million, 12.0% to 15.0%, over the third quarter of 2004, which is expected to generate \$5.2 million to \$5.7 million, or \$0.35 to \$0.38 cents per diluted share. For the full year 2005, we expect net sales will be between \$430.0 million and \$440.0 million, an increase of 11.0% to 14.0% over 2004 levels. If the Company's end market demand remains strong and these net sales levels are achieved, current

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operating margins are maintained and, given the favorable impact of the new Credit Facility, the Company projects net income to be \$15.0 million to \$15.75 million, or \$1.00 to \$1.05 per diluted share in 2005, up from its previous estimate of \$0.80 to \$0.90 cents. This new estimated earnings level represents an increase of 130.0% to 140.0% over the \$6.5 million, or \$0.46 cents per diluted share reported in 2004.

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) maintaining a consistent level of power availability for the Company's plants and distribution facilities (v) the continued availability and reasonable terms of bank financing and (vi) any adverse change in the 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 RISK

We have no material changes to the disclosure on this matter since the end of our most recent fiscal year, January 1, 2005.

### ITEM 4 - CONTROLS AND PROCEDURES

As of July 2, 2005, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective. During the Company's second quarter 2005, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to their evaluation.

## PART II

### ITEM 1 - LEGAL PROCEEDINGS

The Company is a party to various 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

On April 29, 2005, the Company held its Annual Meeting of Shareholders. At P.E. the meeting 13,354,650 Common Shares (94.98%) of the Common Shares outstanding were voted.

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

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CLASS III -----	FOR -----	WITHHELD AUTHORITY -----
James J. Abel	12,948,197	406,453
A. Malachi Mixon, III	12,890,210	464,440
John B. Schulze	12,877,015	477,635

ITEM 6 - EXHIBITS

(a) Exhibits:

10(a) Second Amended and Restated Credit Agreement, dated June 29, 2005, by and among the Company, the Company's subsidiaries, the lenders party thereto, National City Bank and JPMorgan Chase Bank, N.A., as co-syndication agents, LaSalle Bank National Association, as documentation agent and Harris N.A., as administrative agent (incorporated by reference to Exhibit 10(a) to the Company's Form 8-K, filed July 5, 2005).

31.1 Certification of John B. Schulze, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of James J. Abel, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of John B. Schulze, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of James J. Abel, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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 27, 2005

By: /s/ James J. Abel

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

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