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LAMSON & SESSIONS CO  
Form 10-Q  
November 13, 2001

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 September 29, 2001  
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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  
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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  
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APPLICABLE ONLY TO ISSUERS INVOLVED  
IN BANKRUPTCY PROCEEDINGS DURING  
THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and

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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 September 29, 2001 the Registrant had outstanding 13,777,608 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)

|   | Third Quarter Ended |        |           |        |          |
|---|---------------------|--------|-----------|--------|----------|
|   | 2001                |        | 2000      |        |          |
| NET SALES                                 | \$ 90,554           | 100.0% | \$ 88,291 | 100.0% | \$275,94 |
| Cost of products sold                     | 76,952              | 85.0%  | 65,424    | 74.1%  | 228,32   |
| GROSS PROFIT                              | 13,602              | 15.0%  | 22,867    | 25.9%  | 47,61    |
| Operating expenses                        | 13,010              | 14.3%  | 12,462    | 14.1%  | 39,23    |
| OPERATING INCOME                          | 592                 | 0.7%   | 10,405    | 11.8%  | 8,37     |
| Interest expense, net                     | 2,763               | 3.1%   | 995       | 1.1%   | 7,99     |
| (LOSS) INCOME BEFORE INCOME TAXES         | (2,171)             | -2.4%  | 9,410     | 10.7%  | 38       |
| Income tax (benefit) provision            | (250)               | -0.3%  | 2,434     | 2.8%   | 90       |
| NET (LOSS) INCOME                         | \$ (1,921)          | -2.1%  | \$ 6,976  | 7.9%   | \$ (52   |
| BASIC (LOSS) EARNINGS PER<br>COMMON SHARE | \$ (0.14)           |        | \$ 0.51   |        | \$ (0.0  |

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|  |                    |                  |                  |
|--|--------------------|------------------|------------------|
| AVERAGE COMMON SHARES<br>OUTSTANDING         | 13,776<br>=====    | 13,638<br>=====  | 13,75<br>=====   |
| DILUTED (LOSS) EARNINGS PER<br>COMMON SHARE  | \$ (0.14)<br>===== | \$ 0.48<br>===== | \$ (0.0<br>===== |
| DILUTED AVERAGE COMMON SHARES<br>OUTSTANDING | 13,776<br>=====    | 14,426<br>=====  | 13,75<br>=====   |

See notes to Consolidated Financial Statements (Unaudited).

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

(Dollars in thousands)

|   | Third Quarter<br>Ended | Year Ended     | Th |
|---|------------------------|----------------|----|
|   | 2001                   | 2000           |    |
| <b>ASSETS</b>                                     |                        |                |    |
| <b>CURRENT ASSETS</b>                             |                        |                |    |
| Cash and cash equivalents                         | \$ 7,458               | \$ 1,452       | \$ |
| Accounts receivable, net                          | 51,692                 | 56,659         |    |
| Inventories, net                                  |                        |                |    |
| Finished goods and work-in-process                | 39,816                 | 53,283         |    |
| Raw materials                                     | 5,104                  | 6,290          |    |
|   | -----                  | -----          |    |
|   | 44,920                 | 59,573         |    |
| Deferred tax assets                               | 10,710                 | 13,211         |    |
| Prepaid expenses and other                        | 5,439                  | 4,011          |    |
|   | -----                  | -----          |    |
| <b>TOTAL CURRENT ASSETS</b>                       | <b>120,219</b>         | <b>134,906</b> |    |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>              |                        |                |    |
| Land  | 3,998                  | 3,998          |    |
| Buildings   | 25,706                 | 24,702         |    |
| Machinery and equipment                           | 121,364                | 116,154        |    |
|   | -----                  | -----          |    |
|   | 151,068                | 144,854        |    |
| Less allowances for depreciation and amortization | 86,029                 | 79,557         |    |

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|   |            |            |       |
|---|------------|------------|-------|
| TOTAL NET PROPERTY, PLANT AND EQUIPMENT                     | 65,039     | 65,297     |       |
| GOODWILL  | 82,854     | 88,868     |       |
| PENSION ASSETS  | 23,408     | 21,555     |       |
| DEFERRED TAX ASSETS   | 2,853      | --         |       |
| OTHER ASSETS  | 9,418      | 9,667      |       |
|   | -----      | -----      |       |
| TOTAL ASSETS  | \$ 303,791 | \$ 320,293 | \$    |
|   | =====      | =====      | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY                        |            |            |       |
| CURRENT LIABILITIES   |            |            |       |
| Accounts payable  | \$ 27,995  | \$ 28,572  | \$    |
| Accrued compensation and benefits                           | 6,655      | 10,034     |       |
| Other accrued expenses                                      | 20,204     | 25,499     |       |
| Taxes   | 3,299      | 4,383      |       |
| Current maturities of long-term debt                        | 12,060     | 8,168      |       |
|   | -----      | -----      |       |
| TOTAL CURRENT LIABILITIES                                   | 70,213     | 76,656     |       |
| LONG-TERM DEBT  | 122,903    | 130,276    |       |
| POST-RETIREMENT BENEFITS AND OTHER<br>LONG-TERM LIABILITIES | 26,031     | 27,332     |       |
| SHAREHOLDERS' EQUITY  |            |            |       |
| Common shares   | 1,378      | 1,369      |       |
| Other capital   | 75,494     | 74,997     |       |
| Retained earnings   | 9,712      | 10,236     |       |
| Accumulated other comprehensive (loss) income               | (1,940)    | (573)      |       |
|   | -----      | -----      |       |
| Total Shareholders' Equity                                  | 84,644     | 86,029     |       |
|   | -----      | -----      |       |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY                  | \$ 303,791 | \$ 320,293 | \$    |
|   | =====      | =====      | ===== |

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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|  |          |
|--|----------|
| OPERATING ACTIVITIES   |          |
| Net (loss) income  | \$ (524) |
| Adjustments to reconcile net (loss) income to cash provided by operating activities: |          |
| Depreciation   | 8,879    |
| Amortization   | 4,619    |
| Deferred income taxes  | (352)    |
| Net change in working capital accounts:  |          |
| Accounts receivable  | 2,871    |
| Inventories  | 14,653   |
| Prepaid expenses and other   | (1,428)  |
| Accounts payable, accrued expenses and other current liabilities                     | (5,847)  |
| Other long-term items  | (4,833)  |
|  | -----    |
| CASH PROVIDED BY OPERATING ACTIVITIES  | 18,038   |
| INVESTING ACTIVITIES   |          |
| Acquisitions   | (2,737)  |
| Net additions to property, plant and equipment                                       | (6,092)  |
|  | -----    |
| CASH USED IN INVESTING ACTIVITIES  | (8,829)  |
| FINANCING ACTIVITIES   |          |
| Net (payments) borrowings under secured credit agreement                             | (2,400)  |
| Net changes in long-term borrowings and capital lease obligations                    | (1,081)  |
| Exercise of stock options  | 278      |
|  | -----    |
| CASH (USED) PROVIDED BY FINANCING ACTIVITIES   | (3,203)  |
| INCREASE IN CASH AND CASH EQUIVALENTS  | 6,006    |
| Cash and cash equivalents at beginning of year                                       | 1,452    |
|  | -----    |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD   | \$ 7,458 |
|  | =====    |

See notes to Consolidated Financial Statements (Unaudited).

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

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adjustments (consisting of normal recurring accruals and changes in accounting estimates) considered necessary for a fair presentation have been included.

### NOTE B - INCOME TAXES

The third quarter 2001 income tax provision was calculated based on management's estimate of the effective tax rate for the year. The difference between this rate and the applicable statutory tax rate is due to the tax treatment of goodwill amortization generated with the 2000 acquisition of Pyramid Industries, Inc. ("Pyramid"). The provision for 2000 is primarily a non-cash charge.

### NOTE C - 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, telecommunications and wire raceway systems and a broad line of nonmetallic enclosures, outlet boxes and electrical fittings. Examples of the applications for the products included in this segment are multi-cell duct systems or 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. The two 2000 acquisitions of Pyramid and Ameriduct Worldwide, Inc. ("Ameriduct") are included as part of the Carlon segment.

**LAMSON HOME PRODUCTS - CONSUMER:** The major customers served are home centers and mass merchandisers for the "do-it-yourself" home repair market. The products included in this segment are outlet boxes, liquidtight conduit, electrical fittings, chimes and lighting controls.

**PVC PIPE:** This business segment supplies electrical, power and communications conduit to the electrical distribution, telecommunications, consumer and power utility markets. The 1/2-inch to 6-inch electrical and telecommunications conduit is made from polyvinylchloride (PVC) and is used to protect wire or fiber optic cables supporting the infrastructure of our power or telecommunications systems. In addition, this segment provides closed-profile, engineered sewer pipe ranging in diameter from 21 inches to 54 inches to various municipalities and private contractors for drainage systems in new construction and rehabilitation markets.

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NOTE C - BUSINESS SEGMENTS - CONTINUED

(Dollars in thousands)

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|                               | THIRD QUARTER ENDED |           | NINE MONTHS ENDED |
|-------------------------------|---------------------|-----------|-------------------|
|                               | 2001                | 2000      | 2001              |
| NET SALES                     |                     |           |                   |
| Carlton                       | \$ 49,052           | \$ 35,185 | \$ 147,421        |
| Lamson Home Products          | 15,835              | 16,939    | 45,419            |
| PVC Pipe                      | 25,667              | 36,167    | 83,106            |
|                               | -----               | -----     | -----             |
|                               | \$ 90,554           | \$ 88,291 | \$ 275,946        |
|                               | =====               | =====     | =====             |
| OPERATING INCOME (LOSS)       |                     |           |                   |
| Carlton                       | \$ 4,618            | \$ 5,504  | \$ 14,811         |
| Lamson Home Products          | 1,162               | 995       | 3,301             |
| PVC Pipe                      | (4,094)             | 5,178     | (7,150)           |
| Corporate Office              | (1,094)             | (1,272)   | (2,583)           |
|                               | -----               | -----     | -----             |
|                               | \$ 592              | \$ 10,405 | \$ 8,379          |
|                               | =====               | =====     | =====             |
| DEPRECIATION AND AMORTIZATION |                     |           |                   |
| Carlton                       | \$ 3,017            | \$ 1,142  | \$ 9,081          |
| Lamson Home Products          | 635                 | 568       | 1,862             |
| PVC Pipe                      | 920                 | 760       | 2,555             |
|                               | -----               | -----     | -----             |
|                               | \$ 4,572            | \$ 2,470  | \$ 13,498         |
|                               | =====               | =====     | =====             |

Total assets by business segment at September 29, 2001, December 30, 2000 and September 30, 2000.

|  | SEPTEMBER 29,<br>2001 | DECEMBER 30,<br>2000 |
|--|-----------------------|----------------------|
|  | -----                 | -----                |
| IDENTIFIABLE ASSETS  |                       |                      |
| Carlton  | \$168,792             | \$184,527            |
| Lamson Home Products   | 30,294                | 31,720               |
| PVC Pipe   | 52,030                | 61,449               |
| Corporate Office (includes cash, deferred tax<br>and pension assets) | 52,675                | 42,597               |
|  | -----                 | -----                |
|  | \$303,791             | \$320,293            |
|  | =====                 | =====                |

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NOTE D - COMPREHENSIVE INCOME

The components of comprehensive (loss) income for the third quarter and the first nine months of 2001 and 2000 are as follows:

(Dollars in thousands)

|  | THIRD QUARTER ENDED   |                       | NINE MONTHS ENDED     |
|--|-----------------------|-----------------------|-----------------------|
|  | SEPTEMBER 29,<br>2001 | SEPTEMBER 30,<br>2000 | SEPTEMBER 29,<br>2001 |
| Net (loss) income                          | \$ (1,921)            | \$ 6,976              | \$ (524)              |
| Foreign currency translation adjustments   | 6                     | 12                    | (10)                  |
| Loss on derivative instruments, net of tax | (1,093)               | --                    | (1,357)               |
| Comprehensive (loss) income                | \$ (3,008)            | \$ 6,988              | \$ (1,891)            |

The components of accumulated other comprehensive loss, at September 29, 2001, December 30, 2000 and September 30, 2000 are as follows:

(Dollars in thousands)

|  | SEPTEMBER 29,<br>2001 | DECEMBER 30,<br>2000 | SEPTEMBER 30,<br>2000 |
|--|-----------------------|----------------------|-----------------------|
| Foreign currency translation adjustments | \$ (540)              | \$ (530)             | \$ (483)              |
| Minimum pension liability adjustment     | (43)                  | (43)                 | (57)                  |
| Accumulated derivative losses            | (1,357)               | --                   | --                    |
| Accumulated other comprehensive loss     | \$ (1,940)            | \$ (573)             | \$ (540)              |

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NOTE E - EARNINGS PER SHARE CALCULATION

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

(In thousands, except per share amounts)

|   | THIRD QUARTER ENDED |          | NIN    |
|---|---------------------|----------|--------|
|   | 2001                | 2000     | 2001   |
| BASIC (LOSS) EARNINGS-PER-SHARE COMPUTATION                 |                     |          |        |
| Net (Loss) Income   | \$ (1,921)          | \$ 6,976 | \$ (5  |
| Average Common Shares Outstanding                           | 13,776              | 13,638   | 13,7   |
| Basic (Loss) Earnings Per Share                             | \$ (0.14)           | \$ 0.51  | \$ (0. |
| DILUTED (LOSS) EARNINGS-PER-SHARE COMPUTATION               |                     |          |        |
| Net Income  | \$ (1,921)          | \$ 6,976 | \$ (5  |
| Basic Shares Outstanding                                    | 13,776              | 13,638   | 13,7   |
| Stock Options Calculated Under<br>the Treasury Stock Method | --                  | 788      | --     |
| Total Shares  | 13,776              | 14,426   | 13,7   |
| Diluted (Loss) Earnings Per Share                           | \$ (0.14)           | \$ 0.48  | \$ (0. |

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### NOTE F - DERIVATIVES AND HEDGING

Effective as of December 31, 2000, the Company adopted Statement of Financial Accounting Standards No. (SFAS) 133, "Accounting for Derivative Instruments and Hedging Activities" which was issued in June, 1998 by the Financial Accounting Standards Board (FASB), as amended by SFAS 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of Effective Date of SFAS 133" and SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities."

As a result of the adoption of SFAS 133, the Company is required to recognize all derivative financial instruments as either assets or liabilities at fair value. Derivative instruments that are not hedges must be adjusted to fair value through net income. Under the provisions of SFAS 133, 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.

The adoption of SFAS 133 did not result in any transition adjustment as the Company had no derivative instruments outstanding at December 31, 2000. During the first quarter of 2001, the Company entered into two interest rate swap agreements for a total notional amount of \$58.5 million which effectively fixes interest rates on its variable rate debt at 5.41% and 5.48% plus the Company's risk premium of 1.5% to 3.5%, respectively. These transactions are considered cash flow hedges and, thus, the fair market value at the end of the third quarter of \$1,357,000 (net of 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 \$911,000 (net of tax) loss of the fair value of the hedges is classified as current, with the remaining \$446,000 (net of tax) loss classification as long-term.

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

### NOTE G - RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill in the first quarter of 2002. During 2002, the Company will perform the first of the required impairment tests of goodwill as of December 30, 2001 and has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

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

RESULTS OF OPERATIONS

Net sales were \$90.6 million in the third quarter of 2001, a 2.6% increase over the third quarter of 2000. The Carlon segment increased net sales by 39.4% in the current quarter compared to the prior year period. The majority of this net sales increase is due to acquisitions which contributed \$17.1 million in net sales in the third quarter 2001 compared to \$1.3 million in the same period of 2000. Lamson Home Products experienced a sales decline during the third quarter of 2001 of 6.5% off a strong third quarter in 2000. Retailers in the home improvement sector resumed their reduction in inventory levels and experienced softness in sales as the economy slowed and consumer confidence fell. The PVC Pipe Business experienced a 29% decline in net sales this quarter compared to the third quarter of 2000. As in the second quarter of 2001, the volume of electrical and telecommunications conduit shipped continues to be strong, up 8.3% over the third quarter of 2000. However, pricing remains depressed as average selling prices dropped 7.2% from the second quarter of 2001 and is 35% lower than the third quarter of 2000.

For the first three quarters of 2001, net sales increased by 6.2% from the first three quarters of 2000. The Carlon business segment net sales increased \$47.4 million while both the Lamson Home Products and PVC Pipe segments net sales declined 5.0% and 25.8%, respectively, during the first three quarters of 2001 compared to the same period of 2000. Acquisitions from fiscal 2000 contributed approximately \$56.0 million in net sales for the first three quarters of 2001 in the Carlon segment. Net sales are off for the remainder of the business segment by almost 8.6% during the first three quarters of 2001 due to the general slowdown in the economy and decline in telecom infrastructure project activity. Lamson Home Products has experienced very inconsistent demand patterns from its largest customer so far in 2001 as it deals with internal restructuring and policy changes. PVC Pipe volume is up 13.8% from the first three quarters of 2000 while pricing is down by approximately 33.0%, which illustrates a continued oversupply of PVC resin availability compared to current market demand.

Gross margin was 15.0% in the third quarter 2001 representing a 42.0% decline from the 25.9% gross margin achieved in the third quarter of 2000. This quarter's results lowered the gross margin year-to-date in 2001 to 17.3% compared to 27.4% for the first three quarters of 2000. The majority of this decline in the third quarter and year-to-date has occurred in the PVC Pipe Business as selling prices have declined significantly as described above while average PVC resin cost was lower by 17.7% in the third quarter of 2001 and 13.5% for the first nine months of 2001, compared to the respective periods in 2000. In addition, there has been a shift in product mix away from the more profitable telecommunication duct to electrical conduit as the large Regional Bell Operating Companies (RBOC's) curtailed capital spending during the third quarter 2001. As the prime construction season ends and resin prices continue to go lower, the Company aggressively curtailed production in order to reduce pipe inventory. However, plant operating rates resulted in \$1 million less absorption of fixed costs during the third quarter of 2001 when compared to the third quarter of 2000. The Carlon business segment also had modestly lower gross margins in both the current third quarter and year-to-date as the high density polyethylene (HDPE) pipe products had lower selling prices than the prior year as telecom market demand has dropped dramatically. Finally, Lamson Home Products

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continues to earn better gross margins in 2001 compared to 2000 due to continued progress on lowering product costs and the introduction of new products.

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Operating income for the third quarter of 2001 totaled \$.6 million or .7% of net sales. This compares to the prior year's third quarter operating income of \$10.4 million or 11.8% of net sales. The reduced operating income is primarily a result of the lower gross profit in the current quarter as operating expenses were approximately the same in total dollars and as a percentage of net sales as the third quarter of 2000.

Year-to-date operating income is \$8.4 million in 2001 compared to \$29.9 million for the same period in 2000. Despite an increased sales level in the first three quarters of 2001 and higher amortization charges, operating expenses were reduced to 14.3% of net sales in the first three quarters of 2001 versus 15.9% of net sales in the prior year period primarily to reductions in legal costs, compensation expense, discretionary selling and marketing expenses and settlement of litigation in the first quarter of 2001.

Net interest expense increased significantly compared with the prior year due to an approximate \$100 million increase in debt to fund the acquisitions completed in 2000. Average borrowing rates were 6.77% in the third quarter of 2001 (6.84% in the first three quarters of 2001) compared to 7.82% in the third quarter of 2000.

The income tax provision in the third quarter of 2001 reflects the impact of the pretax loss on full year income estimates. The high income tax provision despite nominal pretax income in the first nine months of 2001 is caused by the effect of permanent unfavorable tax treatment of goodwill from the Pyramid acquisition. The income tax provision for the first nine months of 2000 was 31.4%.

The Company's earnings before interest, taxes, depreciation and amortization (EBITDA) was \$5.1 million for the third quarter of 2001, and \$21.8 million for the first three quarters of 2001 compared with \$12.9 million and \$37.3 million for the respective periods in 2000.

### FINANCIAL CONDITION

Working capital was reduced to \$50.0 million at the end of the current quarter, which is \$12.2 million lower than last year's third quarter and \$8.3 million lower than year-end 2000. During the first three quarters of 2001, the Company generated \$18.0 million of cash flows from operating activities compared to \$19.3 million for the first three quarters of 2000. The Company was able to produce these positive cash flows despite the decline in net income, by maintaining strong oversight of accounts receivable despite deteriorating economic conditions and aggressively reducing the level of inventory.

Accounts receivable were \$51.7 million at the end of the third quarter of 2001 compared to \$56.7 million at year-end 2000 and \$54.0 million outstanding at the end of third quarter 2000. Days sales outstanding were about 54 days this quarter which is comparable to both year-end 2000 and the prior year's third quarter performance levels. The Company is experiencing slower payment from some

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smaller telecom market customers due to the dramatic decrease in their wireless activity this year.

At the end of the third quarter 2001 the Company had \$44.9 million in inventory. The inventory level is down \$14.7 million or 25% from year-end 2000 and there is similar reduction from third quarter of 2000. This decrease was the result of an across-the-board inventory reduction effort in the second and third quarters of 2001 reacting to the softening demand. The Company was also able to achieve higher inventory turn targets due to supply chain process improvements and recent capital expenditures. The cost per pound of the primary raw material, polyvinylchloride (PVC) resin in inventory is approximately 19% lower at the end of the third quarter 2001 as compared with the same quarter of 2000 and 15% lower than year-end 2000. Pounds of PVC resin inventory at the end of the third quarter of 2001 have also declined by 30% and 23% compared to the end of the third quarter of 2000 and year-end 2000, respectively. On an overall basis, inventory turns improved to 5.5 times

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at this quarter ending versus 3.8 times in the prior year quarter. The Company's exposure to resin price volatility is reduced with the improved inventory turns.

Accounts payable have remained about the same as year-end 2000, despite the usual seasonal growth expected in the third quarter, but are lower than the prior year third quarter by \$7 million due to the inventory reduction program that significantly lowered the purchases of PVC and HDPE resins in the second and third quarters of 2001.

The reduction in accrued expenses during the first three quarters of 2001 reflects revised expectations for compensation costs and annual customer sales and marketing programs. In addition, the Company paid the remaining purchase price and continued non-compete payments related to prior year acquisitions.

Capital expenditures totaled \$6.1 million during the first three quarters of 2001. The expenditures were primarily for PVC, HDPE and flexible conduit extrusion line capacity and productivity improvements that occurred in the first few months of the year, the installation of radio-frequency (RF) technology at the distribution centers and tooling for new product line development. The Company anticipates spending a total of \$9 million to \$10 million for the full year of 2001.

Based on current projected operating results for the year, the Company believes cash flow from operations and its secured credit facility provide adequate financing for general corporate purposes and the planned capital expenditures. The Company has negotiated a second amendment to its credit facility which resets various covenant levels through 2003 to reflect the lower earnings and growth expectations in the current economic environment and lowers the secured credit facility to \$170 million of which \$125 million represents a revolving credit facility with the remainder in term debt. This amendment may increase the Company's cost of borrowings under this agreement by an additional 50-100 basis points through the term of the agreement.

### OUTLOOK

The following paragraphs 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.

The Company's sales have been supported by a very steady residential

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construction base through the first three quarters of 2001. Housing starts are expected to decline modestly the fourth quarter of 2001 through the first half of 2002 from the 1.5 million unit level to closer to a 1.4 million unit level before trending back up in the second half of 2002. These levels are still fairly strong compared to previous economic downturns. Further interest rate cuts should help maintain the level of existing home sales, which contributes to home improvement product sales of Lamson Home Products.

The telecom infrastructure market spending remains weak as telephone and cable TV companies capital spending plans continue to be deferred. This situation is not expected to improve appreciably until no earlier than the second half of 2002 or the first half of 2003. Spending in this market is required long-term, we believe, to build out the metropolitan rings, expand corporate and institutional high-speed data and communications networks and to provide broadband services to the home. The Company is exploring other areas, such as gas collection, water drainage and sewer markets to better utilize its manufacturing capacity while the telecom market remains soft.

We are advised that the cost of PVC resin may have hit a floor as PVC resin manufacturing companies are expressing that they are selling resin for almost their cash cost. This, along with reduced inventories channel-wide, should cause a stabilization of pricing in the market. Additional PVC resin manufacturing capacity

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scheduled to be brought up the first part of 2002 along with the lower projected U.S. construction activity the first half of next year, however, will keep the pricing environment competitive. Improvement in the PVC Pipe segment may require further substantial improvement in the export market, particularly in the Pacific rim to absorb the current supply imbalance in the domestic market and stabilize these costs.

The Company is reviewing several scenarios including the rationalization of facilities, personnel and product lines in order to reduce fixed cost levels to meet the challenges facing the Company heading into 2002.

The above statements 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, telecom infrastructure spending, consumer confidence and general construction trends, and (iv) further deterioration in the country's general economic condition affecting the markets for the Company's products.

### PART II

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#### ITEM 1 - LEGAL PROCEEDINGS

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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 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

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approximately \$1.5 million. The court declined to increase the damages with respect to the willfulness finding. The Company is pursuing a vigorous appeal and believes it has meritorious positions that will substantially reduce or eliminate the jury award. If, however, the appeal process is not successful, the final resolution of the matter could have a material adverse affect on the Company's financial position, cash flows and results of operations. This appeal was heard on September 4, 2001 and it is expected that there will be a resolution to this matter by the end of the first quarter of 2002.

During the first quarter of 2001, the Company settled its litigation against PW Eagle and received a payment of \$2.05 million, representing a partial recovery of costs incurred in current and previous quarters, arising out of the failed sale of the PVC Pipe segment in 1999.

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 affect on the Company's financial position, cash flows or results of operations.

### ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

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(a) Exhibits.

10(a) Amended and Restated Credit Agreement, dated as of December 15, 2000, among the Company, the Guarantors party thereto, the Lenders party thereto, National City Bank, as Syndication Agent, Bank of America, N.A., as Documentation Agent and Harris Trust and Savings Bank, as Administrative Agent.

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10(b) Second Amendment to the Amended and Restated Credit Agreement, entered into as of October 31, 2001, among The Lamson & Sessions Co., the Guarantors party thereto, the Lenders party thereto and Harris Trust and Savings Bank, as Administrative Agent for Lenders.

10(c) Form of two-year non-qualified stock option agreement under the Company's 1998 Incentive Equity Plan.

10(d) Form of three-year non-qualified stock option agreement under the Company's 1998 Incentive Equity Plan.

10(e) Form of two-year non-qualified stock option agreement under the Company's 1988 Incentive Equity Performance Plan.

10(f) Form of three-year non-qualified stock option agreement under the Company's 1988 Incentive Equity Performance Plan.

10(g) The Lamson & Sessions Co. Nonemployee Directors Stock Option Plan, As Amended and Restated as of July 19, 2001.

10(h) Form of non-qualified stock option agreement under the Company's Nonemployee Directors Stock Option Plan.

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- 10(i) The Lamson & Sessions Co. Deferred Compensation Plan for Nonemployee Directors As Amended and Restated as of October 18, 2001.
- 10(j) The Lamson & Sessions Co. Deferred Compensation Plan for Executive Officers As Amended and Restated as of October 18, 2001.
- (b) Reports on Form 8-K. There were no reports on Form 8-K filed for the three months ended September 29, 2001.

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SIGNATURES  
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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.  
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(Registrant)

DATE: November 12, 2001

By /s/ James J. Abel

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Executive Vice President, Secretary,  
Treasurer and Chief Financial Officer

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