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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

F O R M 10-Q

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

For the quarterly period ended October 4, 2003

OR

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

For the transition period from ______________ to _______________

Commission File Number 1-313

T H E L A M S O N & S E S S I O N S C O.
(Exact name of Registrant as specified in its charter)

Ohio	34-0349210
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
25701 Science Park Drive Cleveland, Ohio	44122-7313
(Address of principal executive offices)	(Zip Code)

216/464-3400
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as

defined in Rule 12b-2 of the Exchange Act).
Yes _______ No X ______

APPLICABLE ONLY TO ISSUERS INVOLVED
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 October 4, 2003 the Registrant had outstanding 13,786,020 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				
	2003		2002		
NET SALES	$95,251	100.0%	$82,381	100.0%	$261,
Cost of products sold	79,968	84.0%	64,155	77.9%	217,
GROSS PROFIT	15,283	16.0%	18,226	22.1%	44,
Operating expenses	10,713	11.2%	10,998	13.3%	32,
OPERATING INCOME	4,570	4.8%	7,228	8.8%	12,
Interest expense, net	2,094	2.2%	2,860	3.5%	6,
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	2,476	2.6%	4,368	5.3%	5,
Income tax provision	958	1.0%	1,774	2.2%	2,
INCOME BEFORE CUMULATIVE					

EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	1,518	1.6%	2,594	3.1%	3,
Cumulative effect of change in accounting principle, net of income tax of $13,750	-	0.0%	-	0.0%	
NET INCOME (LOSS)	$ 1,518	1.6%	$ 2,594	3.1%	$ 3,
BASIC EARNINGS (LOSS) PER COMMON SHARE:					
Earnings before cumulative effect of change in accounting principle	$ 0.11		$ 0.19		$ 0
Cumulative effect of change in accounting principle, net of tax	-		-		
NET EARNINGS (LOSS)	$ 0.11		$ 0.19		$ 0
DILUTED EARNINGS (LOSS) PER COMMON SHARE:					
Earnings before cumulative effect of change in accounting principle	$ 0.11		$ 0.19		$ 0
Cumulative effect of change in accounting principle, net of tax	-		-		
NET EARNINGS (LOSS)	$ 0.11		$ 0.19		$ 0

See notes to Consolidated Financial Statements (Unaudited).

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

(Dollars in thousands)	THIRD QUARTER ENDED 2003
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 553
Accounts receivable, net of allowances of $2,152, $1,924 and $2,882, respectively	52,467
Inventories, net	
Finished goods and work-in-process	31,414

Raw materials	3,105
	34,519
Deferred tax assets	9,979
Prepaid expenses and other	4,477
TOTAL CURRENT ASSETS	101,995
PROPERTY, PLANT AND EQUIPMENT	
Land	3,537
Buildings	25,221
Machinery and equipment	120,658
	149,416
Less allowances for depreciation and amortization	98,560
TOTAL NET PROPERTY, PLANT AND EQUIPMENT	50,856
GOODWILL	21,558
PENSION ASSETS	30,232
DEFERRED TAX ASSETS	14,477
OTHER ASSETS	6,442
TOTAL ASSETS	$ 225,560
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	$ 26,654
Accrued compensation and benefits	8,721
Other accrued expenses	16,059
Taxes	3,890
Current maturities of long-term debt	11,755
TOTAL CURRENT LIABILITIES	67,079
LONG-TERM DEBT	89,619
POST-RETIREMENT BENEFITS AND OTHER LONG-TERM LIABILITIES	28,627
SHAREHOLDERS' EQUITY	
Common shares	1,379
Other capital	75,527
Retained earnings (deficit)	(31,384)
Accumulated other comprehensive income (loss)	(5,287)
TOTAL SHAREHOLDERS' EQUITY	40,235
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 225,560

=========

See notes to Consolidated Financial Statements (Unaudited).

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

(Dollars in thousands)

	20
OPERATING ACTIVITIES	
Net income (loss)	$ 3
Adjustments to reconcile net income (loss) to cash provided by operating activities:	
Cumulative effect of change in accounting principle	
Depreciation	6
Amortization	1
Deferred income taxes	2
Net change in working capital accounts:	
Accounts receivable	(15
Inventories	(2
Prepaid expenses and other	
Accounts payable	5
Accrued expenses and other current liabilities	(1
Other long-term items	1
CASH PROVIDED BY OPERATING ACTIVITIES	
INVESTING ACTIVITIES	
Net additions to property, plant and equipment	(5
Acquisitions and related items	
CASH USED IN INVESTING ACTIVITIES	(6
FINANCING ACTIVITIES	
Net borrowings (payments) under secured credit agreement	6
Payments on other long-term borrowings	
Exercise of stock options	
CASH PROVIDED (USED) BY FINANCING ACTIVITIES	5
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	
Cash and cash equivalents at beginning of year	1
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$

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 adjustments (consisting of normal recurring accruals and changes in accounting estimates) considered necessary for a fair presentation have been included. Certain 2002 amounts have been reclassified to conform with 2003 classifications.

NOTE B - GOODWILL AND INTANGIBLE ASSETS

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

Pursuant to the adoption of this Standard, Lamson completed a transitional impairment review for goodwill during the second quarter of 2002 for each of its reporting units. It was determined that the carrying value of the telecom reporting unit (component of the Carlon business segment) exceeded its estimated fair value as determined by utilizing various valuation techniques including discounted cash flows. Given the indication of a potential impairment, the Company completed the assessment of the implied fair value of the goodwill for the telecom reporting unit, which resulted in an impairment loss of $60.0 million ($46.3 million after tax). This transitional impairment loss was recognized as a cumulative effect of a change in accounting principle as of the beginning of fiscal 2002. The transitional impairment loss is a one-time, non-cash charge. No reclasses were required between intangible assets and goodwill pursuant to the adoption of this Standard. Of the $21.6 million of goodwill remaining on the balance sheet approximately $20.1 million relates to the telecom reporting unit in the Carlon business segment and the remainder is included in the Lamson Home Product business segment.

NOTE C - INCOME TAXES

The year-to-date 2003 income tax provision was calculated based on management's estimate of the annual effective tax rate of 40.0% for the year. The provisions for 2003 and 2002 are primarily non-cash charges.

NOTE D - BUSINESS SEGMENTS

The Company's reportable segments are as follows:

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

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

THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTE D - BUSINESS SEGMENTS - CONTINUED

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

(Dollars in thousands)

	THIRD QUARTER ENDED		
	2003	2002	2
NET SALES			
Carlon	$ 43,755	$ 38,174	$11
Lamson Home Products	22,259	18,166	5
PVC Pipe	29,237	26,041	8
	$ 95,251	$ 82,381	$26
OPERATING INCOME (LOSS)			
Carlon	$ 4,204	$ 3,405	$
Lamson Home Products	3,696	2,448	
PVC Pipe	(2,115)	2,225	(
Corporate Office	(1,215)	(850)	(
	$ 4,570	$ 7,228	$ 1
DEPRECIATION AND AMORTIZATION			
Carlon	$ 1,688	$ 1,868	$
Lamson Home Products	433	479	
PVC Pipe	615	547	
	$ 2,736	$ 2,894	$

Total assets by business segment at October 4, 2003, December 28, 2002 and

September 28, 2002 are as follows:

(Dollars in thousands)

	OCTOBER 4, 2003	DECEMBER 28, 2002
IDENTIFIABLE ASSETS		
Carlon	$ 89,470	$ 83,750
Lamson Home Products	31,674	27,222
PVC Pipe	41,667	35,862
Corporate Office (includes deferred tax and pension assets)	62,749	66,871
	$225,560	$213,705

THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTE E - COMPREHENSIVE INCOME

The components of comprehensive income (loss) for the third quarter and the first nine months of 2003 and 2002 are as follows:

(Dollars in thousands)

	THIRD QUARTER ENDED		
	OCTOBER 4, 2003	SEPTEMBER 28, 2002	OCTO
Net income (loss)	$ 1,518	$ 2,594	$
Foreign currency translation adjustments	57	(29)	
Interest rate swaps, net of tax	252	(479)	
Comprehensive income (loss)	$ 1,827	$ 2,086	$

The components of accumulated other comprehensive income (loss), at October 4, 2003, December 28, 2002 and September 28, 2002 are as follows:

(Dollars in thousands)

	OCTOBER 4, 2003	DECEMBER 28, 2002

Foreign currency translation adjustments	$ (500)	$ (614)
Minimum pension liability adjustments, net of tax	(3,706)	(3,706)
Interest rate swaps, net of tax	(1,081)	(1,550)
Accumulated other comprehensive income (loss)	$ (5,287)	$ (5,870)

THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTE F - EARNINGS PER SHARE CALCULATION

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

(Dollars in thousands, except per share amounts)

	THIRD QUARTER ENDED	
	2003	2002
BASIC EARNINGS-PER-SHARE COMPUTATION		
Net Income (Loss)	$ 1,518	$ 2,594
Average Common Shares Outstanding	13,786	13,778
Basic Earnings (Loss) Per Share	$ 0.11	$ 0.19
DILUTED EARNINGS-PER-SHARE COMPUTATION		
Net Income (Loss)	$ 1,518	$ 2,594
Basic Shares Outstanding	13,786	13,778
Stock Options Calculated Under the Treasury Stock Method	140	-
Total Shares	13,926	13,778
Diluted Earnings (Loss) Per Share	$ 0.11	$ 0.19

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

NOTE G - DERIVATIVES AND HEDGING

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

NOTE G - DERIVATIVES AND HEDGING - CONTINUED

During the first quarter of 2001, the Company entered into two interest rate swap agreements for a total notional amount of $58.5 million, of which $33.0 million was outstanding at October 4, 2003. The swap agreements effectively fix the interest rate on its variable rate debt at 5.41% and 5.48% plus the Company's risk premium of 1.5% to 4.0%, respectively. These transactions are considered cash flow hedges and, therefore, the fair market value at the end of the third quarter 2003 of a $1,081,000 (net of $691,000 in tax) loss, has been recognized in other comprehensive income (loss). There is no ineffectiveness on the cash flow hedges, therefore, all changes in the fair value of these derivatives are recorded in equity and not included in the current period's income statement. Approximately $1,351,000 loss on the fair value of the hedges is classified in current accrued liabilities, with the remaining $421,000 loss classified as a long-term liability.

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

NOTE H - CONTINGENCY

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

NOTE I - STOCK COMPENSATION PLANS

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)

		THIRD QUARTER ENDED	
		2003	2002
Net income (loss)	As reported	$ 1,518	$ 2,594
Total stock-based employee compensation, net of tax		(156)	(191)
Net income (loss)	Pro forma	$ 1,362	$ 2,403
Basic earnings (loss) per share	As reported	$ 0.11	$ 0.19
	Pro forma	0.10	0.17
Diluted earnings (loss) per share	As reported	$ 0.11	$ 0.19
	Pro forma	0.10	0.17

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

RESULTS OF OPERATIONS

Net sales for the third quarter of 2003 were $95.3 million representing an increase of $12.9 million, or 15.6%, over the third quarter of 2002. All three business segments experienced higher sales levels this quarter compared with the prior year period. The Carlon segment net sales increased by $5.6 million, or 14.6%, compared with the same quarter of the prior year. The majority of this increase comes from an improvement in HDPE sales of telecommunications conduit and gas collection pipe while electrical products sales continued to grow slowly. Lamson Home Products had net sales growth of $4.1 million, or 22.5%, during the third quarter of 2003 compared with the third quarter of 2002. The existing and new home sales and home improvement markets continue to be strong as interest rates remain relatively low. In addition, some of the market share gains made late in 2002 are beginning to be realized. Finally, the PVC Pipe business segment saw net sales increase by $3.2 million, or 12.3%, in the third quarter compared with the prior year. The PVC Pipe sales volume was up 27.0% this quarter compared with a slow third quarter in 2002. Volume is also up 15.6% from the second quarter of 2003, which had been adversely affected by the poor weather this spring. Competition to hold market share also increased in this quarter, after the weak start of the construction season, lowering pricing by almost 11.7% in the third quarter of 2003 compared with the third quarter of 2002 and lower by 6.2% compared with the second quarter of 2003.

For the first three quarters of 2003, net sales increased by 9.2%, or $22.1 million, compared with the first three quarters of 2002. About $5.0 million of this increase was a result of an extra week occurring in the first fiscal quarter this year compared with the prior year. The Carlon business segment's net sales in the first three quarters of 2003 slightly exceeded the prior year period by $1.8 million, or 1.5%, as the demand levels began to increase in the third quarter. The Lamson Home Products' segment experienced net sales growth of $7.9 million, or 15.1%, for the first three quarters of 2003 compared with the first three quarters of 2002. This segment continues to benefit from a stable home improvement market, the introduction of product line extensions and market share gains. The PVC Pipe segment also had an increase in net sales of $12.5 million, or 17.2%, for the first three quarters of 2003 compared with the same period in 2002. The volume of PVC Pipe shipments was up approximately 1.3% while the average selling price was higher by 9.7% in the first three quarters of 2003 compared with the first three quarters of 2002.

The gross margin percentage in the third quarter of 2003 declined to 16.0% from the 22.1% gross margin that was realized in the third quarter of 2002. A major reason for this decline is the relatively unfavorable product mix occurring in the Carlon business segment. In addition, the PVC Pipe business segment experienced narrower margins compared with the prior year as resin costs increased in the third quarter 2003 by approximately 3.2% over the third quarter 2002, while the year-to-date costs in 2003 are about 34.2% higher than the first three quarters of 2002. These increases were not able to be recovered with price increases due to the continued softness in commercial and industrial construction demand. Manufacturing costs so far this year have been unfavorably impacted by higher medical benefits and utility costs. The overall percent of capacity utilization in the manufacturing facilities improved to over 70.0% in the current quarter compared with slightly over 60.0% in the prior-year period. This improvement came primarily from increased utilization of the PVC and HDPE extrusion facilities. Capacity utilization in the injection molding plants remained at high levels.

Operating income for the third quarter of 2003 totaled $4.6 million, or 4.8% of net sales, compared with the $7.2 million, or 8.8% of net sales, in the prior year's third quarter. The entire decline in operating income is due to the lower gross profit as previously discussed. Operating expenses are lower by $0.3 million, or 2.6%, in the third quarter 2003, despite the higher net sales levels, compared with the same quarter in the prior year. Higher pension and medical costs, both current employee and retiree, and higher variable selling and marketing expenses were offset by reduced incentive compensation and bad debt expenses.

Year-to-date operating income is $12.2 million, or 4.7% of net sales, in 2003 compared with $15.3 million, or 6.4% of net sales, for the first three quarters of 2002. Operating expenses for the current year-to-date are $1.5 million lower than the prior year. Higher variable selling and marketing expense, pension and overall medical

costs were incurred. However, the Company experienced lower legal, consulting, incentive compensation and bad debt expense.

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

Net interest expense declined by approximately $1.4 million for the first three quarters of 2003 compared with the first three quarters of 2002. Over the last 12 months, debt has been paid down by about $1.5 million and average borrowing rates have declined to 6.0% in the third quarter 2003 (6.2% in the first three quarters of 2003) from 7.0% in the third quarter of 2002.

The income tax provision was recorded using an annualized estimated effective rate of 40.0% for 2003, while the 2002 year-to-date income tax provision reflects an estimated tax rate of 42.0% and net changes in the deferred tax valuation allowance against certain of the Company's general business tax credits.

The Company's earnings before interest, taxes, depreciation and amortization (EBITDA) were $7.3 million for the third quarter of 2003, and $20.3 million for the first three quarters of 2003 compared with $10.1 million, and $24.1 million for the respective periods in 2002.

The components of this calculation are as follows:

(Dollars in thousands)

	THIRD QUARTER		NINE
	2003	2002	2003
Operating income	$ 4,570	$ 7,228	$ 12,177
Depreciation	2,337	2,495	6,890
Amortization	399	399	1,199
EBITDA	$ 7,306	$ 10,122	$ 20,266

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

The following is a reconciliation of EBITDA to cash provided by operating activities:

(Dollars in thousands)

	THIRD QUARTER		NINE MONTHS	
	2003	2002	2003	2
EBITDA	$ 7,306	$ 10,122	$ 20,266	$ 24
Current portion of income tax provision	33	(373)	(196)	
Interest expense	(2,094)	(2,860)	(6,432)	(7
Change in operating assets and liabilities	(1,756)	(1,567)	(13,298)	1
Cash provided by operating activity	$ 3,489	$ 5,322	$ 340	$ 17

FINANCIAL CONDITION

Working capital (current assets less current liabilities) was $34.9 million at the end of the third quarter of 2003, an increase of $6.5 million from last year's third quarter and $14.2 million higher than the 2002 year-end. The majority of this working capital increase is caused by higher accounts receivable balances generated by the strong net sales achieved in the current quarter.

Accounts receivable were $52.5 million at the end of the third quarter of 2003. This represents an increase of 10.2%, or $4.9 million, from the prior year's third quarter. This increase is directly attributed to the higher sales in the current quarter compared with the prior year comparable period. Days sales outstanding calculated using a 3-month rolling average, were approximately 47.3 days in the third quarter of 2003, which is almost 5 days better than the third quarter of 2002. The quality of accounts receivable continues to increase as the economic outlook improves.

At the end of the third quarter of 2003, the Company had approximately $34.5 million in inventory. The inventory level is up $2.3 million, or 7.1%, from year-end 2002, almost the same as the end of the third quarter

2002 balance, but $8.2 million, or 19.0% lower than the second quarter of 2003. The cost per pound of the primary raw material, PVC resin, has fallen slightly in the third quarter after steadily increasing during the first half of 2003, and is approximately 7.0% lower at the end of the third quarter of 2003 compared with the same quarter of 2002; yet still 4.9% higher than at year-end 2002. Pounds of PVC resin in inventory at the end of the third quarter of 2003 were lower by approximately 17.6% compared with year-end 2002, and 25.7% lower than the third quarter of 2002. As the Company has been able to start up the first of its two new blend operations this quarter, these lower inventory levels should be sustained. Other finished goods inventory areas remain up slightly from year-end and the prior year quarter in order to support the increase in sales activity. On an overall basis, inventory turns, based on a 3-month rolling average, were 7.3 times at October 4, 2003 versus 6.0 times at September 28, 2002.

Accounts payable has increased from year-end 2002 by $5.4 million and is $5.6 million higher than the prior year third quarter, which primarily reflects the timing of quarter-end payments. The reduction in other accruals from year-end 2002 during the first three quarters of 2003 reflects the routine payments of annual incentive compensation and customer sales and marketing programs. Accruals are also lower than the prior year third quarter primarily due to the timing of quarterly interest payments and the reduced expectations for incentive compensation in 2003.

Overall, operating cash flow for year-to-date 2003 is $340 thousand, compared with $17.2 million in operating cash flow through the first three quarters of 2002. The decline in cash flow is caused by the increase in accounts receivable from the significant increase in sales experienced this quarter and higher inventory costs. Both of these working capital items should decline in the fourth quarter due to the routine seasonal slowdown. The fourth quarter is generally the best cash flow quarter for the Company.

Capital expenditures totaled $5.8 million in the first three quarters of 2003 primarily for production improvements and critical tooling to support new product introductions. The Company plans to spend a total of approximately $8-9 million on these programs and enhanced business system capabilities during 2003.

The Company has credit availability of approximately $20.0 million, which is adequate for its current operational expenses and the capital spending plans described above. Based on the Company's third quarter leverage ratio, the interest rate spread pursuant to the Company's secured credit agreement will increase by 0.5% during the fourth quarter of 2003. The Company expects this higher rate will last for only one quarter as the Company anticipates its leverage ratio will return to its lower level by year-end.

The Company continues to operate under a Business Plan (the "Plan") accepted by the New York Stock Exchange (the "Exchange") in December 2002. The Company submitted its Plan to the Exchange in October 2002 in order to comply with the listing requirements of the Exchange. This effort follows a formal notice from the Exchange that the Company was, at the time of the notice, below the Exchange's continued listing criteria of a total market capitalization of not less than $50.0 million over a 30-day trading period and shareholders' equity of not less than $50.0 million. The Company's Plan will be reviewed quarterly for ongoing compliance with its goals and objectives. The Company believes the Plan, when fully implemented, should achieve the requirements of the Exchange for market capitalization and shareholders' equity by the end of the plan period in March 2004. At the end of the third quarter 2003, the Company's shareholders' equity was $40.2 million.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

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

A sudden and prolonged deterioration in the economy could adversely affect the Company's customers (especially related to the telecom or retail market) requiring the Company to increase its allowances for doubtful accounts. A sudden or unexpected decline in PVC resin costs coupled with a slow-down in sales volume could result in write downs of inventory valuations. If such adverse conditions would occur, the Company cannot readily predict the effect on its financial condition or results of operations as any such effect depends on both future results of operations and the magnitude and timing of the adverse conditions.

The Company's policy of amortizing unrecognized gains or losses in accordance with SFAS No. 87, the significant deterioration in the stock market and resulting reduction in defined benefit pension plan assets has caused an increase of approximately $2.4 million in the reported pension expense to be included in the Company's results of operations in 2003. The Company made a voluntary contribution of $6.0 million to the Company's defined benefit plans in the fourth quarter of 2002. Plan investment returns have improved so far in 2003, but no calculation of potential additional contributions has been completed for the 2003 year-end. Any decline in defined benefit pension plan assets or discount rates during the remainder of this year will increase the future contribution levels required for the Company's defined benefit pension plans.

Management also makes judgments and estimates in recording liabilities for environmental cleanup and litigation. Liabilities for environmental remediation are subject to change because of matters such as changes in laws, regulations and their interpretation; the determination of additional information on the extent and nature of site contamination; and improvements in technology. Likewise, actual litigation costs can vary from estimates based on the facts and circumstance and application of laws in individual cases.

As of October 4, 2003, the Company had approximately $24.5 million of net deferred tax assets primarily related to loss carryforwards that expire through 2022 and other timing differences. The realization of these net assets is based primarily upon estimates of future taxable income. Current expectations of operating results are sufficient to sustain realization of these net assets. However, should taxable income estimates for the carryforward period be significantly reduced, the full realization of net deferred tax assets may not occur.

As disclosed in the Company's consolidated financial statements, the Company has goodwill of $21.6 million, the majority of which relates to the telecom reporting unit in the Carlon business segment. An annual impairment test of goodwill is performed by an independent third party as of the first day of the fourth quarter (or as conditions warrant). The test as of September 29, 2002 resulted in no additional impairment being identified from the impairment recorded as of the first day of fiscal 2002 in connection with the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets." However, the process of evaluating goodwill for impairment involves the determination of the fair value of the telecom reporting unit. Inherent in such fair value determinations are certain judgments and estimates, including the interpretation of economic indicators and market valuations and assumptions about our strategic plans. To the extent that our strategic plans change, or that economic and market conditions worsen, it is possible that our conclusion regarding goodwill impairment could change and result in a material effect on our financial position or results of operations.

OUTLOOK

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

The Company experienced stronger sales order demand in key markets in the third quarter due to seasonal strength and improved weather conditions. The residential construction market remained very resilient during the third quarter and we concur with the consensus of economists that project this market will remain strong for the rest of 2003 and only expect modest decline for 2004 at this time. Commercial and industrial construction markets remain weak and we anticipate that little improvement will occur before mid 2004. Utility construction has been stable throughout 2003 and we expect it to remain so while telecommunication infrastructure activity seems to have leveled off after a decline in the first half of 2003. Any significant growth in the telecom market remains unlikely before late 2004.

As anticipated, the cost of our primary raw material, PVC resin, stabilized during the third quarter. With higher oil and natural gas prices expected in the winter months, several resin manufacturers have announced price increases. We expect that resin costs in the fourth quarter will most likely mirror the average cost experienced in the third quarter with only modest decline due to the normal seasonal activity. This should help to support the current selling prices in the PVC Pipe business, barring any more than typical drop off in demand. Margins had begun to improve slightly at the end of the third quarter and they should be stable to modestly higher in the fourth quarter.

The Carlon business segment anticipates similar net sales and operating income in the fourth quarter of 2003 to that reported in last year's fourth quarter due to existing market conditions. The fourth quarter is seasonably strong for Lamson Home Products and we anticipate better than seasonal net sales and operating income growth due to improved product mix and realizing some market share gains. We also expect that the PVC Pipe segment will experience higher net sales and a lower operating loss than that reported in 2002's fourth quarter. Overall, the fourth quarter should compare favorably to the fourth quarter of 2002 with net sales growth of 7% to 8% and net earnings of 10 to 12 cents per diluted share. Operating cash flow will strengthen in the fourth quarter allowing us to reduce our debt and lower our borrowing ratio as anticipated.

In summary, management reconfirms its expectations that net sales for 2003 will increase by 8% to 10% over 2002. However, due to the competitive environment and high raw material costs incurred in the third quarter we now anticipate that net income for the 2003 year should be 35 to 37 cents per diluted share, approximately the same level as 2002, prior to the change in accounting for SFAS No. 142, "Goodwill and Other Intangible Assets."

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

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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

ITEM 4 - CONTROLS AND PROCEDURES

As of October 4, 2003, a review was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's internal control over financial reporting. Based on that review, the Company's management, including the CEO and CFO, concluded that the Company's internal control over financial reporting was effective as of October 4, 2003.

During the third quarter ended October 4, 2003, there were no significant changes in the internal control over financial reporting that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

PART II

ITEM 1 - LEGAL PROCEEDINGS

On September 23, 1999, the Company announced that a United States District Court jury in the Northern District of Illinois found that the Company willfully infringed on a patent held by Intermatic Incorporated ("Intermatic") of Spring

Grove, Illinois, relating to the design of an in-use weatherproof electrical outlet cover, and awarded Intermatic $12.5 million in damages plus pre-judgment interest of approximately $1.5 million. The Company pursued a vigorous appeal and on December 17, 2001, the United States Court of Appeals ruled that, as a matter of law, Lamson & Sessions' products did not infringe Intermatic's patent and that the Company has no liability to Intermatic. The trial jury's earlier verdict in favor of Intermatic in the amount of $12.5 million, plus pre-judgment and post-judgment interest estimated to be in excess of $3.0 million, was reversed. Intermatic filed for a rehearing of the ruling to the Court of Appeals en banc, which was denied. Intermatic then filed a petition for certiorari with the United States Supreme Court. The United States Supreme Court has reversed the decision of the Court of Appeals and remanded the case back to it. In March 2003, the Court of Appeals remanded this litigation back to the United States District Court for reconsideration. The Company does not expect this matter to be finally determined in 2003.

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

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

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.

(b) Reports on Form 8-K.

1. The Company's current report on Form 8-K, dated July 30, 2003 relating to the Company's earnings for second quarter 2003.

SIGNATURES

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

THE LAMSON & SESSIONS CO.
(Registrant)

October 30, 2003

By: /s/ James J. Abel
James J. Abel
Executive Vice President, Secretary,
Treasurer and Chief Financial Officer