LAMSON & SESSIONS CO
Form 10-K/A
April 30, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K/A
(Amendment No. 1)

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

For the fiscal year ended December 30, 2006

OR

o **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 001-00313
THE LAMSON & SESSIONS CO.
(Exact name of Registrant as specified in its charter)

Ohio	**34-0349210**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
25701 Science Park Drive, Cleveland, Ohio	**44122**
(Address of Principal Executive Offices)	**Zip Code**

216-464-3400
(Registrant s telephone number, including area code)
None
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	**Name of each Exchange on which registered**
Common Shares, without par value	**New York Stock Exchange**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes o No þ

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 þ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of June 30, 2006, (the last trading day of the Company s fiscal 2006 second quarter) the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $441,892,162 based on the closing sale price of $28.36 as reported on the New York Stock Exchange.

As of April 27, 2007 the Registrant had outstanding 15,848,270 common shares.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A amended the registrant s Annual Report on Form 10-K for the fiscal year ended December 30, 2006 originally filed March 14, 2007 (the Form 10-K) solely to include information previously omitted from Part III, Items 10-14. Item 15 of Part IV is included solely for the certifications required in connection with the filing of this amendment. Other than as set forth herein, the registrant has not undertaken to update any information provided in the Form 10-K.

THE LAMSON & SESSIONS CO.
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ANNUAL REPORT ON FORM 10-K
For The Fiscal Year Ended December 30, 2006

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PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Board of Directors

Name, Age Principal Occupation and Business(1)	Other Directorships	Year First Became a Director
Class I: Term Expires at 2007 Annual Meeting		
Michael J. Merriman, Jr. (50) President and Chief Executive Officer of Lamson (November 2006 Present); Senior Vice President and Chief Financial Officer, American Greetings Corporation (manufacturer and marketer of social expression products) (September 2005 November 2006), Private Investor May 2004 August 2005, President and Chief Executive Officer, Royal Appliance Mfg. Co. (marketer of Dirt Devil and Royal vacuum cleaners) (August 1995 May 2004)	RC2 Corporation American Greetings Corporation	2006
William E. MacDonald, III (60) Retired Vice Chairman, National City Corporation (diversified financial holding company) (March 2001 to December 2006)	MTC Technologies, Inc. Lincoln Electric Holdings, Inc.	2006
James T. Bartlett (70) Advising Director, Primus Venture Partners (Private investment firm)	Keithley Instruments, Inc	1997
D. Van Skilling (73) Retired Chairman and Chief Executive Officer, Experian Information Solutions, Inc. (Supplier of credit, marketing and real estate information and decision support systems)	First American Corporation American Business Bank McDATA Corporation Onvia, Inc. First Advantage Corporation	1989
Class III: Term Expires at 2008 Annual Meeting		
James J. Abel (61) Executive Vice President, Secretary, Treasurer and Chief Financial Officer of Lamson	CPI Corp.	2002
A. Malachi Mixon, III (66) Chairman of the Board and Chief Executive Officer, Invacare Corporation (Manufacturer and distributor of home healthcare products)	Invacare Corporation The Sherwin-Williams Company Cleveland Clinic Foundation	1990
John B. Schulze (70) Non-Executive Chairman of the Board of Lamson	None	1984
Class II: Term Expires at 2009 Annual Meeting		
John C. Dannemiller (68) Retired Chairman, Applied Industrial Technologies (Distributor of bearings, power transmission components and related products)	U-Store-It	1988

George R. Hill (65) Retired Senior Vice President, The Lubrizol Corporation (Full service supplier of performance chemicals and systems to worldwide transportation and industrial markets)	None	1990
William H. Coquillette (57) Partner, Jones Day (Law firm)	None	1997

(1) Each director either has held the position shown or has had other executive positions with the same employer or its subsidiary for more than five years.

Executive Officers

The information required by this item regarding our executive officers is incorporated by reference to the information under the caption Executive Officers of the Registrant in Part I of our Form 10-K filed on March 14, 2007.

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Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission, or the SEC, and the New York Stock Exchange, and to provide us with copies of such reports.

Based solely on the review of the copies of such reports furnished to us, or written representation that no forms were required to be filed, we believe that during the year ended December 30, 2006, all Section 16(a) filing requirements applicable to our executive officers, directors and greater than ten percent beneficial owners were complied with except that: (i) Michael J. Merriman, Jr., Andrew J. Patterson and James A. Rajecki each filed a late Form 3; (ii) James J. Abel, Eileen E. Clancy, John B. Schulze, Lori L. Spencer and Norman P. Sutterer each filed a late Form 4 reporting two transactions each; (iii) Donald A. Gutierrez filed a late Form 4 reporting one transaction and an amended Form 5 reporting a transaction that was not timely filed on Form 4; (iv) James A. Bartlett, William H. Coquillette, A. Malachi Mixon, III and D. Van Skilling each filed a late Form 4 reporting one transaction each, and (v) John C. Dannemiller and George R. Hill each filed two late Forms 4 reporting one transaction on each Form 4.

Code of Ethics

Our Code of Corporate Conduct and Ethics that applies to our directors and associates, including our principal executive officer, principal financial officer, principal accounting officer and any person performing a similar function with Lamson, is posted on our Web site at www.lamson-sessions.com via the Investor Relations page. In addition, we will provide, free of charge to any person, a copy of the Code of Corporate Conduct and Ethics. Requests should be sent to: Secretary, The Lamson & Sessions Co., 25701 Science Park Drive, Cleveland, OH 44122. We intend to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding certain amendments to or waivers of its Code of Corporate Conduct and Ethics by posting such information on our Web site at www.lamson-sessions.com via the Investor Relations page.

The Audit Committee

The Audit Committee is a separately designated standing committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Audit Committee consists solely of independent directors (as currently required by the NYSE listing standards). Dr. Hill (Chairman) and Messrs. Dannemiller, Bartlett and MacDonald currently are the members of the Audit Committee. The Board has determined that one member of the Audit Committee, James T. Bartlett, has the qualifications to be an audit committee financial expert as defined in the SEC s rules and regulations.

Item 11. EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

Our financial performance in 2005 and 2006 improved significantly over prior years and exceeded expectations. Specifically, we achieved levels of earnings before taxes, depreciation and amortization, or EBITDA, and share price during 2005 and 2006 well above recent historical levels, and net income outcomes that were five to six times higher than those achieved over the prior five years. The outcomes reflected, in part, renewed strength in the telecom market as well as general overall strength in the residential and commercial construction businesses during most of 2005 and 2006.

New President and Chief Executive Officer. On April 21, 2006, Mr. Schulze announced his intention to retire as President and Chief Executive Officer, or CEO, no later than our 2007 annual meeting. After a nationwide search, our Board of Directors announced on October 26, 2006 that they had appointed Mr. Merriman President and CEO effective as of November 15, 2006. Mr. Merriman joined the Board as an outside director upon his election at our annual meeting on April 28, 2006. In connection with his selection as President and CEO, Mr. Merriman entered into the following agreements with us:

- an employment agreement, which is described under Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table ;

a severance agreement, which is described under Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table ;

an Executive Change-in-Control agreement, which we generally refer to as a CIC Agreement and which is described under Other Payments upon Termination of Employment Change-in-Control Agreements ; and

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- a supplemental retirement agreement, which is described under Compensation Structure Pay Elements Retirement Benefits.

Additional information regarding the initial grant of plan-based awards he received is provided under Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table.

We entered into a termination agreement with Mr. Schulze in connection with his retirement from Lamson effective April 30, 2007, pursuant to which he agreed to terminate his three-year CIC agreement. Mr. Schulze will serve as non-executive Chairman of the Board until his term as a director expires at our annual meeting of shareholders in 2008 and until the election and qualification of his successor. Mr. Schulze will be paid $350,000 in consideration for his continuing service on the Board and for other services he will provide to us. In the event of a change-in-control, all amounts remaining unpaid under the termination agreement will accelerate.

New Deferred Compensation Plans. In 2006, our Governance, Nominating and Compensation Committee, or GNC Committee, adopted The Lamson & Sessions Co. Non-qualified Deferred Compensation Plan, which we refer to as the New Deferred Plan, to segregate amounts deferred after January 1, 2005 from those deferred prior to that date in order to comply with Internal Revenue Code Section 409A. Additional information regarding our deferred compensation plans can be found under Deferred Compensation Plans.

New Change-in-Control Agreements. In 2006, the GNC Committee also adopted new forms of CIC Agreements to be entered into with our executive officers. The changes primarily related to conforming the definition of change-in-control to the one used in our rights plan, a change in the calculation of cash severance payments under certain CIC agreements and other necessary changes required by Internal Revenue Code Section 409A. Additional information regarding our CIC Agreements can be found under Other Payments upon Termination of Employment Change-in-Control Agreements.

Conclusion. Each of these events had an impact on the compensation paid to our executive team in 2006, as described in further detail herein.

Compensation Philosophy, Objectives and Process

Compensation Philosophy

Our overall principle guiding executive compensation is to ensure that total compensation is performance-oriented and related to our goals and objectives, using measurable criteria to the extent possible. The specific objectives of our executive compensation philosophy are to:

- attract and retain key executives critical to our long-term success;
- create incentives for executives to achieve long-term strategic management objectives that enhance shareholder value; and
- provide a balance between annual and long-term forms of compensation.

The GNC Committee accomplishes these objectives using annual and long-term incentive programs in conjunction with salaries and a package of benefits. For the fiscal year ended December 30, 2006, the principal components of compensation for our named executive officers were:

- base salary;
- performance-based incentive compensation in the form of cash payouts under our Executive Incentive Compensation Plan, which we refer to as the EICP;
- long-term equity incentive compensation issued under our Amended and Restated 1998 Incentive Equity Plan, or the 1998 Plan, which consisted of the following in 2006:
  - stock appreciation rights, or SARs, which are similar to stock options but have more favorable dilution outcomes; and
  - performance-accelerated restricted stock, or PARS, which consist of an award of restricted shares that vest in any event over six years, but whose vesting may be earlier based on achievement of three pre-determined

share price targets;

retirement and other related benefits; and

perquisites and other personal benefits.

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Target Pay Levels

As a general matter, the GNC Committee reviews the compensation levels of similar manufacturing companies in similar industries to gauge the compensation paid to our executives. Specifically, the competitiveness of our executive compensation is primarily compared to executive pay surveys and, beginning in 2007, a peer group of similarly-sized manufacturing companies generally located in Ohio.

To gauge our performance, the GNC Committee reviews objective performance measures such as EBITDA versus pre-determined budgeted goals, as well as share price performance, as discussed in detail below. In addition, the GNC Committee sets individual objectives for named executive officers other than the President and CEO, whose entire annual and long-term incentive opportunities represent objective performance measures. Incentive compensation paid to our officers is linked to the extent to which these performance objectives are achieved relative to budgeted and individual goals and expectations. Individual performance objectives for 2006 and awards associated with those objectives are discussed in more detail below under Compensation Structure Pay Elements Annual Incentives.

Each pay component is targeted at the market median, but as discussed below, compensation is weighted toward incentive pay programs that provide payouts based on our level of annual and long-term performance. Annual incentives are designed to be paid at levels above median when performance exceeds expectations, and below median when performance is less than expectations. Equity-based long-term incentive grants are targeted at market median as well, but actual outcomes could exceed median depending primarily on share price changes.

In setting levels on an individual basis, the GNC Committee may also take into account the individual performance of executive officers, as observed by the GNC Committee, along with input from the President and CEO, and an assessment of the attainment of pre-determined individual performance objectives, as discussed below.

Role of the Governance, Nominating and Compensation Committee

General

The GNC Committee of the Board has duties and responsibilities related to corporate governance and the identification, selection and nomination of individuals to become Board members. It is also responsible for ensuring that an effective compensation program is in place to provide performance-oriented compensation to management. The responsibilities of the GNC Committee related to executive compensation include, among other duties:

- overseeing the evaluation of the Board and management.

- establishing and administering our policies, programs and procedures for compensating our senior management.

- reviewing and approving corporate goals and objectives relevant to compensating our CEO, evaluating the CEO s performance in light of these goals and objectives, and, either as a committee or together with the other independent directors (as directed by the Board), determining and approving the CEO s compensation level based on this evaluation.

- making recommendations to the Board with respect to compensating officers other than the CEO, incentive compensation plans and equity-based plans.

- reviewing and approving a report on executive compensation for inclusion in the proxy statement for our annual meeting of shareholders in accordance with applicable rules and regulations.

Under its charter, the GNC may delegate all or a portion of its duties and responsibilities to a subcommittee.

Interaction with Compensation Consultants

In 2006, the GNC Committee relied on the services of Pearl Meyer & Partners, or PM&P, to provide input on decisions regarding executive compensation programs for the named executive officers. The GNC Committee engaged PM&P to assist with its review of the compensation programs for our executive officers, as well as the design of a new long-term equity compensation plan, several analyses related to the hiring of Mr. Merriman in November 2006, and the preparation of various aspects of our compensation disclosure in this report.

While the GNC Committee retained PM&P directly in carrying out assignments, PM&P also interacted with our executive officers when necessary. Specifically, PM&P met with our senior officers to discuss various design elements of incentive plans and relied on our executive officers to provide input on compensation matters. In addition, PM&P sought input and

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feedback from our executive officers regarding its consulting work product prior to presentation to the GNC Committee to confirm alignment with our business strategy and performance outcomes.

Interaction with Management

The Prsident and CEO, Executive Vice President and Chief Financial Officer, and other executive officers identified in the Summary Compensation Table below, which we refer to as the named executive officers, normally attend GNC Committee meetings when executive compensation, Lamson performance, and individual performance are discussed and evaluated by Committee members. Executives are free to provide insight, suggestions or recommendations regarding executive compensation if present during these meetings or at other times. The GNC Committee Chairman met with Mr. Schulze early in 2006 to discuss his pay recommendations for other executives as well as to discuss Mr. Schulze s compensation package. However, independent GNC Committee members do meet privately and only independent GNC Committee members may vote on decisions made regarding executive compensation for any of our named executive officers.

The GNC Committee was also involved in the negotiations with Mr. Merriman, in connection with his appointment as President and CEO. The GNC Committee made all of the decisions with respect to the President and CEO s compensation package.

Compensation Structure

Overview

We generally provide four key compensation components to our named executive officers, which include base salary, annual incentive compensation, long-term incentive compensation and retirement benefits. In addition, each executive officer is party to a CIC Agreement, and Mr. Merriman has a severance agreement in addition to his CIC Agreement. We also provide minimal executive perquisites and benefits that are discussed in further detail under Pay Elements Perquisites below. Each major compensation component is discussed in more detail below.

Pay Levels and Benchmarking

The GNC Committee assessed market competitive pay levels in 2006 to ensure pay levels were appropriate for named executive officers, using data on similar positions in manufacturing companies as published in executive pay surveys. Each survey included several hundred companies similar in revenue size to Lamson and represented a number of manufacturing-based industries, including both direct business competitors and potential sources of executive talent. For 2007 compensation, the GNC Committee has begun examining the executive pay information publicly disclosed by a selected peer group of 15 Ohio-based manufacturing companies of comparable size, but did not use such information in 2006. The GNC Committee believed this change was appropriate to gain additional, more highly focused information on our direct competitors for executive talent within Ohio.

Pay Mix

We use the pay elements described above in a portfolio approach, which provides a mix of base pay, at-risk compensation and equity interest. The pay mix also:

- balances annual and long-term compensation by gauging portions of compensation on both financial and stock performance;
- places a greater emphasis on incentive pay for more senior executives, as such executives have more influence on our financial and share price performance; and
- places a greater emphasis on long-term compensation, in the form of equity compensation, for more senior executives, as such executive may have a greater impact on the creation of shareholder value.

For 2006, the target pay mix for each named executive officer (other than Mr. Merriman, who was employed by us for less than 2 months in 2006 and therefore was not eligible for all regular incentive awards) was as follows:

Executive	Title	Salary as % of Total Compensation	Target Annual Incentives as % of Total Compensation	Long Term Incentive as % of Total Compensation
John B. Schulze	Chairman and former Chief Executive Officer	34%	25%	41%
James J. Abel	Executive Vice President and Chief Financial Officer	44%	27%	29%
Donald A. Gutierrez	Senior Vice President	48%	23%	29%
Norman P. Sutterer	Senior Vice President	51%	25%	25%
Eileen E. Clancy	Vice President	57%	24%	18%

The above table takes into account target annual incentives and not actual annual incentive payouts. Long-term incentive percentages are based on the combined grant date fair value of stock-settled SARs and PARS made as an annual grant in 2006. The table does not take into account retirement benefits for the named executive officers, which are discussed in more detail below.

The GNC Committee looks at each element of compensation as part of the overall compensation package and considers how the elements of its program compare to the compensation elements and their respective weightings in the context of the programs offered by the competitive market. In addition, the structure of our current programs was taken into account by the GNC Committee during the hiring process for Mr. Merriman. The package offered to Mr. Merriman generally fits within our overall pay structure, specifically including an initial salary of $500,000 (versus Mr. Schulze s $550,000) and an annual incentive target of 72% of salary (identical to Mr. Schulze s as discussed under Pay Elements Annual Incentives below). In addition to these components, Mr. Merriman received a signing bonus of $275,000 to offset lost incentive compensation from his prior employer and was also awarded a pro rata bonus for 2006 of $105,570. Mr. Merriman also received grants of stock-settled SARs and PARS that were larger than Mr. Schulze s 2006 grants, representing a combination of signing grant bonus and a regular annual grant.

Pay Elements

Base Salary. In furtherance of several of our compensation objectives, base salary levels and changes are made primarily to ensure retention of key contributors by providing basic financial security, and in the case of Mr. Merriman, to induce him to join Lamson.

The GNC Committee sets base salaries based on each executive s position, performance results and relation to competitive market pay levels obtained from the executive surveys discussed above, as well as overall general market salary movements. Salaries are reviewed annually by the GNC Committee at its February meeting and adjustments are based on the factors noted above, any new roles and/or responsibilities assumed by the executive, and input on performance from the President and CEO. However, there is no specific formulaic weighting of the factors noted above and new salaries are set based on the GNC Committee s discretion and judgment.

Prior to 2006, salary increases had been averaging about 4% annually, and salaries had been below market median levels for more than five years. However, based on our outstanding financial performance during 2005 and 2006, the GNC Committee deemed it appropriate to increase executive salaries by about 9% in the aggregate for the named executive officers at its February 2006 meeting. As noted, Mr. Merriman was offered, and accepted, a starting salary of $500,000, which was within a range of the market median, in accordance with our pay philosophy.

Annual Incentives. Annual incentives are designed to motivate executives towards achieving short-term corporate goals, are based on our annual achievement of pre-determined EBITDA targets, and, in the case of executives other than the President and CEO, also on individual performance. The GNC Committee generally sets the targets in the first quarter of the applicable year and evaluates the performance of those objectives at its meeting in the first quarter of the following year.

At its February 2006 meeting, the GNC Committee approved the 2006 EICP. The 2006 EICP provided that an incentive pool would be funded if certain annual goals were obtained. The amount in this pool would then be allocated by the GNC Committee among our executive officers, which included the named executive officers as well as four additional officers, who together comprise our Leadership Council, based on the achievement of certain corporate and individual performance goals and objectives.

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Mr. Schulze s annual payout from the 2006 EICP and Mr. Merriman s pro rata payout were entirely based on the level of achievement of EBITDA against the pre-determined goals noted below. For EBITDA achievement at target, their EICP payouts were set at 72% of salary. Their maximum payout from the 2006 EICP was initially set to occur at an EBITDA achievement level of 120% of the EBITDA target (or greater), subject to revision by the GNC Committee. Such a revision for them was deemed appropriate by the GNC Committee for 2006 because of the significant impact of the President and CEO on our financial performance. For the other named executive officers, 80% of their incentive opportunity is based on EBITDA performance while the remaining 20% is based on achievement against individual performance measures and objectives.

Target EICP awards, which reflect market median targets, for each of the named executive officers are as follows:

Executive	Title	EICP Incentive as a % of Salary, for EBITDA performance at Target level
John B. Schulze	Chairman and former Chief Executive Officer	72%
Michael J. Merriman, Jr.	President and Chief Executive Officer	72%
James J. Abel	Executive Vice President and Chief Financial Officer	60%
Donald A. Gutierrez	Senior Vice President	48%
Norman P. Sutterer	Senior Vice President	48%
Eileen E. Clancy	Vice President	42%

The EICP incentive pool provides for funding at defined threshold, target and maximum EBITDA levels with interpolation for achievement between those levels. The GNC Committee chose EBITDA as the key performance measure because it believes that measure best represents the outcome of our operational performance and because the cash flow generated by achieving targeted EBITDA levels is used by us to pay down debt and generally strengthen our financial position. The 2006 EBITDA targets and related payout percentages are as follows:

Level of Achievement	EBITDA $	Percent Achievement	Payout Percentage
Minimum	$51,000,000	85%	25%
Target	$60,000,000	100%	100%
Maximum	$72,000,000	120%	200%

If we achieve below the threshold shown above, the incentive pool will not be funded, and no annual incentives would be paid to executive officers in the event of such an outcome. The incentive pool for financial performance above target has generally been capped when EBITDA achievement reaches 120% of target for the portion of the incentive that is based on financial performance, subject to GNC Committee discretion.

In 2006, we achieved EBITDA above the maximum established under the EICP, which represented the second consecutive year we had achieved above the maximum for this measure. The 2005 and 2006 outcomes should be considered in the context of 2001-2004, when we achieved EBITDA at below threshold levels for two years (resulting in zero payout in those years), between minimum and target for one year and between target and maximum in one year. In 2005, we achieved EBITDA above the maximum outcomes, which was also more than double the average result for EBITDA during 2001-2004. As a result, the GNC Committee chose to set the EBITDA target for 2006 at a level that sustained the 2005 achievement. Based on the EBITDA performance levels reached in 2005, the GNC

Committee believed the 2006 EBITDA target, as set in February 2006, was likely to be achieved if we continued to perform as we had in 2005. Performance in 2006 was then achieved at levels substantially better than in 2005.

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Individual performance objectives and achievements for 2006 include the following:

Name	Target Opportunity as Percentage of Salary	Bonus Awarded as Percentage of Salary	Goals Attained
James J. Abel	12.0%	27%	Continue proactive communications with the investing community Investigate appropriate debt and equity alternatives Evaluate pension plan asset allocation based on current funding status Identify and evaluate potential acquisitions
Donald A. Gutierrez	9.6%	21.6%	Increase new product sales Achieve net sales and operating profit goals for Carlon Enhance succession planning process and review quarterly Achieve operating profit goals for PVC Pipe
Norman P. Sutterer	9.6%	21.6%	Improve business unit operating margins through improved product mix and strategic price decisions Achieve business unit revenue projection and operating profit goals Achieve Lamson Vylon Pipe revenue projection and operating profit goals
Eileen E. Clancy	8.4%	18.9%	Develop training and certification programs and management development and staffing plans to support plant operations Implement additional programs or intervention strategies designed to foster and promote ethical behaviour corporate-wide Continue to implement plan design changes and programs to contain health care costs for both active associates and retirees

At its meeting in February 2007, the GNC Committee elected to pay annual incentives to the named executive officers for 2006 based on our achievement of 125% of the EBITDA target, or a payout at 225% of the target level of achievement for the financial performance measure, along with the individual performance outcomes noted above. The GNC Committee used its discretion to pay above the EICP Plan maximum for financial performance based on its judgment that the EBITDA outcome for 2006 represented an outstanding achievement.

The EICP Plan figures for all of the named executive officers are shown in the Bonus and Non-Equity Incentive Plan Compensation columns of the Summary Compensation Table.

Long-Term Incentives. Long-term incentives in 2006 consisted of a combination of SARs and PARS. These elements supported our compensation objectives of motivating executives to help promote long-term shareholder value, as well as retention for the time-based element of the PARS.

Long-term equity incentives are awarded to executive officers from the 1998 Plan, which was reapproved by shareholders at our 2006 annual meeting. The 1998 Plan allows for the award of various types of equity incentives, including stock options, stock-settled SARs, restricted stock and restricted stock units, performance shares and units, PARS and other equity-based awards at the discretion of the GNC Committee.

Until 2006, the GNC Committee had used stock options as its main vehicle to deliver long-term compensation. In 2006, the GNC

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Committee reexamined the way that we had historically provided equity incentives. In this reexamination, the GNC Committee focused on the impact of implementation of Financial Accounting Standards Board Statement No. 123 (revised 2004), *Accounting for Stock-Based Compensation*, or FAS 123R, which mandated an expense for stock options beginning January 1, 2006. It was also concerned about the number of shares being granted on an annual basis. As a result, the GNC Committee structured the long-term equity program for 2006 using SARs and PARS for the named executive officers.

SARs, like options, allow an executive to benefit from increases in our stock price. PARS would have value even if our stock price is stagnant or declines, but also offer the opportunity for share appreciation.

After the value of the long-term incentive is established for each executive, the executive is awarded a combination of stock-settled SARs and PARS. The SARs value is weighted 50%, based on a Black-Scholes valuation similar to that used by us for accounting purposes, while the PARS value is discounted by 25% (from 50% of total long-term value to 37.5%) to account for its higher probability of having value at the end of the vesting period versus SARs.

By using SARs and PARS, the GNC Committee significantly reduced the number of shares used on an annual basis for equity incentives, further aligned shareholder interests with those of the executives by tying executive gains to increases in shareholder value and promoted its retention philosophy by allowing key senior executives to receive value from their PARS if they were employed at the end of a six-year period, even if share price targets were not attained.

Retirement Benefits. We provide retirement income from several sources for the named executive officers, as follows:

The Lamson & Sessions Deferred Savings Plan an Internal Revenue Code Section 401(k) qualified defined contribution plan under which all of our employees are eligible to defer receipt of their compensation on a tax-favored basis and receive Lamson matching contributions.

The New Deferred Plan a plan for our management and highly compensated employees, including the executive officers, under which they may defer the receipt of their base salary and bonus on a tax-deferred basis. If an executive officer who is a member of the Leadership Council elects to have his or her deferred bonus amount credited into a phantom Lamson common share account, restricted shares are issued to the participant under the 1998 Plan with a value equal to 20% of such deferred bonus amount. The Leadership Council is composed of our named executive officers and four additional officers. Amounts deferred by executive officers before 2005 are held in a similar program called The Lamson & Sessions Co. Deferred Compensation Plan for Executive Officers, which we refer to as the Pre-2005 Deferred Plan.

The Lamson & Sessions Co. Salaried Employees Retirement Plan, which we refer to as the Qualified Plan a qualified defined benefit pension plan that was closed to new entrants at the end of 2002 so that new hires or rehires after that date would not be participants. All of the named executive officers, with the exception of Mr. Merriman, are fully vested participants in this plan.

The Supplemental Retirement Agreements for Messrs. Schulze, Merriman and Abel and The Lamson & Sessions Co. Supplemental Pension Plan, which we refer to as the Restoration Plan, provide for additional benefits not subject to the Internal Revenue Code compensation and benefit limits that apply to the Qualified Plan. These plans apply to the named executive officers, as shown in the Pension Benefits table.

The GNC Committee believes the Supplemental Retirement Agreements and the Restoration Plan provide us with a greater ability to attract and retain key executives over the long-term. In particular, the GNC Committee believes that the development and implementation of the Supplemental Retirement Agreement for Mr. Merriman contributed significantly to his decision to become our President and CEO.

Detailed present value amounts under each of the above named arrangements are outlined in the Pension Benefits Table, with changes in the year-end present value of accumulated benefits presented in to the Summary Compensation Table.

Perquisites. We also provide a program of executive benefits and perquisites to our named executive officers, including car leases and maintenance, matching contributions to The Lamson & Sessions Co. Deferred Savings Plan (a qualified 401(k) plan), income tax preparation services, club dues, the cost of annual physicals and premiums on split-dollar life insurance policies. More details on these executive benefits and perquisites are provided in the All Other Compensation column in the Summary Compensation Table, as well as the related notes.

The GNC Committee chooses to provide the executive benefits and perquisites for competitive reasons, primarily to attract and retain executive officers. The GNC Committee further believes the executive benefits and perquisites are similar to those provided by comparable companies, specifically based on their own experiences at other companies at which they have been associated with in the past.

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GNC Committee Discretion

The GNC Committee retains the discretion to increase or decrease EICP incentive payouts based on significant differences in individual or corporate performance with respect to all executive officers. The GNC Committee increased such payments for 2006 performance primarily because we exceeded the maximum under the EBITDA performance and such performance replicated the performance levels achieved in 2005, which in turn were well above those of the previous four years.

The GNC Committee does not have the discretion to increase payouts made from the 1998 Plan that are intended to comply with Internal Revenue Code Section 162(m) protection (see Impact of Tax and Accounting Considerations below) for any grants made from the 1998 Plan if the change would result in the loss of an otherwise available deduction.

Conclusion

Pay opportunities for specific executive officers vary based on a number of factors such as scope of duties, tenure, experience and expertise in a particular functional area. Actual total compensation in a given year varies above or below targeted compensation levels based primarily on the attainment of short-term financial goals and whether or not certain levels of shareholder value have been attained. In some instances, the amount and structure of compensation results from arm s-length negotiations with executives, as was the case with Mr. Merriman.

Compensation levels and mix are considered within the context of performance and objective market pay data, as well as the subjective factors discussed above. The GNC Committee believes the pay programs for the named executive officers are within the defined competitive range of practices when compared to the objective comparative data.

During 2006, the GNC Committee believes it adhered to our pay-for-performance executive pay philosophy by (1) making higher than historic increases to base pay in a year of our continued success, (2) paying out annual incentives based on achievement of pre-established financial goals, and (3) granting long-term incentives commensurate with market median levels.

Post-Termination Payments

Change-in-Control Payments

Each executive officer is party to a CIC Agreement that specifies payments upon the occurrence of a change-in-control of Lamson and subsequent termination of the executive officer, as defined in the CIC Agreement. The GNC Committee considers such agreements necessary for management security and to ensure a smooth transition in the event of a change-in-control. The amounts that would be paid in the event of a change-in-control are presented in tabular form below in the table entitled Payments upon Termination of Employment. The text accompanying the table describes the circumstances in which payments would be made under the CIC Agreements and the methods for calculating the payment amounts. Mr. Schulze agreed on March 16, 2007 to terminate his CIC Agreement in connection with his retirement.

All of the executive officers are eligible for tax gross-ups designed to cover any excise taxes related to payments determined to be in excess of the thresholds for parachute payments under Section 280G of the Internal Revenue Code, as well as related taxes on those amounts. The named executive officers will also vest in all unvested equity incentives upon a change-in-control, even if the executives are not terminated. The GNC Committee deemed such provisions to be competitive based on their own experiences and understanding of similar agreements at similar companies.

Severance Payments

We do not have a severance program outside the context of a change-in-control, nor do we have any special severance arrangements for named executive officers, other than Mr. Merriman. In order to attract Mr. Merriman, the GNC Committee felt it was necessary to guarantee a certain degree of security to Mr. Merriman for the first three years of his employment. Under his severance agreement, he is entitled to receive two years of salary, eighteen months of health benefits and a further lump sum payment for an additional six months of health benefits should he be terminated other than for cause or as a result of his disability outside the context of a change-in-control. This agreement will expire on November 15, 2009, the third anniversary of his commencement of employment. The GNC Committee believed this was an appropriate compromise solution in the context of the absence of severance programs for the other executive officers as well as employees in general and the relatively higher risk for an executive coming to a new company as a mid-career hire.

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Additional Compensation Policies

Timing and Pricing of Equity Grants

In recent years, we have released earnings guidance regarding our fourth quarter and annual results about three weeks after the end of our fiscal year, followed by our earnings release in mid-February. Our GNC Committee has traditionally granted long-term incentive awards at its meeting held on the same date based on the average of the high and low share price on that date. This was the case with the stock-settled SARs granted by the GNC Committee at its meeting on February 16, 2006. The SARs grants were made with a $28.90 grant price, which represented the average of the high and low for the day, the method specified in the 1998 Plan to determine fair market value. The closing price for our common shares on that date was $25.45, as shown in the 2006 Grants of Plan-Based Awards table. PARS were also granted on the same day, and $28.90 was likewise used to determine the share price targets that will trigger accelerated vesting.

The GNC Committee also makes equity grants in the context of a new hire or promotion. Accordingly, when Mr. Merriman commenced employment on November 15, 2006, he was granted SARs at a price of $21.355, which was the average of the high and low share prices on that date. The share closing price on that date was $21.40. A separate column in the 2006 Grants of Plan-Based Awards table reflects this difference. The share price targets for accelerated vesting of the PARS also was based on the $21.355 per share value. The share price targets for accelerated vesting of the PARS, as stated in the 2006 Grants of Plan-Based Awards table, were $32, $35 and $38. The attainment of each target results in the accelerated vesting of one-third of the PARS.

Other than Mr. Merriman s negotiation with regard to his initial grant in connection with his selection as President and CEO, none of our executive officers played a role in the GNC Committee s decision on the timing of the 2006 equity grants. Following GNC Committee approval of the grants, our Human Resources and Finance departments administer the grants made under the 1998 Plan.

In February 2007, the GNC Committee continued its practice of granting long-term incentive awards at its meeting that coincides with our earnings release. However, the GNC Committee set the grant price for the SARs granted on February 23, 2007 at the higher of (1) the average of the high and low share price on the date of grant ($30.23) and (2) the average of the high and low share price on February 16, 2007 ($29.235), the date of the fourth quarter and fiscal year earnings release. As a result, the SARs were granted with a grant price of $30.23. The PARS granted on the same day used the same method for determining the share price targets that will trigger accelerated vesting. Beginning in 2008, the GNC Committee expects to further separate the grant of equity incentives from the date of our earnings release.

Stock Ownership Guidelines and Hedging Policies

The GNC Committee approved stock ownership guidelines for executives in 1997, denominated as a specific number of our common shares for each executive officer. Each named executive officer, with the exception of Mr. Merriman, owns enough common shares to meet the guidelines, as shown in the table below. Mr. Merriman will have a five-year period from his date of employment, or until November 15, 2011, to meet his share ownership guideline of 150,000 shares.

Executive	Title	Share Ownership Guideline	Actual Shares Owned(1)
John B. Schulze	Chairman and former Chief Executive Officer	150,000	238,262
Michael J. Merriman, Jr.	President and Chief Executive Officer	150,000	23,919
James J. Abel	Executive Vice President and Chief Financial Officer	45,000	223,542
Donald A. Gutierrez	Senior Vice President	14,000	22,444
Norman P. Sutterer	Senior Vice President	14,000	23,444
Eileen E. Clancy	Vice President	14,000	15,849

(1) Includes shares held as of

December 30, 2006 and includes common shares held in the Pre-2005 Deferred Plan, the Deferred Savings Plan or by family members of household, but does not include shares under stock options.

Impact of Tax and Accounting Considerations

In general, the GNC Committee takes into the account the various tax and accounting implications of our compensation vehicles.

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The GNC Committee examines the accounting cost associated with long-term incentive grants when determining the amounts of such grants to executive officers and employees. The implementation of an accounting expense for stock options under FAS 123R led the GNC Committee to explore other alternatives for equity incentives, particularly in the context of the high dilution rates associated with options. The exercise led to the decision to use SARs and PARS, resulting in similar accounting charges to options, but significantly lower dilution rates versus past practices.

Section 162(m) of the Internal Revenue Code generally prohibits any publicly held corporation from taking a federal income tax deduction for compensation paid in excess of $1 million in any taxable year to the chief executive officer and the next four highest compensated officers. Exceptions are made for qualified performance-based compensation, among other things. It is the GNC Committee s policy to maximize the effectiveness of our executive compensation plans in this regard. SARs are considered performance-oriented and tax deductible under Section 162(m). Salaries, annual incentives and PARS may be tax deductible to the extent that they total less than $1 million for each named executive officer. During 2006, Mr. Schulze exceeded $1 million in compensation based on the combination of salary and annual incentives. As a result, we did not get a tax deduction for the amount in excess of $1 million. We believed this was an acceptable tradeoff for maintaining positive discretion with regard to annual incentive payouts. We may revisit this issue in future years.

GOVERNANCE, NOMINATING AND COMPENSATION COMMITTEE REPORT

We have reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on our review and discussion with management, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in Lamson & Sessions Annual Report on Form 10-K for the year ended December 30, 2006 and the proxy statement for its 2007 annual meeting of shareholders.

This report has been furnished by the Governance, Nominating and Compensation Committee of the Board of Directors.

GOVERNANCE, NOMINATING AND
COMPENSATION COMMITTEE
D. Van Skilling, Chairman
James T. Bartlett
John C. Dannemiller
William E. MacDonald, III
A. Malachi Mixon, III

SUMMARY COMPENSATION TABLE

The following table sets forth the total compensation paid or earned by each of the named executive officers for the fiscal year ended December 30, 2006. Other than Mr. Merriman, we have not entered into any employment agreements with any of the named executive officers.

On November 15, 2006, Mr. Merriman joined us as our President and CEO. Mr. Merriman previously served as a non-employee director on our Board. Accordingly, while compensation he earned from us in 2006 is included in the table below, including fees he earned as a non-employee director, his 2007 compensation will be more comparable to that earned by Mr. Schulze, our previous President and CEO, in 2006. Mr. Schulze will retire as an executive effective April 30, 2007, but he will continue to serve as non-executive Chairman of the Board until our 2008 annual meeting and the election and qualification of his successor.

Each of the named executive officers received annual incentive awards under the EICP, other than Mr. Merriman, who received a pro rata award under the EICP based on his employment start date. As described in the Compensation Discussion and Analysis, because, for the second consecutive year, our EBITDA performance exceeded the achievement level we had set for maximum payout, the GNC Committee used its discretion to award additional bonuses to each of the named executive officers. The portion of the annual incentive award that was paid as a result of this exercise of discretion appears in the Bonus column, together with amounts paid in recognition of realization of personal goals and objectives and a pro rata award for Mr. Merriman. The portion of the annual incentive award that was paid as a result of the achievement of the EBITDA maximum target is included in the Non-Equity Incentive Plan Compensation column, including a pro rata award to Mr. Merriman. Mr. Merriman s signing bonus appears in the Bonus column as well.

Long-term incentives in 2006 consisted of a combination of SARs and PARS. The amounts included in the Stock Awards column reflect the FAS 123R expense related to PARS and restricted shares. The amounts included in the Option

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Awards column reflect the FAS 123R expense related to SARs and non-qualified stock options. Prior to 2006, the GNC Committee used stock options as its main vehicle to deliver long-term compensation, and amounts included for stock options reflect those granted in previous years. The restricted shares were granted in connection with deferrals under our deferred compensation plans. See Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table Stock and Option Awards for more information regarding those plans.

2006 SUMMARY COMPENSATION TABLE

Name and Principal Position (a)	Year (b)	Salary(1) ($) (c)	Bonus(2) ($) (d)	Stock Awards(3) ($) (e)	Option Awards(3) ($)	Non-Equity Incentive Plan Compensation(4) ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(5) ($)	All Other Compen-sation ($)(6)	Total ($)