

LYDALL INC /DE/
Form 10-Q
April 30, 2019

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

FORM 10-Q

¼QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2019

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: 1-7665

LYDALL, INC.

(Exact name of registrant as specified in its charter)

Delaware

06-0865505

(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

One Colonial Road, Manchester, Connecticut

06042

(Address of principal executive offices)

(zip code)

(860) 646-1233

(Registrant's telephone number, including area code)

None

(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 a shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Edgar Filing: LYDALL INC /DE/ - Form 10-Q

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock \$.01 par value per share.

Total Shares outstanding April 15, 2019 17,530,795

LYDALL, INC.
INDEX

	Page Number
Cautionary Note Concerning Forward – Looking Statements	3
Part I. Financial Information	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Statements of Operations (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited)</u>	6
<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	7
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	8
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)</u>	9
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	10
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	26
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	34
Item 4. <u>Controls and Procedures</u>	34
Part II. Other Information	
Item 1. <u>Legal Proceedings</u>	36
Item 1A. <u>Risk Factors</u>	36
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
Item 5. <u>Other Information</u>	38
Item 6. <u>Exhibits</u>	39
Signature	40

Lydall, Inc. and its subsidiaries are hereafter collectively referred to as “Lydall,” the “Company” or the “Registrant.” Lydall and its subsidiaries’ names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or trade names of Lydall and its subsidiaries.

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Any statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact may be deemed to be forward-looking statements. All such forward-looking statements are intended to provide management’s current expectations for the future operating and financial performance of the Company based on current assumptions relating to the Company’s business, the economy and future conditions. Forward-looking statements generally can be identified through the use of words such as “believes,” “anticipates,” “may,” “should,” “will,” “plans,” “projects,” “expects,” “expectations,” “estimates,” “forecasts,” “prospects,” “strategy,” “signs” and other words of similar meaning in connection with the discussion of future operating or financial performance. Forward-looking statements may include, among other things, statements relating to future sales, earnings, cash flow, results of operations, uses of cash and other measures of financial performance. Because forward-looking statements relate to the future, they are subject to inherent risks, uncertainties and changes in circumstances that are difficult to predict. Accordingly, the Company’s actual results may differ materially from those contemplated by the forward-looking statements. Investors, therefore, are cautioned against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. Forward-looking statements in this Quarterly Report on Form 10-Q include, among others, statements relating to:

- Overall economic and business conditions and the effects on the Company’s markets;
- Outlook for the second quarter and full year 2019;
- Ability to improve operational effectiveness in the Thermal Acoustical Solutions segment;
- Expected vehicle production in the North American, European or Asian markets;
- Growth opportunities in markets served by the Company;
- Ability to integrate the Interface Performance Materials business, which was acquired in the third quarter of 2018;
- Expected future financial and operating performance of Interface Performance Materials;
- Expected costs and future savings associated with restructuring programs;
- Expected gross margin, operating margin and working capital improvements from cost control and other improvement programs;
- Product development and new business opportunities;
- Future strategic transactions, including but not limited to: acquisitions, joint ventures, alliances, licensing agreements and divestitures;
- Pension plan funding and expected impacts of the Lydall Pension Plan termination during 2019;
 - Future cash flow and uses of cash;
 - Future amounts of stock-based compensation expense;
- Future earnings and other measurements of financial performance;
- Ability to meet cash operating requirements;
- Future levels of indebtedness and capital spending;
- Ability to meet financial covenants in the Company's amended revolving credit facility;
- Future impact of the variability of interest rates and foreign currency exchange rates;
- Expected future impact of recently issued accounting pronouncements upon adoption;
- Future effective income tax rates and realization of deferred tax assets;
-

Edgar Filing: LYDALL INC /DE/ - Form 10-Q

Estimates of fair values of reporting units and long-lived assets used in assessing goodwill and long-lived assets for possible impairment; and

•The expected outcomes of legal proceedings and other contingencies, including environmental matters.

All forward-looking statements are inherently subject to a number of risks and uncertainties that could cause the actual results of the Company to differ materially from those reflected in forward-looking statements made in this Quarterly Report on Form 10-

3

Q, as well as in press releases and other statements made from time to time by the Company's authorized officers. Such risks and uncertainties include, among others, worldwide economic cycles and political changes and uncertainties that affect the markets which the Company's businesses serve, which could have an effect on demand for the Company's products and impact the Company's profitability; challenges encountered by the Company in the execution of restructuring programs; challenges encountered in the integration of the acquired Interface Performance Materials business; disruptions in the global credit and financial markets, including diminished liquidity and credit availability; changes in international trade agreements and policies, including tariff regulation and trade restrictions; swings in consumer confidence and spending; unstable economic growth; volatility in foreign currency exchange rates; raw material pricing and supply issues; fluctuations in unemployment rates; retention of key employees; increases in fuel prices; and outcomes of legal proceedings, claims and investigations, as well as other risks and uncertainties identified in Part II, Item 1A - Risk Factors of this Quarterly Report on Form 10-Q, and Part I, Item 1A - Risk Factors of Lydall's Annual Report on Form 10-K for the year ended December 31, 2018. The Company does not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LYDALL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands Except Per Share Data)

	Quarter Ended	
	March 31,	
	2019	2018
	(Unaudited)	
Net sales	\$218,025	\$191,660
Cost of sales	175,969	152,153
Gross profit	42,056	39,507
Selling, product development and administrative expenses	33,006	25,471
Operating income	9,050	14,036
Interest expense	3,628	540
Other expense, net	399	315
Income before income taxes	5,023	13,181
Income tax expense	1,106	2,123
Loss from equity method investment	27	4
Net income	\$3,890	\$11,054
Earnings per share:		
Basic	\$0.23	\$0.64
Diluted	\$0.22	\$0.64
Weighted average number of common shares outstanding:		
Basic	17,254	17,164
Diluted	17,318	17,339

See accompanying Notes to Condensed Consolidated Financial Statements.

LYDALL, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (In Thousands)

	Quarter Ended	
	March 31,	
	2019	2018
	(Unaudited)	
Net income	\$3,890	\$11,054
Other comprehensive income (loss):		
Foreign currency translation adjustments	(127)	2,545
Pension liability adjustment, net of tax	215	198
Unrealized (loss) gain on hedging activities, net of tax	(675)	102
Comprehensive income	\$3,303	\$13,899

See accompanying Notes to Condensed Consolidated Financial Statements.

LYDALL, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In Thousands)

	March 31, 2019 (Unaudited)	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 47,874	\$ 49,237
Accounts receivable, less allowances (2019 - \$1,477; 2018 - \$1,440)	156,349	144,938
Contract assets	22,322	23,040
Inventories	91,048	84,465
Taxes receivable	3,138	2,912
Prepaid expenses	5,062	4,707
Other current assets	8,669	7,779
Total current assets	334,462	317,078
Property, plant and equipment, at cost	462,765	458,075
Accumulated depreciation	(248,845)	(244,706)
Net, property, plant and equipment	213,920	213,369
Operating lease right-of-use assets	27,254	—
Goodwill	197,022	196,963
Other intangible assets, net	131,325	136,604
Other assets, net	7,929	8,672
Total assets	\$ 911,912	\$ 872,686
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 10,111	\$ 10,172
Accounts payable	86,921	73,265
Accrued payroll and other compensation	18,724	16,621
Deferred revenue	5,471	6,990
Other accrued liabilities	21,571	14,298
Total current liabilities	142,798	121,346
Long-term debt	307,656	314,641
Long-term operating lease liabilities	22,138	—
Deferred tax liabilities	39,038	39,265
Benefit plan liabilities	22,170	22,795
Other long-term liabilities	4,898	5,364
Commitments and Contingencies (Note 16)		
Stockholders' equity:		
Preferred stock	—	—
Common stock	252	253
Capital in excess of par value	91,713	90,851
Retained earnings	415,032	411,325
Accumulated other comprehensive loss	(43,272)	(42,685)
Treasury stock, at cost	(90,511)	(90,469)
Total stockholders' equity	373,214	369,275
Total liabilities and stockholders' equity	\$ 911,912	\$ 872,686

See accompanying Notes to Condensed Consolidated Financial Statements.

7

LYDALL, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In Thousands)

	Three Months Ended March 31, 2019 2018 (Unaudited)	
Cash flows from operating activities:		
Net income	\$3,890	\$11,054
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	11,935	7,220
Deferred income taxes	(260)	) 601
Stock-based compensation	982	1,201
Loss from equity method investment	27	4
Changes in operating assets and liabilities:		
Accounts receivable	(11,395)	) (18,626)
Contract assets	447	(5,745)
Inventories	(6,617)	) (8,796)
Accounts payable	15,498	9,471
Accrued payroll and other compensation	2,443	(2,432)
Accrued taxes	396	877
Other, net	(2,976)	) 1,209
Net cash provided by (used for) operating activities	14,370	(3,962)
Cash flows from investing activities:		
Capital expenditures	(9,239)	) (7,676)
Proceeds from the sale of property, plant and equipment	256	—
Net cash used for investing activities	(8,983)	) (7,676)
Cash flows from financing activities:		
Debt repayments	(7,067)	) (57)
Common stock issued	—	666
Common stock repurchased	(43)	) (823)
Net cash used for financing activities	(7,110)	) (214)
Effect of exchange rate changes on cash	360	1,080
Decrease in cash and cash equivalents	(1,363)	) (10,772)
Cash and cash equivalents at beginning of period	49,237	59,875
Cash and cash equivalents at end of period	\$47,874	\$49,103

Non-cash capital expenditures of \$3.1 million and \$4.2 million were included in accounts payable at March 31, 2019 and 2018, respectively.

See accompanying Notes to Condensed Consolidated Financial Statements.

LYDALL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

In thousands of dollars and shares	Common Stock Shares	Common Stock Amount	Capital Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance at December 31, 2018	25,254	\$ 253	\$90,851	\$411,325	\$ (42,685)	\$(90,469)	\$ 369,275
Net Income				3,890			3,890
Other comprehensive loss, net of tax					(587)		(587)
Stock repurchased						(42)	(42)
Stock issued (canceled) under employee plans	(26)	(1)					(1)
Stock-based compensation expense			862				862
Adoption of ASC 606 (1)							