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LAMSON & SESSIONS CO
Form 10-Q
October 28, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 1, 2005

OR

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

For the transition period from _____ to _____

Commission File Number 1-313

THE LAMSON & SESSIONS CO.
(Exact name of Registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

34-0349210
(IRS Employer Identification No.)

25701 Science Park Drive
Cleveland, Ohio
(Address of principal executive offices)

44122-7313
(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).

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Yes X No
 ----- -----

Indicate by check mark whether the Registrant is a shell company (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 1, 2005 the Registrant had outstanding 14,489,808 common shares.

PART I

ITEM 1 - FINANCIAL STATEMENTS

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

(Dollars in thousands, except per share data)

	THIRD QUARTER ENDED				NINE MONTHS ENDED	
	2005		2004		2005	
NET SALES	\$128,052	100.0%	\$104,919	100.0%	\$350,854	100.0%
Cost of products sold	105,144	82.1%	87,820	83.7%	287,954	82.1%
GROSS PROFIT	22,908	17.9%	17,099	16.3%	62,900	17.9%
Selling and marketing expenses	7,825	6.1%	7,159	6.8%	22,428	6.4%
General and administrative expenses	4,269	3.3%	3,817	3.6%	12,406	3.5%
Research and development expenses	467	0.4%	616	0.6%	1,405	0.4%
Total operating expenses	12,561	9.8%	11,592	11.0%	36,239	10.3%
Litigation settlement	--	0.0%	1,728	1.7%	--	0.0%
Other expense (income), net	--	0.0%	395	0.4%	--	0.0%
OPERATING INCOME	10,347	8.1%	3,384	3.2%	26,661	7.6%
Interest expense, net	1,419	1.1%	1,992	1.9%	5,632	1.6%
INCOME FROM CONTINUING OPERATIONS						
BEFORE INCOME TAXES	8,928	7.0%	1,392	1.3%	21,029	6.0%
Income tax provision	3,575	2.8%	559	0.5%	8,245	2.4%

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INCOME FROM CONTINUING OPERATIONS	5,353	4.2%	833	0.8%	12,784	3.6%
Income from discontinued operations, net of income tax of \$256	--	0.0%	--	0.0%	--	0.0%
NET INCOME	\$ 5,353	4.2%	\$ 833	0.8%	\$ 12,784	3.6%
BASIC EARNINGS PER COMMON SHARE:						
Earnings from continuing operations	\$ 0.37		\$ 0.06		\$ 0.90	
Earnings from discontinued operations, net of tax	--		--		--	
NET EARNINGS	\$ 0.37		\$ 0.06		\$ 0.90	
DILUTED EARNINGS PER COMMON SHARE:						
Earnings from continuing operations	\$ 0.35		\$ 0.06		\$ 0.86	
Earnings from discontinued operations, net of tax	--		--		--	
NET EARNINGS	\$ 0.35		\$ 0.06		\$ 0.86	

See notes to Consolidated Financial Statements (Unaudited).

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

(Dollars in thousands, except per share data)

	THIRD QUARTER ENDED 2005	YEAR ENDED 2004	THIRD QUARTER ENDED 2004
	-----	-----	-----
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 1,723	\$ 683	\$ 533
Accounts receivable, net of allowances of \$2,186, \$1,522 and \$1,634, respectively	69,812	48,391	59,561
Inventories, net			
Raw materials	5,879	3,504	3,922
Work-in-process	4,899	5,160	4,827
Finished goods	29,140	28,196	31,381
	-----	-----	-----
	39,918	36,860	40,130
Deferred tax assets	8,171	9,683	8,961
Prepaid expenses and other	4,629	5,128	5,293
	-----	-----	-----
TOTAL CURRENT ASSETS	124,253	100,745	114,478
PROPERTY, PLANT AND EQUIPMENT			
Land	3,320	3,320	3,320
Buildings	25,279	25,130	24,897
Machinery and equipment	125,125	119,622	118,161

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	-----	-----	-----
	153,724	148,072	146,378
Less allowances for depreciation and amortization	106,394	100,111	98,536
	-----	-----	-----
TOTAL NET PROPERTY, PLANT AND EQUIPMENT	47,330	47,961	47,842
GOODWILL	21,480	21,480	21,519
PENSION ASSETS	31,053	30,513	30,388
DEFERRED TAX ASSETS	10,242	12,255	13,455
OTHER ASSETS	4,443	5,548	5,350
	-----	-----	-----
TOTAL ASSETS	\$238,801	\$218,502	\$233,032
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	\$ 34,732	\$ 24,213	\$ 32,388
Accrued compensation and benefits	12,581	12,595	11,787
Customer volume & promotional accrued expenses	6,014	6,648	6,208
Other accrued expenses	9,224	8,509	9,940
Taxes	5,231	3,272	3,738
Secured credit agreement - current	5,000	75,000	83,100
Current maturities of long-term debt	775	875	860
	-----	-----	-----
TOTAL CURRENT LIABILITIES	73,557	131,112	148,021
LONG-TERM DEBT	72,390	11,876	11,756
POST-RETIREMENT BENEFITS AND OTHER			
LONG-TERM LIABILITIES	29,226	30,138	28,749
SHAREHOLDERS' EQUITY			
Common shares	1,449	1,389	1,384
Other capital	81,310	76,130	75,787
Retained earnings (deficit)	(14,496)	(27,280)	(28,551)
Accumulated other comprehensive income (loss)	(4,635)	(4,863)	(4,114)
	-----	-----	-----
TOTAL SHAREHOLDERS' EQUITY	63,628	45,376	44,506
	-----	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$238,801	\$218,502	\$233,032
	=====	=====	=====

See notes to Consolidated Financial Statements (Unaudited)

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

(Dollars in thousands)

	NINE MONTHS ENDED	
	2005	2004
	-----	-----
OPERATING ACTIVITIES		
Net income	\$ 12,784	\$ 5,2
Adjustments to reconcile net income to cash provided by		

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operating activities:		
Depreciation	6,732	6,9
Amortization	1,182	1,1
Gain on sale of property, plant and equipment	--	(9
Deferred income taxes	5,016	2,9
Net change in working capital accounts:		
Accounts receivable	(21,421)	(21,3
Inventories	(3,058)	(9,9
Prepaid expenses and other	499	(3
Accounts payable	10,519	15,4
Accrued expenses and other current liabilities	2,556	2,2
Pension plan contributions	(1,361)	(1,7
Other long-term items	(109)	1,8
	-----	-----
CASH PROVIDED BY OPERATING ACTIVITIES	13,339	1,5
INVESTING ACTIVITIES		
Net additions to property, plant and equipment	(6,101)	(4,0
Proceeds from sale of property, plant and equipment	--	1,5
Acquisitions and related items	(187)	(1
	-----	-----
CASH USED IN INVESTING ACTIVITIES	(6,288)	(2,6
FINANCING ACTIVITIES		
Net (payments) borrowings under secured credit agreement	(8,750)	1,7
Payments on other long-term borrowings	(836)	(7
Purchase and retirement of treasury stock	--	(2
Exercise of stock options (595,201 and 72,500 shares issued, respectively)	3,575	3
	-----	-----
CASH (USED) PROVIDED BY FINANCING ACTIVITIES	(6,011)	1,1
	-----	-----
INCREASE IN CASH AND CASH EQUIVALENTS	1,040	
Cash and cash equivalents at beginning of year	683	4
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,723	\$ 5
	=====	=====

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 accounting principles generally accepted in the United States 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 2004 amounts have been reclassified to conform with 2005 classifications. In particular, the Company has reclassified certain co-operative advertising allowances and service commissions in the Lamson Home Products business segment, reducing net sales and selling and marketing expenses

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by \$1.5 million and \$4.1 million in the third quarter and first nine months of 2004, respectively.

NOTE B - INCOME TAXES

The year-to-date 2005 income tax provision was calculated based on management's estimate of the annual effective tax rate of 39.2% for the year. The provision for 2004 is primarily non-cash charges. The Company anticipates having to pay (cash) approximately 40.0% of the 2005 income tax provision due to alternative minimum tax requirements.

NOTE C - BUSINESS SEGMENTS

The Company's reportable segments are as follows:

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

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

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

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTE C - BUSINESS SEGMENTS - CONTINUED

(Dollars in thousands)

	THIRD QUARTER ENDED		NINE MONTHS ENDED	
	2005	2004	2005	2004
	-----	-----	-----	-----
NET SALES				
Carlton	\$ 58,836	\$ 51,857	\$165,043	\$139,487
Lamson Home Products	28,305	22,535	78,651	62,962
PVC Pipe	40,911	30,527	107,160	87,613
	-----	-----	-----	-----
	\$128,052	\$104,919	\$350,854	\$290,062

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OPERATING INCOME (LOSS)	=====	=====	=====	=====
Carlton	\$ 8,712	\$ 4,565	\$ 20,165	\$ 12,812
Lamson Home Products	4,332	1,431	12,445	6,283
PVC Pipe	(892)	(597)	(530)	(765)
Corporate Office	(1,805)	(1,620)	(5,419)	(4,536)
Other (Expense) Income (see Note I)	--	(395)	--	231
	-----	-----	-----	-----
	\$ 10,347	\$ 3,384	\$ 26,661	\$ 14,025
	=====	=====	=====	=====
DEPRECIATION AND AMORTIZATION				
Carlton	\$ 1,206	\$ 1,313	\$ 3,704	\$ 4,078
Lamson Home Products	474	458	1,390	1,393
PVC Pipe	943	891	2,820	2,629
	-----	-----	-----	-----
	\$ 2,623	\$ 2,662	\$ 7,914	\$ 8,100
	=====	=====	=====	=====

In September 2004 the Company settled its patent infringement litigation as the result of a mediation process. The effect of this litigation settlement has reduced operating income by \$864,000 in both the Carlton and Lamson Home Products business segments in the third quarter of 2004.

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

(Dollars in thousands)

	OCTOBER 1, 2005	JANUARY 1, 2005	OCTOBER 2, 2004
	-----	-----	-----
IDENTIFIABLE ASSETS			
Carlton	\$ 87,290	\$ 77,473	\$ 87,075
Lamson Home Products	38,966	34,190	33,484
PVC Pipe	52,721	44,650	50,307
Corporate Office (includes deferred tax and pension assets)	59,824	62,189	62,166
	-----	-----	-----
	\$238,801	\$218,502	\$233,032
	=====	=====	=====

THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTE D - COMPREHENSIVE INCOME

The components of comprehensive income for the third quarter and the first nine months of 2005 and 2004 are as follows:

(Dollars in thousands)

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	THIRD QUARTER ENDED		NINE MONTHS ENDED	
	OCTOBER 1, 2005	OCTOBER 2, 2004	OCTOBER 1, 2005	OCTOBER 2, 2004
Net income	\$5,353	\$833	\$12,784	\$5,278
Foreign currency translation adjustments	111	(56)	59	(78)
Interest rate swaps, net of tax	21	124	169	533
Comprehensive income	\$5,485	\$901	\$13,012	\$5,733

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

(Dollars in thousands)

	OCTOBER 1, 2005	JANUARY 1, 2005	OCTOBER 2, 2004
Foreign currency translation adjustments	\$ (312)	\$ (371)	\$ (519)
Minimum pension liability adjustments, net of tax	(4,323)	(4,323)	(3,289)
Interest rate swaps, net of tax	--	(169)	(306)
Accumulated other comprehensive income (loss)	\$ (4,635)	\$ (4,863)	\$ (4,114)

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTE E - EARNINGS PER SHARE CALCULATION

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

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

	THIRD QUARTER ENDED		NINE MONTHS ENDED	
	2005	2004	2005	2004
BASIC EARNINGS-PER-SHARE COMPUTATION				
Net Income	\$ 5,353	\$ 833	\$12,784	\$ 5,278
Average Common Shares Outstanding	14,364	13,809	14,170	13,793
Basic Earnings Per Share	\$ 0.37	\$ 0.06	\$ 0.90	\$ 0.38

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DILUTED EARNINGS-PER-SHARE COMPUTATION

Net Income	\$ 5,353	\$ 833	\$12,784	\$ 5,278
	=====	=====	=====	=====
Basic Shares Outstanding	14,364	13,809	14,170	13,793
Stock Options Calculated Under the Treasury Stock Method	847	373	665	287
	-----	-----	-----	-----
Total Shares	15,211	14,182	14,835	14,080
	=====	=====	=====	=====
Diluted Earnings Per Share	\$ 0.35	\$ 0.06	\$ 0.86	\$ 0.37
	=====	=====	=====	=====

NOTE F - DERIVATIVES AND HEDGING

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

During the first quarter of 2001, the Company entered into two interest rate swap agreements for a total notional amount of \$58.5 million. The agreements expired in August 2005.

The Company has no derivative instruments, either cash flow or fair value hedges, which are currently outstanding.

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTE G - DISCONTINUED OPERATIONS

As of the end of the first quarter of 2004 the Company was informed that YSD Industries Inc. ("YSDI"), a business which the Company sold in 1988, was selling the assets of the business and would be unable to fund (defaulted on its obligations) certain post-retirement medical and life insurance benefits, for which the Company was contingently liable. The Company had recorded a net charge (\$2.7 million) in 2003 reflecting the actuarial calculation of this estimated liability for payments to certain eligible participants through February 2011 when the Company's obligation will end and to write-off notes (cash advances) to YSDI in 2003. As a result of YSDI's asset sale in 2004, the Company was able to realize payment of \$668,000 for these notes receivable that had been previously written off as uncollectible in 2003. The net impact of this recovery, \$401,000 (net of tax), has been recorded as income from discontinued operations in the first quarter of 2004.

NOTE H - STOCK COMPENSATION PLANS

The Company currently has three stock compensation plans. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. No stock-based employee compensation cost is reflected in net income, as all

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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		NINE MONTHS ENDED	
		2005	2004	2005	2004
Net income	As reported	\$5,353	\$ 833	\$12,784	\$5,278
Total stock-based employee compensation, net of tax		(153)	(135)	(414)	(374)
Net income	Pro forma	\$5,200	\$ 698	\$12,370	\$4,904
Basic earnings per share	As reported	\$ 0.37	\$0.06	\$ 0.90	\$ 0.38
	Pro forma	0.36	0.05	0.87	0.36
Diluted earnings per share	As reported	\$ 0.35	\$0.06	\$ 0.86	\$ 0.37
	Pro forma	0.34	0.05	0.83	0.35

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), Share-Based Payment, which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation." Statement 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends FASB Statement No. 95, "Statement of Cash Flows." Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. Statement 123(R) must be adopted no later than the beginning of fiscal year 2006. Early adoption will be permitted in periods in which financial statements have not yet been issued. The Company will adopt Statement 123(R) on January 1, 2006 and is still in the process of determining the impact on operating results.

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

NOTE H - STOCK COMPENSATION PLANS - CONTINUED

The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. Statement 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption.

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NOTE I - SALE OF ASSETS

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

(Dollars in thousands)

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

NOTE J - PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

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

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THE LAMSON & SESSIONS CO. AND SUBSIDIARIES

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

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

(Dollars in thousands)

THIRD QUARTER ENDED -----		NINE MONTHS ENDED -----	
PENSION BENEFITS -----	OTHER BENEFITS -----	PENSION BENEFITS -----	OTHER BE -----

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	2005	2004	2005	2004	2005	2004	2005
	-----	-----	-----	-----	-----	-----	-----
Service cost	\$ 374	\$ 298	\$ --	\$ 1	\$ 1,122	\$ 894	\$ 1
Interest cost	1,212	1,219	174	168	3,636	3,657	521
Expected return on assets	(1,563)	(1,486)	--	--	(4,689)	(4,458)	--
Net amortization and deferral	479	388	(115)	(53)	1,436	1,164	(347)
Defined contribution plans	278	250	--	--	777	815	--
	-----	-----	-----	-----	-----	-----	-----
	\$ 780	\$ 669	\$ 59	\$116	\$ 2,282	\$ 2,072	\$ 175
	=====	=====	=====	=====	=====	=====	=====

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

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In accordance with FSP No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," the effects of the subsidy resulted in a \$0.6 million reduction in 2004 of the accumulated post-retirement benefit obligation with an annual reduction in other benefit costs of approximately \$0.1 million.

NOTE K - REFINANCING

On June 29, 2005 the Company entered into a Second Amended and Restated Credit Agreement ("Credit Facility") with a consortium of banks led by Harris N.A. The Credit Facility is for a total of \$125.0 million, \$40.0 million in term debt (payable \$1,250,000 quarterly) and an \$85.0 million revolver and replaces the \$110.0 million secured revolving credit facility which was due in August 2005. The Credit Facility is a five-year secured agreement with LIBOR-based pricing plus a spread ranging from 0.875% to 2.0%, depending on the Company's performance. It contains various restrictive covenants pertaining to maintenance of net worth, certain financial ratios and limitations on the payment of dividends or distributions. The agreement requires the prepayment of 50.0% of excess cash flow at each year-end if the Company has not achieved a leverage ratio of less than 2.0 to 1.0. The Company currently does not anticipate having to prepay term debt. The Company, at its sole discretion, may increase the revolver by up to \$25.0 million. Total unused availability at October 1, 2005, under the Credit Facility, approximates \$45 million.

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

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

EXECUTIVE OVERVIEW

In the third quarter 2005, the Company continues to experience strong sales growth for both electrical and telecom products, reporting record net sales for

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the third consecutive quarter this year. While the growth of telecom product sales slowed slightly from the approximate 30.0% rate in the first half of 2005, shipments of HDPE conduit and other telecom products still expanded by around 10.0% this quarter. Electrical product sales continue to strengthen in the third quarter 2005 as residential construction remains surprisingly strong and industrial and light commercial construction markets are beginning to show some modest growth.

Both PVC and HDPE resin costs continued to be relatively stable and consistent with second quarter 2005 costs until September when the effect of the two major Gulf Coast hurricanes began to be felt. Throughout September, the Company attempted to manage the supply and cost of resin and other raw materials. The Company was able to avoid any significant downtime in September, however, inventories of PVC Pipe have been reduced to historically low levels, and the backlog of orders has grown rapidly, extending order fulfillment lead times.

Transportation has continued to be an issue with fuel costs rising and truck availability remaining tight. In addition, the hurricanes have exacerbated this situation and have also caused rail transit delays.

During the third quarter, the Company encountered process control issues in its PVC Pipe extrusion plants which increased inspection costs and material scrap rates. In addition, a high number of weather related electrical power interruptions were experienced which led to operating inefficiencies. The Company has taken corrective action to address these issues

Finally, due to the Credit Facility the Company entered into during the second quarter 2005, the Company lowered its effective interest rate paid from 6.10% in the first half of 2005 to 5.49% in the third quarter of 2005. This lower rate, along with the elimination of deferred financing fees amortized on the Company's previous credit facility and the pay down of over \$18.0 million in debt this quarter lowered interest expense to \$1.4 million this quarter.

Net income increased to \$5.4 million and \$12.8 million in the third quarter and first nine months of 2005, respectively, from \$0.8 million and \$5.3 million in the third quarter and first nine months of 2004. This resulted in diluted earnings per common share of \$0.35 in the current quarter compared with \$0.06 per common share in the prior year quarter, and \$0.86 diluted earnings per common share in the first nine months of 2005 compared with \$0.37 in the first nine months of 2004.

2005 COMPARED WITH 2004

RESULTS OF CONTINUING OPERATIONS

The following table sets forth, for the periods indicated, items from the Consolidated Income Statements as a percentage of net sales for the third quarter and first nine months of 2005 and 2004, respectively.

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(Dollars in thousands)

THIRD QUARTER ENDED		NINE MONTHS
2005	2004	2005
-----	-----	-----

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Net Sales	\$128,052	100.0%	\$104,919	100.0%	\$350,854	100.0%	\$
Cost of products sold	105,144	82.1%	87,820	83.7%	287,954	82.1%	
	-----		-----		-----		
Gross profit	22,908	17.9%	17,099	16.3%	62,900	17.9%	
Total operating expenses	12,561	9.8%	11,592	11.0%	36,239	10.3%	
Litigation settlement	--	0.0%	1,728	1.7%	--	0.0%	
Other expense (income)	--	0.0%	395	0.4%	--	0.0%	
	-----		-----		-----		
Operating income	10,347	8.1%	3,384	3.2%	26,661	7.6%	
Interest expense, net	1,419	1.1%	1,992	1.9%	5,632	1.6%	
	-----		-----		-----		
Income from continuing operations before income taxes	8,928	7.0%	1,392	1.3%	21,029	6.0%	
Income tax provision	3,575	2.8%	559	0.5%	8,245	2.4%	
	-----		-----		-----		
Income from continuing operations	\$ 5,353	4.2%	\$ 833	0.8%	\$ 12,784	3.6%	\$
	=====		=====		=====		

Net sales rose for the third quarter of 2005 to \$128.1 million, an increase of \$23.1 million, or 22.1%, over the \$104.9 million net sales level in the third quarter of 2004. All business segments experienced strong (double-digit) net sales growth this quarter as the underlying residential, commercial and telecom construction and home improvement markets were solid. In addition, with the rise in commodity PVC and HDPE material costs, the Company was able to recoup these cost increases with higher selling prices. Year-to-date 2005, net sales are \$350.9 million, compared with \$290.1 million recorded in the first nine months of 2004, an increase of \$60.8 million, or 21.0%. Growth rates exceeded 18.0% in all business segments as further described below.

Gross profit in the third quarter of 2005 totaled \$22.9 million, or 17.9% of net sales, an increase of \$5.8 million, or 34.0%, compared with \$17.1 million, or 16.3% of net sales, in the third quarter of 2004. The growth in gross profit primarily is a result of the higher net sales levels achieved in 2005. This margin improvement reflects the effect of price increases being realized in 2005, which helped to offset raw material cost increases that began in 2004 and the Company's ability to leverage its distribution operations with the higher shipping volume. Somewhat offsetting these positive trends was higher freight costs (20.0% more cents per pound shipped) driven by fuel costs and equipment shortages and increased manufacturing variances (\$1.5 million) in the PVC extrusion plants due to higher scrap rates caused by process control issues and a high number of weather related electrical power interruptions in the third quarter. For the first nine months of 2005, gross profit was \$62.9 million, or 17.9% of net sales, a \$14.2 million, or 29.2%, increase over the \$48.7 million, or 16.8% of net sales, earned in the first nine months of 2004. These results were impacted by the higher net sales levels, price increases, freight cost inflation and manufacturing variance items described above. In addition, the Company has benefited from approximately \$1.5 million in lower medical costs for active associates, due to improved year-to-date 2005 experience and implemented cost control plans

Operating income was \$10.3 million, or 8.1% of net sales, in the third quarter of 2005, compared with \$3.4 million, or 3.2% of net sales, in the third quarter of 2004. Operating expenses were almost \$1.0 million higher in the current quarter at \$12.6 million than were incurred in the prior year third quarter. The primary causes of these higher costs were from variable selling expenses (\$650,000) and incentive compensation costs (\$300,000). The operating expenses for the first nine months of 2005 were \$36.2 million, or 10.3% of net sales, compared with \$33.2 million, or 11.4% of net sales for the first nine months of 2004, an increase of \$3.1 million. Consistent with the current quarter, the

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increase in operating expenses is comprised mainly of higher variable selling (\$1.7 million) and incentive compensation costs (\$1.4 million). In addition, the 2004 operating expenses were favorably impacted by a \$300,000 recovery of a previous bankruptcy claim and the 2005 operating expenses

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reflect lower medical costs of approximately \$300,000. Operating income for the first nine months of 2005 was \$26.7 million, or 7.6% of net sales, compared with \$14.0 million, or 4.8% of net sales for the first nine months of 2004. Included in the 2004 third quarter and year-to-date results are the net effects of a litigation settlement of \$1.7 million completed in September 2004 and the sale and closure of the Company's Pasadena, Texas facility (see Note I) reflected as other expense (income).

Interest expense in the third quarter and first nine months of 2005 was \$573,000 and \$265,000 lower than the respective periods of 2004. The significant decline in interest this quarter is due to the refinancing that occurred at the end of the second quarter of 2005 (see Note K), which lowered effective interest rates by about 50 basis points and eliminated approximately \$1.0 million in annualized amortization of deferred financing fees, compared with 2004. Average borrowings over the first nine months of 2005 were lower by \$4.0 million, compared with the first nine months of 2004. Despite numerous LIBOR rate increases, average interest rates paid were 5.49% in 2005, compared with 5.63% in 2004.

Year-to-date income tax provisions are based on an annual effective tax rate of 39.2% in 2005, compared with 40.0% in 2004.

BUSINESS SEGMENTS

CARLON

The Carlon business segment had net sales of \$58.8 million in the third quarter of 2005, an increase of \$6.9 million, or 13.5%, over the net sales level of \$51.9 million in the third quarter of 2004. Year-to-date 2005 net sales for Carlon were \$165.0 million, an increase of 18.3%, or \$25.5 million, compared with net sales of \$139.5 million for the first nine months of 2004. Growth rates for telecom products have slowed to about 10.0% in the third quarter of 2005 as customers balance inventories and moderate the rollout of Fiber-to-the-Premise projects. Sales of these products, however, still represent approximately 50.0%-60.0% (\$3.3 million and \$15.6 million) of the business segment's increase in net sales in the third quarter and year-to-date 2005, respectively. Electrical product sales continued to have moderate unit growth of about 8.0% in the third quarter of 2005 as residential construction remained strong, commercial and industrial construction slowly expanded and the Company rolled out several improved products to support those markets. Finally, price increases on electrical products, most of which are made from PVC, were implemented in the first quarter of 2005 and improved net sales in the third quarter of 2005 by about \$1.3 million and for the first nine months of 2005 by approximately \$5.5 million.

Gross profit for Carlon is about \$3.7 million and \$8.7 million higher in the third quarter 2005 and year-to-date 2005, compared with the prior year primarily due to the higher sales volumes in both telecom and electrical products, which allowed the Company to leverage the fixed costs within the supply chain, including distribution operations. Gross margins have also been favorably impacted in 2005 by the price increases implemented early in the year, which offset rising raw material costs.

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Operating income for the Carlon business segment totaled \$8.7 million, or 14.8% of net sales, in the third quarter 2005, an increase of \$4.1 million, or 90.8% from the \$4.6 million, or 8.8% of net sales, earned in the third quarter 2004. Year-to-date 2005 the business segment earned \$20.2 million of operating income, or 12.2% of net sales, compared with \$12.8 million of operating income, or 9.2% of net sales, year-to-date 2004 representing an improvement of \$7.4 million, or 57.4%. The higher operating income in 2005 is primarily related to the gross profit improvement. In addition, operating expenses in the third quarter 2004 included approximately \$864,000 related to a litigation settlement. The third quarter year-to-date 2005 operating expenses included about \$400,000 and \$1.2 million in higher variable selling expenses and increased incentive compensation expenses. Finally, Carlon's 2004 operating expenses were favorably impacted by the partial recovery (\$300,000) of an account receivable that was previously written-off.

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LAMSON HOME PRODUCTS

The Lamson Home Products business segment realized net sales of \$28.3 million in the third quarter of 2005, a \$5.8 million, or 25.6% increase, compared with \$22.5 million in net sales for the third quarter of 2004. The addition of product lines at current customers accounted for \$2.5 million of the net sales growth in the current quarter. Approximately \$1.5 million of this net sales increase was the result of price increases implemented in the first quarter of 2005 in response to the significant PVC and other raw material cost increases. There was also underlying market growth this quarter which was supported by continued strong residential construction and home improvement markets. Net sales for the first nine months of 2005 in Lamson Home Products were \$78.7 million, compared with \$63.0 million in the first nine months of 2004, a \$15.7 million, or 24.9% increase. Similar to the third quarter of 2005, this growth came from overall market expansion, including the growth of key customers (\$8.2 million), product line introductions (\$4.0 million) and price increases (\$3.5 million).

Gross margin for Lamson Home Products in the third quarter and year-to-date 2005 are 2.5 to 3.0 percentage points better than the comparable periods of 2004. The higher sales volume has improved the utilization of the Company's injection molding facilities and has allowed successful leveraging of distribution operations.

Operating income for Lamson Home Products increased to \$4.3 million, or 15.3% of net sales, in the third quarter of 2005, compared with \$1.4 million, or 6.4% of net sales, in the third quarter of 2004. Operating expenses in the current quarter were \$0.8 million less than the prior year, primarily due to the \$864,000 charge for a litigation settlement in the third quarter of 2004. For the first nine months of 2005 operating income was \$12.4 million, or 15.8% of net sales, compared with \$6.3 million, or 10.0% of net sales, for the first nine months of 2004. These results reflect the improved gross profit and stable operating expenses, excluding the 2004 litigation charge.

PVC PIPE

Net sales in the PVC Pipe segment surged in the third quarter 2005 to \$40.9 million, an increase of \$10.4 million, or 34.0%, compared with net sales of \$30.5 million in the third quarter of 2004. Year-to-date net sales for 2005 were \$107.2 million, compared with \$87.6 million for year-to-date 2004, an increase of \$19.5 million, or 22.3%. PVC Pipe pounds shipped expanded in the current quarter by almost 22.0% bringing year-to-date volumes up 2.0% to 3.0% over the prior year. Shipments were very strong, especially late in the current quarter,

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to fill pent up demand as inventories in the supply chain were low and price increases and shortages are anticipated due to the hurricanes in the Gulf Coast area. Pricing in the PVC Pipe business segment has also improved in 2005, with average pipe price increases of about 14.0% in the third quarter of 2005 and almost 20.0% for year-to-date 2005, compared with those respective periods in 2004. These increases have enabled the Company to recoup year-to-date PVC resin cost increases of approximately 17.0%, compared with the first nine months of 2004.

Gross margin for the third quarter and first nine months of 2005 has remained approximately the same as the prior year periods, as price increases have neutralized the effect of rising resin costs so far this year. Rising freight costs have impacted this business segment by about 0.5 percentage points this year. Lastly, the PVC extrusion plants have incurred higher than usual scrap rates and operating inefficiencies (\$1.5 million) in the third quarter of 2005, caused by process control issues and numerous weather related electrical power interruptions.

The PVC Pipe segment had an operating loss in the third quarter of 2005 of \$0.9 million, which is slightly higher than the loss in the third quarter of 2004 of \$0.6 million. The year-to-date operating loss was \$0.5 million and \$0.8 million in 2005 and 2004, respectively. Other than an approximate \$400,000 increase in operating expenses year-to-date for variable selling expenses and incentive compensation, there were no significant changes in operating expenses this year, compared with 2004.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity and capital resources is cash generated from operating activities and availability under its Secured Credit Agreement.

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The Company generated \$13.3 million of cash from operating activities in the first nine months of 2005, compared with \$1.5 million in the first nine months of 2004. Most of this increase in cash flow resulted from improved operating results as overall investment in working capital continued to climb to support higher net sales and related operations. At the end of the third quarter of 2005, accounts receivable were \$69.8 million, an increase of \$10.3 million, or 17.2% over the end of the third quarter of 2004 and \$21.4 million, or 44.3% more than at the 2004 year-end. The increase is all due to higher net sales activity this quarter as days sales outstanding calculated using a three-month rolling average, has declined to 46.1 days at October 1, 2005, compared with 50.8 days at October 2, 2004.

Investment in inventory at the end of the third quarter of 2005 was \$39.9 million, fairly even with the \$40.1 million balance at the end of the third quarter of 2004 and an increase of \$3.1 million from year-end 2004. This resulted in a new quarter-end inventory-turn high of 8.8 times at the end of the third quarter 2005, compared with 7.7 times at the end of the third quarter 2004. The pounds of PVC resin in inventory at October 1, 2005 were a third less than at October 2, 2004 and 25.0% less than the 2004 year-end, essentially meeting the Company's goal of having a month of net sales demand in inventory, reducing its exposure to resin cost fluctuations. The average cost of PVC resin in inventory stabilized throughout the quarter and ended the third quarter 2005 up 4.0% from the end of the third quarter 2004.

Accounts payable at October 1, 2005 were \$34.7 million, a \$10.5 million increase from year-end 2004 and \$2.3 million higher than October 2, 2004. The increase in

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payables primarily reflects the comparatively higher cost of inventory and business activity in the current quarter.

Total accrued expenses have increased slightly to \$33.1 million at October 1, 2005 from \$31.0 million at year-end 2004 and \$31.7 million, compared with October 2, 2004. The increases were primarily due to higher anticipated income tax payments of \$1.5 million and increased freight (\$1.3 million) and commission (\$0.3 million) costs due to the increased net sales activity this quarter, compared with the third quarter 2004. In addition, accrued compensation and benefits reflects higher anticipated incentive compensation (\$900,000) while other accrued expenses are lower due to the final payment (\$1.0 million) of the 2004 litigation settlement during 2005.

The Company used \$6.3 million of cash in investing activities for the first nine months of 2005, compared with \$2.6 million used in the first nine months of 2004. Year-to-date 2005 the Company has spent \$6.1 million in capital expenditures, primarily to increase PVC extrusion efficiency and process quality and to support productivity and tooling improvements in the injection molding operations. In 2004, the Company received \$1.5 million proceeds from the sale of its Pasadena, Texas facility while capital expenditures were \$4.0 million.

Cash used by financing activities totaled \$6.0 million in the first nine months of 2005, as the Company's strong operating cash flow allowed us to pay down \$8.8 million of borrowings on its Credit Facility and \$0.8 million in other long-term borrowings, primarily in the third quarter. Year-to-date 2005, the Company received \$3.6 million from the issuance of 595,201 shares of stock from the exercise of stock options.

CRITICAL ACCOUNTING ESTIMATES

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

OUTLOOK FOR 2005

During the third quarter 2005 telecom product sales continued to grow by double digit rates, supporting the rollout of customers' Fiber-to-the-Premise projects. A slowdown in the rate of network construction has been noted due to a realignment of inventory in the field and some difficulty in obtaining certain local rights of way. In addition, telecom companies are slowing spending near year-end to meet annual budget constraints. The Company anticipates this rollout activity to continue over the next several years supporting a lower but healthy growth rate of 6.0% to 8.0%.

Despite expectations that residential construction would moderate in the second half of 2005, September was the eighth month out of nine this year that housing starts exceeded an annualized rate of 2.0 million units. Recent building permit data supports the expectation that this construction level will be sustained through the end of 2005. It is anticipated that residential construction will decline slightly to around 1.8 million units in 2006, which would still provide a solid sales base for the Company's products.

Both light commercial and industrial construction began to show some signs of slow growth in the third quarter 2005, primarily in response to high residential construction and improved corporate profits and general economic activities. Based on various industry forecasts, including some impact from rebuilding efforts in the Gulf Coast, management believes this end market will grow 3.0% to

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4.0% in 2006.

PVC and HDPE resin costs had stabilized at relatively high levels throughout the third quarter 2005, prior to two hurricanes hitting the Gulf Coast in the latter part of the quarter. The damage from these storms has caused most major resin suppliers to declare force majeure as they struggle to resume operations. This situation has resulted in immediate and significantly higher resin and transit costs and the subsequent raising of selling prices by the Company to recover these additional costs. In addition, various suppliers have put their customers on allocations making material shortages and uncertain delivery performance probable. The Company currently has not had to significantly shutdown production lines due to insufficient material, although it is a concern that is being monitored closely. The expectation of future cost and price increases and the constraint on supply has led to a large increase in pipe orders, which is extending delivery lead times out to a month.

The high sales levels in the third quarter 2005 along with raw material shortages during September have brought inventories down so that turns are at record levels. This is expected to continue through the fourth quarter of 2005 as the Company works through its order backlog.

The Company generated \$18.9 million in cash flow from operating activities during the third quarter 2005 bringing the year-to-date total to \$13.3 million. It is anticipated that an additional \$8.0 to \$10.0 million of cash from operations will be generated in the fourth quarter allowing further pay down of debt, capital expenditures and the potential funding of voluntary pension plan contributions. Capital expenditures for 2005 are anticipated to be around \$10.0 million as the Company accelerates the purchase of key molds and replacement of PVC extrusion equipment to support next year's plan and current growth constraints.

The Company anticipates higher net sales than normal seasonality would suggest in the fourth quarter of 2005 due to rising PVC pipe demand and related selling prices. Therefore, the Company is increasing its estimates for net sales for the fourth quarter of 2005 to a range of \$110.0 - \$115.0 million and for the full year of 2005 to a range of \$460.0 - \$465 million.

The Company believes that the increased strength in net sales and higher utilization rates in its plants will result in higher net income for the fourth quarter of 2005 (compared with 2004) in the range of \$4.6 million to \$5.0 million, or 30 cents to 33 cents per diluted share. The Company had provided a net earnings estimate of \$3.5 million to \$3.8 million, or 23 cents to 25 cents per diluted share, on October 10, 2005. This increases the Company's net earnings estimate for the full year 2005 to a range of \$17.4 million to \$17.8 million, or \$1.16 to \$1.19 per diluted share.

With respect to 2006 expectations, the Company believes that it will continue to experience growth in its key end markets and anticipates that its organic growth in net sales will meet its goal of 8.0% to 10.0% for the fourth consecutive year. However, because of the inordinate volatility in the availability and pricing of raw materials, due to the recovery issues created by the recent Gulf Coast hurricanes, the Company will defer any further guidance on net sales or net income until it releases its final 2005 results on February 16, 2006.

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) the continued availability of raw materials and consistent electrical power supplies, (iv) maintaining a stable level of housing starts,

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telecommunications infrastructure spending, consumer confidence and general construction trends, (v) the continued availability and reasonable terms of bank financing and (vi) any adverse change in the recovery trend of the country's general

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economic condition affecting the markets for the Company's products. Because forward-looking statements are based on a number of beliefs, estimates and assumptions by management that could ultimately prove to be inaccurate, there is no assurance that any forward-looking statement will prove to be accurate.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4 - CONTROLS AND PROCEDURES

As of October 1, 2005, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective. During the Company's third quarter 2005, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to their evaluation.

PART II

ITEM 1 - LEGAL PROCEEDINGS

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

ITEM 6 - EXHIBITS

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.

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 28, 2005

By: /s/ James J. Abel

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