

LYDALL INC /DE/
Form 10-Q
August 03, 2007
[Table of Contents](#)

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

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2007

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
(State or Other Jurisdiction of

Incorporation or Organization)

One Colonial Road, Manchester, Connecticut
(Address of principal executive offices)

06-0865505
(I.R.S. Employer

Identification No.)

06042
(zip code)

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

(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 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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 \$.10 par value per share.
Total Shares outstanding July 25, 2007

16,469,644

Table of Contents

LYDALL, INC.

INDEX

	Page Number
Part I. <u>Financial Information</u>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Statements of Operations</u>	2-3
<u>Condensed Consolidated Balance Sheets</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6-12
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13-22
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	23
Item 4. <u>Controls and Procedures</u>	23
Part II. <u>Other Information</u>	
Item 1. <u>Legal Proceedings</u>	23
Item 1A. <u>Risk Factors</u>	24
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
Item 6. <u>Exhibits</u>	25
<u>Signature</u>	26
<u>Exhibit Index</u>	27

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****LYDALL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In Thousands Except Per Share Data)**

	Quarter Ended June 30, 2007 2006 (Unaudited)	
Net sales	\$ 87,754	\$ 83,445
Cost of sales	67,368	64,599
Gross margin	20,386	18,846
Selling, product development and administrative expenses	14,637	14,456
Operating income	5,749	4,390
Interest expense	113	422
Other expense, net	32	46
Income before income taxes	5,604	3,922
Income tax expense	2,083	1,449
Net income	\$ 3,521	\$ 2,473
Earnings per share:		
Basic	\$.22	\$.15
Diluted	\$.21	\$.15
Weighted average number of common shares outstanding:		
Basic	16,294	16,138
Diluted	16,585	16,197
See accompanying Notes to Condensed Consolidated Financial Statements.		

Table of Contents

LYDALL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands Except Per Share Data)

	Six Months Ended June 30, 2007 2006 (Unaudited)	
Net sales	\$ 171,469	\$ 165,633
Cost of sales	133,230	128,855
Gross margin	38,239	36,778
Selling, product development and administrative expenses	30,361	28,966
Operating income	7,878	7,812
Interest expense	221	877
Other expense (income), net	28	(17)
Income before income taxes	7,629	6,952
Income tax expense	2,832	2,567
Net income	\$ 4,797	\$ 4,385
Earnings per share:		
Basic	\$.30	\$.27
Diluted	\$.29	\$.27
Weighted average number of common shares outstanding:		
Basic	16,225	16,138
Diluted	16,501	16,193
See accompanying Notes to Condensed Consolidated Financial Statements.		

Table of Contents**LYDALL, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In Thousands)**

	June 30, 2007	December 31, 2006
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,812	\$ 6,402
Accounts receivable, net	60,250	47,947
Inventories, net	33,572	31,579
Prepaid expenses and other current assets, net	8,069	8,399
Total current assets	107,703	94,327
Property, plant and equipment, at cost	220,951	214,343
Accumulated depreciation	(118,621)	(110,874)
Net, property, plant and equipment	102,330	103,469
Goodwill	30,884	30,884
Other assets, net	11,530	12,493
Total assets	\$ 252,447	\$ 241,173
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 1,319	\$ 1,192
Accounts payable	26,524	24,929
Accrued payroll and other compensation	5,970	8,524
Accrued taxes	4,953	3,576
Other accrued liabilities	6,967	5,496
Total current liabilities	45,733	43,717
Long-term debt	10,557	8,914
Deferred tax liabilities	17,038	16,397
Pension and other long-term liabilities	9,382	10,928
Commitments and contingencies		
Stockholders' equity:		
Preferred stock		
Common stock	2,289	2,268
Capital in excess of par value	49,248	46,639
Retained earnings	184,386	179,911
Accumulated other comprehensive loss	(1,356)	(2,771)
Treasury stock, at cost	(64,830)	(64,830)
Total stockholders' equity	169,737	161,217
Total liabilities and stockholders' equity	\$ 252,447	\$ 241,173

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**LYDALL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In Thousands)**

	Six Months Ended June 30,	
	2007	2006
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$ 4,797	\$ 4,385
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	7,607	7,932
Deferred income taxes	530	539
Stock based compensation	462	275
Loss on disposition of property, plant and equipment	48	315
Changes in operating assets and liabilities:		
Accounts receivable	(11,820)	(2,615)
Inventories	(1,702)	3,944
Accounts payable	1,386	852
Accrued payroll and other compensation	(2,641)	162
Other, net	1,987	(1,302)
Net cash provided by operating activities	654	14,487
Cash flows from investing activities:		
Capital expenditures	(5,301)	(4,029)
Net cash used for investing activities	(5,301)	(4,029)
Cash flows from financing activities:		
Debt proceeds	26,950	41,450
Debt repayments	(25,423)	(51,462)
Common stock issued	2,436	103
Net cash provided by (used for) financing activities	3,963	(9,909)
Effect of exchange rate changes on cash	94	212
(Decrease) increase in cash and cash equivalents	(590)	761
Cash and cash equivalents at beginning of period	6,402	2,162
Cash and cash equivalents at end of period	\$ 5,812	\$ 2,923

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**LYDALL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****1. Basis of Financial Statement Presentation**

Lydall designs and manufactures specialty engineered automotive thermal and acoustical barriers, passive and active industrial thermal and insulating solutions, air and liquid filtration media, medical filtration media and devices and biopharmaceutical processing components for demanding thermal/acoustical and filtration/separation applications.

The accompanying condensed consolidated financial statements include the accounts of Lydall, Inc. and its subsidiaries (collectively, the Company or the Registrant). All financial information is unaudited for the interim periods reported. All significant intercompany transactions have been eliminated in the condensed consolidated financial statements. The condensed consolidated financial statements have been prepared, in all material respects, in accordance with the same accounting principles followed in the preparation of the Company's annual financial statements for the year ended December 31, 2006. The year-end condensed consolidated balance sheet was derived from the December 31, 2006 audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Management believes that all adjustments, which include only normal recurring adjustments necessary to fairly present the Company's consolidated financial position, results of operations and cash flows for the periods reported, have been included. For further information, refer to the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. Certain prior year components of the condensed consolidated financial statements have been reclassified to be consistent with current year presentation.

2. Inventories

Inventories, net of valuation reserves, as of June 30, 2007 and December 31, 2006 were as follows:

In thousands	June 30, 2007	December 31, 2006
Raw materials	\$ 14,381	\$ 12,151
Work in process	11,255	12,120
Finished goods	9,045	8,389
	34,681	32,660
Less: Progress billings	(1,109)	(1,081)
Total inventories	\$ 33,572	\$ 31,579

Raw materials, work in process and finished goods inventories were net of valuation reserves of \$1.5 million and \$1.9 million as of June 30, 2007 and December 31, 2006, respectively. Progress billings relate to tooling inventory, which is included in work in process inventory in the above table. Total tooling inventory, net of progress billings and valuation reserves, was \$3.8 million and \$4.7 million at June 30, 2007 and December 31, 2006, respectively.

3. Earnings Per Share

Basic and diluted earnings per common share are calculated in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share. Basic earnings per common share are equal to net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share are equal to net income divided by the weighted average number of common shares outstanding during the period, including the effect of stock options and stock awards, where such effect is dilutive.

The following table provides a reconciliation of income and shares used to determine basic and diluted earnings per share.

Table of Contents

	Quarter Ended			Quarter Ended		
	June 30, 2007			June 30, 2006		
	Net Income	Average Shares	Per Share Amount	Net Income	Average Shares	Per Share Amount
In thousands except per share amounts						
Basic earnings per share	\$ 3,521	16,294	\$.22	\$ 2,473	16,138	\$.15
Effect of dilutive options and awards		291	(.01)		59	
Diluted earnings per share	\$ 3,521	16,585	\$.21	\$ 2,473	16,197	\$.15

	Six Months Ended			Six Months Ended		
	June 30, 2007			June 30, 2006		
	Net Income	Average Shares	Per Share Amount	Net Income	Average Shares	Per Share Amount
In thousands except per share amounts						
Basic earnings per share	\$ 4,797	16,225	\$.30			