

LYDALL INC /DE/
Form 10-Q
May 02, 2008

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 March 31, 2008

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)

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Delaware
(State or Other Jurisdiction of Incorporation or Organization)

06-0865505
(I.R.S. Employer Identification No.)

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

06042
(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 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, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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 April 25, 2008

16,586,984

LYDALL, INC.

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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, 2008 2007 (Unaudited)	
Net sales	\$ 94,278	\$ 83,715
Cost of sales	72,799	65,862
Gross margin	21,479	17,853
Selling, product development and administrative expenses	16,421	15,724
Operating income	5,058	2,129
Interest expense	115	108
Other income, net	(128)	(4)
Income before income taxes	5,071	2,025
Income tax expense	1,876	749
Net income	\$ 3,195	\$ 1,276
Earnings per share:		
Basic	\$.19	\$.08
Diluted	\$.19	\$.08
Weighted average number of common shares outstanding:		
Basic	16,403	16,158
Diluted	16,416	16,399

See accompanying Notes to Condensed Consolidated Financial Statements.

LYDALL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands)

	March 31, 2008	December 31, 2007
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,674	\$ 15,716
Accounts receivable, net	54,424	49,539
Inventories, net	37,277	37,181
Prepaid expenses and other current assets, net	6,058	7,542
Total current assets	119,433	109,978
Property, plant and equipment, at cost	244,151	234,611
Accumulated depreciation	(134,200)	(127,279)
Net, property, plant and equipment	109,951	107,332
Goodwill	30,884	30,884
Other assets, net	11,158	10,390
Total assets	\$ 271,426	\$ 258,584
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 1,587	\$ 1,452
Accounts payable	28,215	27,586
Accrued payroll and other compensation	8,478	7,450
Other accrued liabilities	11,672	9,984
Total current liabilities	49,952	46,472
Long-term debt	8,681	8,377
Deferred tax liabilities	16,520	16,354
Pension and other long-term liabilities	7,034	6,928
Commitments and contingencies		
Stockholders equity:		
Preferred stock		
Common stock	2,302	2,301
Capital in excess of par value	50,428	50,105
Retained earnings	191,891	188,696
Accumulated other comprehensive income	9,519	4,252
Treasury stock, at cost	(64,901)	(64,901)
Total stockholders equity	189,239	180,453
Total liabilities and stockholders equity	\$ 271,426	\$ 258,584

See accompanying Notes to Condensed Consolidated Financial Statements.

LYDALL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	Quarter Ended March 31, 2008 2007 (Unaudited)	
Cash flows from operating activities:		
Net income	\$ 3,195	\$ 1,276
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	3,963	3,824
Deferred income taxes	965	(358)
Stock based compensation	227	245
Changes in operating assets and liabilities:		
Accounts receivable	(3,289)	(8,533)
Inventories	1,125	(2,122)
Accounts payable	(136)	2,163
Accrued payroll and other compensation	702	(1,641)
Other, net	1,404	2,920
Net cash provided by (used for) operating activities	8,156	(2,226)
Cash flows from investing activities:		
Capital expenditures	(2,725)	(2,915)
Net cash used for investing activities	(2,725)	(2,915)
Cash flows from financing activities:		
Debt proceeds		9,270
Debt repayments	(338)	(7,310)
Common stock issued	103	1,285
Net cash (used for) provided by financing activities	(235)	3,245
Effect of exchange rate changes on cash	762	17
Increase (decrease) in cash and cash equivalents	5,958	(1,879)
Cash and cash equivalents at beginning of period	15,716	6,402
Cash and cash equivalents at end of period	\$ 21,674	\$ 4,523

See accompanying Notes to Condensed Consolidated Financial Statements.

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, filtration media, industrial thermal insulating solutions, temperature-control equipment, medical filtration media and devices and biopharmaceutical processing components for demanding thermal/acoustical, filtration/separation and biopharmaceutical applications. Lydall also provides transport, distribution and warehousing services primarily to the paper and printing industries.

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, 2007. The year-end condensed consolidated balance sheet was derived from the December 31, 2007 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, 2007. 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 March 31, 2008 and December 31, 2007 were as follows:

In thousands	March 31, 2008	December 31, 2007
Raw materials	\$ 16,458	\$ 14,469
Work in process	11,186	12,891
Finished goods	10,183	9,990
	37,827	37,350
Less: Progress billings	(550)	(169)
Total inventories	\$ 37,277	\$ 37,181

Raw materials, work in process and finished goods inventories were net of valuation reserves of \$2.0 million as of March 31, 2008 and December 31, 2007. Progress billings relate to tooling inventory, which is included in work in process inventory in the above table. Total tooling inventories, net of progress billings and valuation reserves, were \$4.2 million and \$6.9 million at March 31, 2008 and December 31, 2007, 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.

In thousands except per share amounts	Quarter Ended March 31, 2008			Quarter Ended March 31, 2007		
	Net Income	Average Shares	Per Share Amount	Net Income	Average Shares	Per Share Amount
Basic earnings per share	\$ 3,195	16,403	\$.19	\$ 1,276	16,158	\$.08
Effect of dilutive options and awards		13			241	
Diluted earnings per share	\$ 3,195	16,416	\$.19	\$ 1,276	16,399	\$.08

Options to purchase approximately 0.1 million shares of common stock were excluded from the March 31, 2008 and 2007 computations of diluted earnings per share, because the exercise prices were greater than the average market price of the Company's common stock.

4. Equity Compensation Plans

The Company has stock-based compensation plans under which incentive and non-qualified stock options and restricted shares may be granted to employees and outside directors from authorized but unissued shares of common stock or treasury shares. Options issued by the Company under its stock option plans have a term of ten years and generally vest ratably over a period of four years. Restricted stock grants are expensed over the vesting period of the award, which is typically four years. Stock options issued under the current plan must have an exercise price that may not be less than the fair market value of the Company's common stock on the date of grant.

The Company recognizes expense on a straight-line basis over the vesting period of the entire award. Stock-based compensation expense includes the estimated effects of forfeitures, and estimates of forfeitures are adjusted over the requisite service period to the extent actual forfeitures differ, or are expected to differ, from such estimates. The effect of changes in estimated forfeitures are recognized in the period of change and also impact the amount of expense to be recognized in future periods. The Company estimates the fair value of option grants based on the Black-Scholes option-pricing model. Expected volatility and expected term are based on historical information. The Company has determined that its future volatility and expected term are not likely to differ from the Company's historical stock price volatility and historical exercise data, respectively.

The Company incurred compensation expense of \$0.2 million for each of the quarters ended March 31, 2008 and March 31, 2007, for all stock-based compensation plans, including restricted stock awards.

Stock Options

The following table is a summary of option activity of the Company's plans during the quarter ended March 31, 2008:

In thousands except per share amounts	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2007	921	\$ 10.12		
Granted				
Exercised	(14)	\$ 7.55		
Forfeited/Cancelled	(46)	\$ 10.78		
Outstanding at March 31, 2008	861	\$ 10.13	6.3	\$ 1,312
Options exercisable at March 31, 2008	553	\$ 10.28	5.0	\$ 721

There were no options granted during the quarters ended March 31, 2008 and 2007. For the quarter ended March 31, 2008, the amount of cash received for options exercised was \$0.1 million and the intrinsic value of options exercised was minimal. For the quarter ended March 31, 2007, the amount of cash received from the exercise of stock options was \$1.3 million and the total intrinsic value of options exercised was \$0.5 million. At March 31, 2008, the total unrecognized compensation cost related to non-vested stock option awards was approximately \$1.2 million, with a weighted average expected amortization period of 2.7 years.

Restricted Stock

At March 31, 2008, the total unrecognized compensation cost related to non-vested restricted stock awards was approximately \$1.3 million, with a weighted average expected amortization period of 3.2 years. The following is a summary of the status of the Company's non-vested restricted shares as of March 31, 2008:

In thousands except per share amounts	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2007	180	\$ 10.20
Granted		
Vested		
Forfeited	(3)	\$ 10.22
Non-vested at March 31, 2008	177	\$ 10.20