

LYDALL INC /DE/
Form 10-Q
August 04, 2008
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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, 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 July 23, 2008

16,649,279

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LYDALL, INC.

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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, 2008 2007 (Unaudited)	
Net sales	\$ 88,908	\$ 87,754
Cost of sales	68,772	67,368
Gross margin	20,136	20,386
Selling, product development and administrative expenses	15,457	14,637
Operating income	4,679	5,749
Interest expense	129	113
Other (income) expense, net	(51)	32
Income before income taxes	4,601	5,604
Income tax expense	1,703	2,083
Net income	\$ 2,898	\$ 3,521
Earnings per share:		
Basic	\$.18	\$.22
Diluted	\$.17	\$.21
Weighted average number of common shares outstanding:		
Basic	16,439	16,294
Diluted	16,610	16,585

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,	
	2008	2007
	(Unaudited)	
Net sales	\$ 183,186	\$ 171,469
Cost of sales	141,571	133,230
Gross margin	41,615	38,239
Selling, product development and administrative expenses	31,878	30,361
Operating income	9,737	7,878
Interest expense	244	221
Other (income) expense, net	(179)	28
Income before income taxes	9,672	7,629
Income tax expense	3,579	2,832
Net income	\$ 6,093	\$ 4,797
Earnings per share:		
Basic	\$.37	\$.30
Diluted	\$.37	\$.29
Weighted average number of common shares outstanding:		
Basic	16,422	16,225
Diluted	16,516	16,501

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2008	December 31, 2007
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 26,615	\$ 15,716
Accounts receivable, net	50,418	49,539
Inventories, net	37,608	37,181
Prepaid expenses and other current assets, net	5,579	7,542
Total current assets	120,220	109,978
Property, plant and equipment, at cost	246,240	234,611
Accumulated depreciation	(137,838)	(127,279)
Net, property, plant and equipment	108,402	107,332
Goodwill	30,884	30,884
Other assets, net	11,832	10,390
Total assets	\$ 271,338	\$ 258,584
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 1,598	\$ 1,452
Accounts payable	27,747	27,586
Accrued payroll and other compensation	9,041	7,450
Other accrued liabilities	9,259	9,984
Total current liabilities	47,645	46,472
Long-term debt	8,267	8,377
Deferred tax liabilities	15,944	16,354
Pension and other long-term liabilities	6,573	6,928
Commitments and contingencies		
Stockholders equity:		
Preferred stock		
Common stock	2,308	2,301
Capital in excess of par value	51,339	50,105
Retained earnings	194,789	188,696
Accumulated other comprehensive income	9,374	4,252
Treasury stock, at cost	(64,901)	(64,901)
Total stockholders equity	192,909	180,453
Total liabilities and stockholders equity	\$ 271,338	\$ 258,584

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,	
	2008	2007
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$ 6,093	\$ 4,797
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	7,845	7,607
Deferred income taxes	834	530
Stock based compensation	457	462
Loss on disposition of property, plant and equipment	117	48
Changes in operating assets and liabilities:		
Accounts receivable	543	(11,820)
Inventories	816	(1,702)
Accounts payable	(587)	1,386
Accrued payroll and other compensation	1,267	(2,641)
Other, net	(2,123)	1,987
Net cash provided by operating activities	15,262	654
Cash flows from investing activities:		
Capital expenditures	(5,287)	(5,301)
Net cash used for investing activities	(5,287)	(5,301)
Cash flows from financing activities:		
Debt proceeds		26,950
Debt repayments	(710)	(25,423)
Common stock issued	825	2,436
Net cash provided by financing activities	115	3,963
Effect of exchange rate changes on cash	809	94
Increase (decrease) in cash and cash equivalents	10,899	(590)
Cash and cash equivalents at beginning of period	15,716	6,402
Cash and cash equivalents at end of period	\$ 26,615	\$ 5,812

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, 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.

2. Inventories

Inventories, net of valuation reserves, as of June 30, 2008 and December 31, 2007 were as follows:

In thousands	June 30, 2008	December 31, 2007
Raw materials	\$ 15,156	\$ 14,469
Work in process	12,041	12,891
Finished goods	10,960	9,990
	38,157	37,350
Less: Progress billings	(549)	(169)
Total inventories	\$ 37,608	\$ 37,181

Raw materials, work in process and finished goods inventories were net of valuation reserves of \$2.0 million as of June 30, 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 \$5.3 million and \$6.9 million at June 30, 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.

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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 June 30, 2008			Quarter Ended June 30, 2007		
	Net Income	Average Shares	Per Share Amount	Net Income	Average Shares	Per Share Amount
Basic earnings per share	\$ 2,898	16,439	\$.18	\$ 3,521	16,294	\$.22
Effect of dilutive options and awards		171	(.01)		291	(.01)
Diluted earnings per share	\$ 2,898	16,610	\$.17	\$ 3,521	16,585	\$.21

In thousands except per share amounts	Six Months Ended June 30, 2008			Six Months Ended June 30, 2007		
	Net Income	Average Shares	Per Share Amount	Net Income	Average Shares	Per Share Amount
Basic earnings per share	\$ 6,093	16,422	\$			