

LYDALL INC /DE/  
Form 10-Q  
November 03, 2008  
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 September 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)

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

**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 October 22, 2008**

**16,653,794**

---

**Table of Contents**

**LYDALL, INC.**

**INDEX**

	<b>Page Number</b>
Part I. <u>Financial Information</u>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Statements of Operations</u>	3
<u>Condensed Consolidated Balance Sheets</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	31
Item 4. <u>Controls and Procedures</u>	31
Part II. <u>Other Information</u>	
Item 1. <u>Legal Proceedings</u>	31
Item 1A. <u>Risk Factors</u>	32
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
Item 6. <u>Exhibits</u>	33
<u>Signature</u>	34
<u>Exhibit Index</u>	35

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

	<b>Quarter Ended September 30, 2008      2007 (Unaudited)</b>	
<b>Net sales</b>	\$ 71,110	\$ 77,276
Cost of sales	56,234	60,643
Gross margin	14,876	16,633
Selling, product development and administrative expenses	11,839	12,817
Operating income	3,037	3,816
Interest expense	108	131
Other income, net	(84)	(76)
Income from continuing operations before income taxes	3,013	3,761
Income tax expense	1,283	2,050
<b>Income from continuing operations</b>	<b>1,730</b>	<b>1,711</b>
<b>Income from discontinued operations, net of tax</b>	<b>935</b>	<b>179</b>
<b>Net income</b>	<b>\$ 2,665</b>	<b>\$ 1,890</b>
<b>Basic earnings per share:</b>		
Continuing operations	\$ .10	\$ .10
Discontinued operations	\$ .06	\$ .01
Net income	\$ .16	\$ .12
<b>Diluted earnings per share:</b>		
Continuing operations	\$ .10	\$ .10
Discontinued operations	\$ .06	\$ .01
Net income	\$ .16	\$ .11
<b>Weighted average number of common shares outstanding:</b>		
Basic	16,483	16,354
Diluted	16,651	16,447

See accompanying Notes to Condensed Consolidated Financial Statements.

**Table of Contents****LYDALL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In Thousands Except Per Share Data)**

	<b>Nine Months Ended September 30, 2008      2007 (Unaudited)</b>	
<b>Net sales</b>	\$ 244,963	\$ 239,380
Cost of sales	190,068	186,534
<b>Gross margin</b>	<b>54,895</b>	<b>52,846</b>
Selling, product development and administrative expenses	42,308	41,656
<b>Operating income</b>	<b>12,587</b>	<b>11,190</b>
Interest expense	352	352
Other income, net	(263)	(48)
<b>Income from continuing operations before income taxes</b>	<b>12,498</b>	<b>10,886</b>
Income tax expense	4,792	4,693
<b>Income from continuing operations</b>	<b>7,706</b>	<b>6,193</b>
<b>Income from discontinued operations, net of tax</b>	<b>1,052</b>	<b>494</b>
<b>Net income</b>	<b>\$ 8,758</b>	<b>\$ 6,687</b>
<b>Basic earnings per share:</b>		
Continuing operations	\$ .47	\$ .38
Discontinued operations	\$ .06	\$ .03
Net income	\$ .53	\$ .41
<b>Diluted earnings per share:</b>		
Continuing operations	\$ .46	\$ .38
Discontinued operations	\$ .06	\$ .03
Net income	\$ .53	\$ .41
<b>Weighted average number of common shares outstanding:</b>		
Basic	16,443	16,267
Diluted	16,575	16,488

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	September 30, 2008	December 31, 2007
	(Unaudited)	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 28,281	\$ 15,716
Accounts receivable, net	42,673	49,539
Inventories, net	39,041	37,181
Prepaid expenses and other current assets, net	5,249	7,542
<b>Total current assets</b>	<b>115,244</b>	<b>109,978</b>
Property, plant and equipment, at cost	237,586	234,611
Accumulated depreciation	(135,691)	(127,279)
<b>Net, property, plant and equipment</b>	<b>101,895</b>	<b>107,332</b>
Goodwill	30,884	30,884
Other assets, net	11,026	10,390
<b>Total assets</b>	<b>\$ 259,049</b>	<b>\$ 258,584</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt	\$ 1,450	\$ 1,452
Accounts payable	22,968	27,586
Accrued payroll and other compensation	8,129	7,450
Accrued taxes	2,420	1,712
Other accrued liabilities	6,104	8,272
<b>Total current liabilities</b>	<b>41,071</b>	<b>46,472</b>
Long-term debt	7,055	8,377
Deferred tax liabilities	16,740	16,354
Pension and other long-term liabilities	5,581	6,928
Commitments and contingencies (Note 13)		
<b>Stockholders equity:</b>		
Preferred stock		
Common stock	2,308	2,301
Capital in excess of par value	51,750	50,105
Retained earnings	197,454	188,696
Accumulated other comprehensive income	1,991	4,252
Treasury stock, at cost	(64,901)	(64,901)
<b>Total stockholders equity</b>	<b>188,602</b>	<b>180,453</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 259,049</b>	<b>\$ 258,584</b>

See accompanying Notes to Condensed Consolidated Financial Statements.



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

	<b>Nine Months Ended September 30, 2008                  2007 (Unaudited)</b>	
<b>Cash flows from operating activities:</b>		
<b>Net income</b>	\$ 8,758	\$ 6,687
Adjustments to reconcile net income to net cash from operating activities:		
Gain from discontinued operations, net of tax	(860)	
Depreciation and amortization	11,760	11,411
Deferred income taxes	2,300	2,069
Stock based compensation	662	762
Loss on disposition of property, plant and equipment	137	226
Changes in operating assets and liabilities:		
Accounts receivable	3,671	(6,301)
Inventories	(2,397)	(1,920)
Accounts payable	(3,187)	1,062
Accrued payroll and other compensation	904	(1,847)
Other, net	(3,058)	(1,926)
<b>Net cash provided by operating activities</b>	<b>18,690</b>	<b>10,223</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of operation, net	2,772	
Capital expenditures	(8,136)	(8,780)
<b>Net cash used for investing activities</b>	<b>(5,364)</b>	<b>(8,780)</b>
<b>Cash flows from financing activities:</b>		
Debt proceeds		31,249
Debt repayments	(1,053)	(32,133)
Common stock issued	1,045	2,448
<b>Net cash (used for) provided by financing activities</b>	<b>(8)</b>	<b>1,564</b>
Effect of exchange rate changes on cash	(753)	333
Increase in cash and cash equivalents	12,565	3,340
Cash and cash equivalents at beginning of period	15,716	6,402
<b>Cash and cash equivalents at end of period</b>	<b>\$ 28,281</b>	<b>\$ 9,742</b>

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.

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.

On September 19, 2008, the Company sold its wholly owned subsidiary, Lydall Transport, Ltd. (Transport). The Consolidated Condensed Financial Statements for the quarter and nine months ended September 30, 2008 and 2007 have been reclassified to reflect Transport as a discontinued operation for all periods presented.

**2. Risks and Uncertainties**

For the nine months ended September 30, 2008, approximately 54% of the Company's consolidated net sales were to the automotive market, included in the Thermal/Acoustical segment. Specifically in the United States, the Company's North American automotive business (NA Auto) has been significantly impacted by a downturn in the U.S. economy resulting in less consumer demand for automobiles. While NA Auto has remained profitable in 2008, lower automobile production in the U.S. has caused net sales and operating income for NA Auto to be lower by approximately 23% and 60%, respectively, as compared to the same period of 2007. A large amount of NA Auto business is to domestic automakers that are reporting financial losses, announcing facility closures and other restructuring actions. The Company has significant accounts receivable from these automakers at any point in time. Should an automaker file bankruptcy or not be able to pay the Company the amounts owed as they become due, or at all, results of operations and cash flows of the Company could be adversely affected. NA Auto has approximately \$12.2 million of goodwill on their balance sheet as of September 30, 2008. In light of the current market conditions, and the expected continued reductions in net sales and operating income through 2009, the Company performed at September 30, 2008 an assessment to determine if the carrying amount of NA Auto's net assets were recoverable from estimated future cash flows. As of September 30, 2008, the Company does not believe an impairment exists. The calculation of future cash flows includes management estimates and assumptions that are based on the best available information as of the date of the assessment. The Company will continue to monitor the North American automotive market and the financial conditions of the Company's customers. Should factors indicate that NA Auto cash flow will not meet the Company's expectations, then an impairment charge may be recorded in a future period.

The Company's Affinity® temperature control equipment business (Affinity) reported an operating loss of \$1.5 million in the nine months ended September 30, 2008 and an operating loss of \$1.0 million in fiscal 2007. The loss in 2007 was primarily caused by excessive manufacturing and warranty costs due to operational issues in the first half of 2007. Many of these operational issues were resolved in the second half of 2007, which resulted in the Affinity business reporting operating income of approximately \$0.4 million over the last two quarters of 2007. Throughout 2008, the Affinity® business has been severely impacted by

**Table of Contents**

a slow-down in capital equipment spending in the semiconductor industry. Net sales were lower in the first nine months of 2008 by \$3.6 million, or approximately 23%, as compared to the same period of 2007. As a result, the Company has incurred an operating loss in 2008. The Company expects capital equipment spending in the semiconductor industry to improve in 2009, but still below 2007 levels. The Affinity business has goodwill of \$4.2 million on their balance sheet as of September 30, 2008. Due to the operating losses reported by the Affinity business and the continued negative market conditions expected in the near-term, the Company performed at September 30, 2008 an assessment to determine if the carrying amount of Affinity's net assets was recoverable from estimated future cash flows. As of September 30, 2008, the Company does not believe an impairment exists. The calculation of future cash flows includes management estimates and assumptions that are based on the best available information as of the date of the assessment. Included in management's assumptions was the expectation that while the financial results of the Affinity business are expected to improve in 2009, in comparison to 2008, negative market conditions are expected to continue, thereby preventing a significant improvement in cash flows in 2009. Management expects capital equipment spending in the semiconductor industry to improve in 2010 and thereafter, and i