THOMAS INDUSTRIES INC
Form 10-Q
August 13, 2001

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 [X]

For the quarterly period ended: June 30, 2001

Commission File Number 1-5426.

THOMAS INDUSTRIES INC.

(Exact name of registrant as specified in its charter)

Delaware	61-0505332
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
4360 Brownsboro Road, Louisville, Kentucky	40207
(Address of principal executive office)	(Zip Code)

Registrant's telephone number, including area code: 502/893-4600

Not Applicable

(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 twelve 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 [ ]

The number of shares outstanding of issuer's Common Stock, $1 par value, as of July 28, 2001, was 15,181,786 shares.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

THOMAS INDUSTRIES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In Thousands Except Amounts Per Share)

	Three Months Ended June 30		Six
	2001	2000	2001
Net sales	$46,915	$48,436	$96,611
Cost of products sold	30,162	30,607	61,557
Gross profit	16,753	17,829	35,054
Selling, general, and administrative expenses	10,603	10,852	21,987
Equity income from Lighting	6,112	5,895	11,173
Operating income	12,262	12,872	24,240
Interest expense	944	984	1,886
Interest income and other	407	1,297	1,019
Income before income taxes	11,725	13,185	23,373
Income taxes	4,397	4,773	8,765
Net income	$ 7,328	$ 8,412	$14,608
Net income per share:			
Basic	$.48	$.54	$ .96
Diluted	$.47	$.53	$ .93
Dividends declared per share	$.085	$.075	$.17
Weighted average number of shares outstanding:			
Basic	15,163	15,515	15,140
Diluted	15,722	15,859	15,678

See notes to condensed consolidated financial statements.

THOMAS INDUSTRIES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

	(Unaudited) June 30 2001	December 31 2000*
ASSETS		
Current assets		
Cash and cash equivalents	$ 9,318	$ 13,941
Accounts receivable, less allowance (2001--$800; 2000--$752)	23,903	22,255
Inventories:		
Finished products	6,324	7,046
Raw materials	10,912	11,032
Work in process	4,277	4,210
	21,513	22,288
Deferred income taxes	3,073	3,082
Other current assets	2,843	2,251
Total current assets	60,650	63,817
Investment in GTG	177,014	168,954
Property, plant, and equipment	90,736	87,556
Less accumulated depreciation and amortization	50,611	48,035
	40,125	39,521
Note receivable from GTG	22,287	22,287
Intangible assets--less accumulated amortization	9,271	10,111
Other assets	3,578	3,430
Total assets	$312,925	$308,120
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Notes payable	$ 4,050	$ --
Accounts payable	6,417	7,385
Accrued Expenses and other current liabilities	16,142	18,014
Current portion of long-term debt	7,786	7,786
Total current liabilities	34,395	33,185
Deferred income taxes	9,319	9,415
Long-term debt (less current portion)	34,969	40,727
Other long-term liabilities	6,803	7,436
Total liabilities	85,486	90,763

Shareholders' equity		
Preferred Stock, $1 par value, 3,000,000 shares authorized--none issued	--	--
Common Stock, $1 par value, shares authorized: 60,000,000; Shares issued: 2001--17,795,483 2000--17,670,342	17,795	17,670
Capital surplus	113,238	111,982
Deferred compensation	733	401
Treasury stock held for deferred compensation	(733)	(401)
Retained earnings	147,184	135,153
Accumulated other comprehensive income (loss)	(12,321)	(9,058)
Less cost of treasury shares: (2001--2,622,339; 2000--2,619,039)	(38,457)	(38,390)
Total shareholders' equity	227,439	217,357
Total liabilities and shareholders' equity	$312,925	$308,120

*Derived from the audited December 31, 2000, consolidated balance sheet.
See notes to condensed consolidated financial statements.

THOMAS INDUSTRIES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(Dollars in Thousands)

	Six Months Ended June 30	
	2001	2000
Operating activities:		
Net income	$14,608	$15,570
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Depreciation and amortization	4,248	4,350
Deferred income taxes	(334)	(246)
Equity income from Lighting	(11,172)	(11,306)
Distributions from Lighting	3,092	4,891
Other items	24	168
Changes in operating assets and liabilities:		
Accounts receivable	(2,317)	(5,430)
Inventories	(401)	(918)
Accounts payable	(801)	(714)
Accrued expenses and other liabilities	(2,341)	3,171
Other	(175)	(427)
Net cash provided by operating activities	4,431	9,109

Investing activities:		
Purchases of property, plant and equipment	(5,244)	(4,152)
Sale of property, plant and equipment	11	2
Net cash used in investing activities	(5,233)	(4,150)
Financing activities:		
Proceeds from notes payable to banks, net	4,050	650
Payments on long-term debt	(7,758)	(7,743)
Proceeds from long-term debt	2,000	--
Treasury stock purchased	(67)	(6,610)
Dividends paid	(2,417)	(2,355)
Other	1,381	748
Net cash used in financing activities	(2,811)	(15,310)
Effect of exchange rate change	(1,010)	(394)
Net decrease in cash and cash equivalents	(4,623)	(10,745)
Cash and cash equivalents at beginning of period	13,941	16,487
Cash and cash equivalents at end of period	$ 9,318	$5,742

See notes to condensed consolidated financial statements.

THOMAS INDUSTRIES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note A - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and with the instructions to Form 10-Q and Article 10-01 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

The results of operations for the six-month period ended June 30, 2001, are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

Note B - Contingencies

In the normal course of business, the Company is a party to legal proceedings and claims. When costs can be reasonably estimated, appropriate liabilities for such matters are recorded. While management currently believes the amount of ultimate liability, if any, with respect to these actions will not materially affect the financial position, results of operations, or liquidity of the Company, the ultimate outcome of any litigation is uncertain. Were an unfavorable outcome to occur, the impact could be material to the Company.

Note C - Comprehensive Income

Reconciliation of net income to comprehensive income for the periods indicated follows.

(In Thousands)

For the three months ended June 30:	2001	2000
Net income	$7,328	$8,412
Foreign currency translation	(130)	(911)
Comprehensive income	$7,198	$7,501

For the six months ended June 30:	2001	2000
Net income	$14,608	$15,570
Foreign currency translation	(3,263)	(2,126)
Comprehensive income	$11,345	$13,444

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Note D - Net Income Per Share

The computation of the numerator and denominator in computing basic and diluted net income per share follows:

(In Thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2001	2000	2001	2000

Numerator:				
Net income	$ 7,328	$ 8,412	$14,608	$15
Denominator:				
Weighted average shares outstanding	15,163	15,515	15,140	15
Effect of dilutive securities:				
Director and employee stock options	518	342	494	
Employee performance shares	41	2	44	
Dilutive potential common shares	559	344	538	
Denominator for diluted earnings per share--adjusted weighted average shares and assumed conversions	15,722	15,859	15,678	15

Note E - Genlyte Thomas Group LLC

The following table contains certain unaudited financial information for the Joint Venture.

Genlyte Thomas Group LLC
Condensed Financial Information
(Dollars in Thousands)

	(Unaudited) June 30 2001	December 31 2000
Balance sheet:		
Current assets	$334,975	$326,626
Long-term assets	282,161	288,082
Current liabilities	159,705	177,454
Long-term liabilities	81,632	89,948

	Three Months Ended June 30		Six Months Ended June 30	
	2001	2000	2001	
Income statement:				
Net sales	$257,842	$253,214	$502,637	$49
Gross profit	90,655	86,938	176,002	17
Earnings before interest and taxes	23,686	22,210	43,615	4
Net income*	20,914	20,075	38,546	3
*Amounts recorded by Thomas Industries Inc.:				
Equity income from GTG	$ 6,692	$ 6,424	$ 12,334	$ 1
Stock option expense	(51)	--	(103)	
Amortization of excess investment	(529)	(529)	(1,058)	(

Equity income reported by Thomas	$ 6,112	5,895	$ 11,173	$ 1

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Note F - Receivables from Affiliate

Included in Other Long-Term Assets at June 30, 2001, and December 31, 2000, is $22,287,000 which represents a debt equalization note payable to Thomas by GTG related to the formation of the Joint Venture. Interest on the principal amount outstanding under the note accrues at a variable rate and is payable on a quarterly basis. The principal amount of the note is due on August 29, 2003, and may be prepaid in whole or in part at any time without premium or penalty.

Note G - Segment Disclosures

	Three Months Ended June 30		Six Months Ended June 30	
	2001	2000	2001	2000
Total net sales including intercompany sales				
Pump and Compressor	$52,423	$54,560	$108,905	$110,13
Intercompany sales				
Pump and Compressor	$(5,508)	$(6,124)	$(12,294)	$(10,88
Net sales to unaffiliated customers				
Pump and Compressor	$46,915	$48,436	$ 96,611	$ 99,24
Operating income				
Pump and Compressor	$ 7,566	$ 8,694	$ 16,109	$ 17,16
Lighting*	6,112	5,895	11,173	11,30
Corporate	(1,416)	(1,717)	(3,042)	(3,55
	$12,262	$12,872	$ 24,240	$ 24,92

*Three months ended June 30 consists of equity income of $6,692,000 in 2001 and $6,424,000 in 2000 from our 32% interest in the joint venture, Genlyte Thomas Group LLC (GTG), less $529,000 of amortization in both 2001 and 2000 of Thomas' excess investment and less $51,000 in 2001 related to expense recorded for Thomas Industries stock options issued to GTG employees. Six months ended June

30 consists of equity income of $12,334,000 in 2001 and $12,364,000 in 2000 from our 32% interest in GTG, less $1,058,000 of amortization in both 2001 and 2000 of Thomas' excess investment and less $103,000 in 2001 related to expense recorded for Thomas Industries stock options issued to GTG employees.

Note H - Accounting Pronouncement

In September 2000, the Emerging Issues Task Force reached a consensus on Issue 00-10, "Accounting for Shipping and Handling Fees and Costs." The EITF requires that all shipping and handling amounts billed to a customer in a sale transaction be classified as revenue. The EITF also states that a company cannot net the shipping and handling costs against the shipping and handling revenues in the financial statements. Accordingly, Thomas has restated net sales and cost of sales for the three months and six months ended June 30, 2000, by reclassifying shipping and handling costs totaling $469,000 and $894,000 respectively, from net sales to costs of sales.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations"(SFAS 141) and SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). These statements establish new accounting and reporting standards for business combinations and associated goodwill and intangible assets. SFAS 141, effective immediately, eliminates the pooling of interest method of accounting and amortization of goodwill for business combinations initiated after June 30, 2001. SFAS 142, effective January 1, 2002, will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. We are currently reviewing the statements to determine their impact on the Company's results of operations and financial position.

Note I - Short-Term Borrowings

As of June 30, 2001, the Company had short-term borrowings of $4,050,000 which bear interest at variable rates. These borrowings were primarily used to fund working capital needs, capital expenditures, and our long-term debt payment. Short-term borrowings at December 31, 2000, and June 30, 2000, were zero and $650,000 respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Net sales during the second quarter ended June 30, 2001, decreased 3.1% to $46.9 million compared to $48.4 million for the second quarter of 2000. The 2000 net sales and cost of sales have been restated due to an Emerging Issues Task Force consensus on Issue 00-10, "Accounting for Shipping and Handling Fees and Costs," as noted in our 2000 Annual Report. The North American operations had a decline in net sales, primarily as a result of our larger OEM customers continuing to push out orders, although we did see minor improvement late in the quarter. Our European and Asia Pacific operations also showed lower net sales, primarily due to weakening local currencies versus the strong U.S. dollar. Overall second quarter sales would be 2.3% higher if measured in constant exchange rates. Net sales for the six-month period ended June 30, 2001, were $96.6 million compared to $99.2 million for the prior year. This decline was attributed to softness in the North American operations, while the European and Asia Pacific operations showed increases in net sales, despite weakening local currencies. Our overall sales for the six-month period would be 2.7% higher if measured in constant exchange rates.

Operating income for the second quarter ended June 30, 2001, was $12.3 million or 4.7% lower than the prior-year amount of $12.9 million. The Pump and Compressor Segment posted a 13.0% decrease in operating income over the 2000 second quarter. This was principally due to unfavorable manufacturing variances incurred when production was scaled back to manage inventory levels at the reduced sales volume. Additionally, unfavorable exchange rate impacted our margins due to the weakening local currencies of the European and Asia Pacific operating units. The Lighting Segment (GTG Joint Venture) results increased to $6.1 million in the second quarter of 2001, compared to $5.9 million in the same period last year. This was principally due to an increase in sales by GTG, despite relatively soft market conditions. Corporate expenses decreased to $1.4 million in the second quarter of 2001, compared to $1.7 million in the same period last year. This was primarily due to lower compensation and professional fees in 2001. Operating income for the six-month period ended June 30, 2001, was $24.2 million compared to $24.9

million in 2000. This decrease was attributable primarily to the Pump and Compressor Segment's second quarter results, as explained above. Additionally, the income from the Lighting Segment decreased to $11.2 million in the first half of 2001, compared to $11.3 million in 2000. This was primarily due to the Company's share of increased interest expense, foreign income tax, and domestic franchise tax at the Joint Venture level, which occurred in the first quarter of 2001 due to acquisitions. Corporate expenses also decreased to $3.0 million in 2001, compared to $3.6 million in 2000, with the reduction primarily due to reduced compensation and professional fees.

Net income for the 2001 second quarter of $7.3 million was 3.8 percent lower than the $7.6 million for the comparable 2000 period, after excluding a one-time gain of $.8 million from the proceeds of a life insurance policy recorded in the second quarter of 2000. Net income for the six-month period ended June 30, 2001, was $14.6 million compared to $14.8 million in 2000, after excluding the $.8 million one-time gain in 2000 noted above. The quarter and six-month decreases from 2000, after excluding the $.8 million gain in 2000, were due primarily to the changes noted in the operating income discussion above, but were partially offset by lower interest expense and a lower effective tax rate in 2001.

Interest expense for the 2001 second quarter was $.9 million or 4.1 percent lower than the 2000 amount of $1.0 million. The 2001 six-month interest expense of $1.9 million was 4.3 percent lower than the $2.0 million for 2000. The reductions in the second quarter and six-month periods were primarily related to the $7.7 million payment of long-term debt on January 31, 2001, which carried a 9.36 percent annual interest rate. This payment did reduce interest expense over the prior-year amounts but was partially offset by interest expense in 2001 on higher amounts of short-term borrowings and additional long-term debt proceeds, of which $8.0 million was received on September 29, 2000, and $2.0 million on May 31, 2001. The additional short-term and long-term borrowings in 2001 were at variable interest rates, which were lower than the comparable rates in 2000.

The note receivable from GTG at June 30, 2001, and December 31, 2000, is $22,287,000, which represents the debt equalization note payable to Thomas by GTG related to the formation of the Joint Venture. Interest on the principal amount outstanding under the note accrues at a variable rate and is payable on a quarterly basis. The principal amount of the note is due on August 29, 2003, and may be prepaid in whole or in part at any time without premium or penalty.

Working capital of $26.3 million at June 30, 2001, is $4.3 million lower than the amount at December 31, 2000, primarily resulting from the $7.7 million long-term debt payment on January 31, 2001, and capital expenditures of $5.2 million, offset by proceeds from short-term borrowings of $4.1 million, proceeds from long-term borrowings of $2.0 million received May 31, 2001, and distributions of $3.1 million from GTG. For the period December 31, 2000, through June 30, 2001, the Company purchased an additional 3,300 shares for the stock repurchase program that was announced in December 1999. Through August 13, 2001, the Company has purchased, on a cumulative basis, 879,189 shares at an aggregate cost of $17.3 million. Accounts receivable at June 30, 2001, have increased by 7.4 percent since December 31, 2000, due to a higher concentration of shipments occurring toward the end of the second quarter of 2001 compared to the end of the fourth quarter of 2000. The number of days sales in receivables at June 30, 2001, compared to December 31, 2000, has decreased to 48.1 days from 49.3. Inventory at June 30, 2001, has decreased

3.5 percent since December 31, 2000; while annualized inventory turnover at June 30, 2001, of 4.84 decreased from the December 31, 2000, level of 5.04.

Certain loan agreements of the Company include restrictions on working capital, operating leases, tangible net worth, and the payment of cash dividends and stock distributions. Under the most restrictive of these arrangements, retained earnings of $75.6 million are not restricted at June 30, 2001.

As of June 30, 2001, the Company had available credit of $10 million with banks under borrowing arrangements and all of this was being used. Anticipated funds from operations, along with available short-term credit, are expected to be sufficient to meet cash requirements in the year ahead. Cash in excess of operating requirements will continue to be invested in investment grade, short-term securities.

New European Currency

Eleven European countries (The European Monetary Union) have implemented a single currency zone as of January 1, 1999. The new currency (Euro) will eventually replace the existing currencies of the participating countries. The transition from the various currencies to the euro is occurring over a three-year period and will become effective in 2002. The software used by our European operations has been modified to accommodate the dual currencies during the transition period. A team is in place to monitor any changing EMU requirements and has established the final conversion timetable for the single EMU currency.

While management currently believes the Company has accommodated any required changes in its operations, there can be no assurance that its customers, suppliers, service providers, or government agencies will all meet the euro currency requirements in a timely manner. Such failure to complete the necessary work on a timely basis could result in material financial risk.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company's long-term debt bears interest at fixed rates with the exception of the $10 million note that accrues interest at variable rates. The Company's results of operations and cash flows, therefore, would only be affected by interest rate changes to the extent of variable rate debt. At June 30, 2001, the variable rate debt outstanding was $14.1 million, consisting of the $10 million long-term note and the $4.1 million of short-term borrowings. A 100 basis point movement in the interest rate on the $14.1 million variable rate debt would result in a $141,000 annualized effect on interest expense and cash flows.

The Company also has a long-term note receivable from GTG of $22,287,000 that bears interest at a variable rate. Therefore, a 100 basis point movement in the interest rate on the $22,287,000 note would result in an approximate $223,000 annualized effect on interest income and cash flows.

The fair value of the Company's long-term debt with fixed interest rates is estimated based on current interest rates offered to the Company for similar instruments. A 100 basis point movement in the interest rate would result in an approximate $625,000 annualized effect on the fair value of long-term debt.

The Company has significant operations consisting of sales and manufacturing activities in foreign countries. As a result, the Company's financial results could be significantly affected by factors such as changes in foreign currency exchange rates or changing economic conditions in the foreign markets in which the Company manufactures or distributes its products. Currency exposures for our Pump and Compressor Segment are concentrated in Germany but exist to a lesser extent in other parts of Europe and Asia. The Lighting Segment currency exposure is primarily in Canada.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

(a) A regular Annual Meeting of Shareholders was held on April 19, 2001.

(b) Class III Directors elected at the Annual Meeting of Shareholders were H. Joseph Ferguson and Anthony A. Massaro. Directors whose term of office as a director continued after the meeting were Timothy C. Brown, Wallace H. Dunbar, Gene P. Gardner, Lawrence E. Gloyd, William M. Jordan, and Franklin J. Lunding, Jr.

(c) The voting at the Annual Meeting of Shareholders was as follows:

Proposal No. 1 - Election of Directors

	For	Withheld

H. Joseph Ferguson	13,882,369	56,184
Anthony A. Massaro	13,882,816	55,737

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10,000,000 credit arrangement will be filed with the Commission upon its request in accordance with S-K Item 601 (4)(iii)(A).

(b) A Form 8-K was filed on April 24, 2001, announcing the appointment of Arthur Andersen LLP as the registrant's independent auditors for 2001 and the termination of Ernst & Young LLP as the previous independent auditors.

SIGNATURE

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.

THOMAS INDUSTRIES INC.

Registrant

/s/ Phillip J. Stuecker

Phillip J. Stuecker, Vice President and
Chief Financial Officer

Date August 13, 2001
