

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

THOMAS INDUSTRIES INC
Form 10-Q
May 12, 2003

UNITED STATES
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
For the quarterly period ended March 31, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES AND EXCHANGE ACT OF 1934
For the transition period from _____

Commission File Number 1-5426

THOMAS INDUSTRIES INC.

(Exact name of Registrant as specified in its Charter)

DELAWARE

61-0505332

(State of incorporation)

(I.R.S. Employer Identification Number)

4360 BROWNSBORO ROAD, LOUISVILLE, KENTUCKY

40207

(Address of principal executive offices)

(Zip Code)

502/893-4600

(Registrant's telephone number, including area code)

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 X No ___

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2) Yes X No ___

As of May 5, 2003, 17,168,442 shares of the registrant's Common Stock were outstanding (net of treasury share).

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

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 March 31	
	2003	2002
Net sales	\$ 92,346	\$ 46,057
Cost of products sold	59,231	29,162
Gross profit	33,115	16,895
Selling, general and administrative expenses	24,578	10,833
Equity income from GTG	6,143	6,002
Operating income	14,680	12,064
Interest expense	1,086	619
Interest income and other income (expense)	(39)	242
Income before income taxes and minority interest	13,555	11,687
Income taxes	4,742	4,266
Income before minority interest	8,813	7,421
Minority interest, net of tax	7	--
Net income	\$ 8,806	\$ 7,421
Net income per share:		
Basic	\$ 0.51	\$ 0.49
Diluted	\$ 0.50	\$ 0.47
Dividends declared per share:	\$ 0.085	\$ 0.085
Weighted average shares outstanding:		
Basic	17,139	15,243
Diluted	17,507	15,762

See notes to condensed consolidated financial statements.

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

(Unaudited)
March 31

Decem

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

	2003	2002
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,318	\$ 18,318
Accounts receivable, less allowance (2003--\$2,617; 2002--\$2,270)	55,873	50,873
Inventories:		
Finished products	25,745	23,745
Raw materials	18,176	17,176
Work in process	13,362	11,362
	-----	-----
Deferred income taxes	57,283	52,283
Other current assets	4,194	4,194
	6,016	5,016
	-----	-----
Total current assets	142,684	131,684
Investment in GTG	197,005	188,005
Property, plant and equipment	157,903	153,903
Less accumulated depreciation and amortization	(66,235)	(62,235)
	-----	-----
	91,668	91,668
Goodwill	55,263	55,263
Other intangible assets, net	19,610	19,610
Other assets	3,612	4,612
	-----	-----
Total assets	\$ 509,842	\$ 491,842
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 58	\$ 1,058
Accounts payable	13,636	15,636
Accrued expenses and other current liabilities	24,379	21,379
Dividends payable	1,457	1,457
Income taxes payable	3,065	3,065
Current portion of long-term debt	9,413	9,413
	-----	-----
Total current liabilities	52,008	49,008
Deferred income taxes	5,129	5,129
Long-term debt, less current portion	108,491	104,491
Long-term pension liability	10,621	10,621
Other long-term liabilities	7,143	7,143
	-----	-----
Total liabilities	183,392	176,392
Minority interest	46	46
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: 2003 - 17,985,087; 2002 - 17,947,630	17,985	17,947
Capital surplus	134,798	133,798
Deferred compensation	1,135	1,135
Treasury stock held for deferred compensation	(1,135)	(1,135)
Retained earnings	192,700	185,700
Accumulated other comprehensive loss	(7,020)	(10,020)

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Less cost of 822,339 treasury shares	(12,059)	(12,
Total shareholders' equity	326,404	314,
Total liabilities and shareholders' equity	\$ 509,842	\$ 491,

* Derived from the audited December 31, 2002, consolidated balance sheet.
See notes to condensed consolidated financial statements.

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

OPERATING ACTIVITIES

Net income
Adjustments to reconcile net income to net cash provided by operating activities:
 Depreciation and intangible amortization
 Deferred income taxes
 Equity income from GTG
 Distributions from GTG
 Other items
Changes in operating assets and liabilities net of effect of acquisitions:
 Accounts receivable
 Inventories
 Accounts payable
 Income taxes payable
 Accrued expenses and other current liabilities
 Other

Net cash provided by operating activities

INVESTING ACTIVITIES

Purchases of property, plant and equipment
Sales of property, plant and equipment

Net cash used in investing activities

FINANCING ACTIVITIES

Payments on short-term debt
Payments on long-term debt
Proceeds from long-term debt
Dividends paid
Other

Net cash provided by (used in) financing activities

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Effect of exchange rate changes

Net increase (decrease) in cash and cash equivalents
Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period

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 accounting principles generally accepted in the United States 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 accounting principles generally accepted in the United States for complete financial statements.

The results of operations for the three-month period ended March 31, 2003, are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. 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, 2002.

Note B - Acquisition

On August 29, 2002, the Company purchased substantially all the assets and liabilities of Werner Rietschle Holding GmbH ("Rietschle"), a privately held company based in Schopfheim, Germany. Rietschle has been a world leader in vacuum and pressure technology, which includes dry-running and oil-lubricated pumps, blowers, compressors, and pressure/vacuum pumps utilizing rotary vane, screw, roots and claw technologies. With the strong Rietschle brand, Thomas will continue to pursue further opportunities through cross branding of products, and through growth in markets such as printing, packaging, woodworking and many other applications that fit Rietschle technologies, including fuel cells. The purchase price consisted of \$83.3 million in cash and 1,800,000 treasury shares of the Company's common stock. The Company negotiated a \$120.0 million revolving credit facility with a group of banks to finance the cash portion of the purchase price, of which \$90.0 million was outstanding as of March 31, 2003. Rietschle's operating results are included in the Company's results since the date of acquisition.

A tentative purchase price allocation was made and reflected in the March 31, 2003 financial statements. This allocation is preliminary as the Company finalizes information, including appraisals, about the fair value of assets and

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

liabilities acquired. Accordingly, the amounts recorded will change as the allocation is finalized.

Supplemental pro forma information below for the three months ended March 31, 2002, is presented as though the business combination had been completed as of the beginning of the period being reported on. The pro forma financial information does not necessarily reflect the results of operations that would have occurred if the Company and Rietschle constituted a single entity during such period.

(In thousands, except per share data)	Three Months Ended March 31, 2002

Net sales	\$79,034
Net income	\$ 8,307
Earnings per share - diluted	\$.47

The aggregate purchase price consists of (in thousands):

Cash	\$83,288
Fair value of Thomas common stock	44,754
Transaction costs	5,097

Total aggregate purchase price	\$133,139
	=====

The following summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Cash	\$ 3,487
Accounts receivable	25,121
Inventories	29,228
Other current assets	4,638
Property, plant and equipment	47,976
Other intangibles	17,558
Other assets	3,113
Current liabilities	(21,977)
Long-term debt	(19,536)
Other long-term liabilities	(5,629)

	83,979
Goodwill	49,160

Aggregate purchase price	\$133,139
	=====

Certain allocations above are based on management's preliminary estimate of assets acquired and liabilities assumed. The valuations of property, plant and equipment and other intangible assets are based on preliminary results of independent appraisals, which are still being reviewed. The property, plant and equipment is being depreciated on a straight-line basis over an estimated useful life ranging from three to thirty years. The other intangible assets are being amortized on a straight-line basis over a useful life range of five to twelve years, except for \$11,525,000 of trademarks, which are not being amortized.

The goodwill associated with the Rietschle acquisition is all allocated to the Pump and Compressor Segment.

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Note C - 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 D - Comprehensive Income

The reconciliation of net income to comprehensive income follows:

(In thousands)	Three Months Ended March 31	
	2003	2002
	----	----
Net income	\$8,806	\$7,421
Other comprehensive income (loss):		
Minimum pension liability	(27)	-
Related tax expense	9	-
Foreign currency translation	3,835	(523)
	-----	-----
Total change in other comprehensive income (loss)	3,817	(523)
	-----	-----
Total comprehensive income	\$12,623	\$6,898
	=====	=====

Note E - 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 March 31	
	2003	2002
	----	----
Numerator:		
Net income	\$8,806	\$7,421
	=====	=====
Denominator:		
Weighted average shares outstanding	17,139	15,243
Effect of dilutive securities:		
Director and employee stock options	322	482
Employee performance shares	46	37
	-----	-----

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Dilutive potential common shares	368	519
	-----	-----
Denominator for diluted earnings per share--adjusted weighted average shares and assumed conversions	17,507	15,762
	=====	=====

Note F - Segment Disclosures

(In thousands)	Three Months Ended March 31	
	2003	2002
	-----	-----
Total net sales including intercompany sales		
Pump and Compressor	\$112,127	\$51,957
Intercompany sales		
Pump and Compressor	(19,781)	(5,900)
	-----	-----
Net sales to unaffiliated customers		
Pump and Compressor	\$ 92,346	\$46,057
	=====	=====
Operating income		
Pump and Compressor	\$10,325	\$ 7,547
Lighting*	6,143	6,002
Corporate	(1,788)	(1,485)
	-----	-----
	\$14,680	\$12,064

*Three months ended March 31 consists of equity income of \$6,222,000 in 2003 and \$6,053,000 in 2002 from our 32% interest in the joint venture, Genlyte Thomas Group LLC (GTG), less \$79,000 in 2003 and \$51,000 in 2002, related to expense recorded for Thomas Industries stock options issued to GTG employees.

Note G - Goodwill and Other Intangible Assets

The changes in net carrying amount of goodwill for the three months ended March 31, 2003 were as follows (in thousands):

Balance as of December 31, 2002	\$ 55,669
Translation adjustment and other	(406)

Balance as of March 31, 2003	\$ 55,263
	=====

The goodwill included in the balance sheets is related to the Pump and Compressor Segment.

Certain intangible assets have definite lives and are being amortized. In accordance with SFAS No. 142, the Company evaluated the remaining useful lives of intangible assets as of January 1, 2002, and where appropriate, revisions to the remaining period of amortization were made. Amortizable intangible assets consist of the following (in thousands):

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

	March 31, 2003			December 31, 2002		
	Life	Cost	Accumulated Amortization	Life	Cost	Accumulated Amortization
Licenses	18-19	\$ 471	\$ 187	18-19	\$ 466	\$
Patents	5-20	5,306	351	5-20	5,137	
Other	1-10	2,720	565	1-10	2,633	
Total		\$8,497	\$1,103		\$8,236	

The March 31, 2003 cost amount includes \$7.9 million related to the Rietschle acquisition allocated to patents and other intangibles. The total intangible amortization expense for the three months ended March 31, 2003 and 2002 was \$291,000 and \$6,000, respectively.

The estimated amortization expense stated in thousands of dollars for the next five years beginning January 1, 2003 through December 31, 2007 is as follows:

2003	\$809
2004	692
2005	692
2006	692
2007	684

As of March 31, 2003, \$11,525,000 has been preliminarily allocated to non-amortizable trademarks, in connection with the Rietschle acquisition.

Also included in other intangible assets is an intangible asset associated with the minimum pension liability of \$691,000 as of March 31, 2003 and December 31, 2002.

Note H - Long-lived Assets

Consistent with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company evaluates long-lived assets for impairment and assesses their recoverability based upon anticipated future cash flows. If facts and circumstances lead the Company's management to believe that the cost of one of its assets may be impaired, the Company will evaluate the extent to which that cost is recoverable by comparing the future undiscounted cash flows estimated to be associated with that asset to the asset's carrying amount and write down that carrying amount to market value to the extent necessary.

Note I - 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)

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

	(Unaudited)	
	March 31,	December 31,
	2003	2002
	----	----
GTG balance sheets:		
Current assets	\$412,500	\$405,138
Long-term assets	270,192	267,843
Current liabilities	174,245	187,211
Long-term liabilities	66,860	69,795

	Three Months	
	Ended March 31	
	2003	2002
	----	----
GTG income statements (unaudited):		
Net sales	\$237,913	\$232,026
Gross profit	81,830	80,220
Earnings before interest and taxes	21,163	21,083
Net income	19,445	18,916

Amounts recorded by Thomas Industries Inc.:		
Equity income from GTG	\$6,222	\$6,053
Stock option expense	(79)	(51)
	-----	-----
Equity income reported by Thomas	\$6,143	\$ 6,002
	=====	=====

Note J - Stock-Based Compensation

Stock options are granted under various stock compensation programs to employees and independent directors. The Company accounts for stock option grants in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

Included in stock option activity, but accounted for in accordance with SFAS No. 123, are options granted to GTG employees, for which the Company has recorded compensation expense. This compensation expense, shown net of tax, is also included in the pro forma information below.

The Company's pro forma information in accordance with SFAS No. 123 is as follows:

Three Months Ended	
March 31	

2003	2002

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Net income (as reported)	\$	8,806	\$	7,421
Add: Stock-based compensation expense for GTG employees included in reported net income, net of related tax effects.		46		42
Deduct: Total stock-based employee compensation determined under fair value based method for all awards, net of related tax effects.		(194)		(211)
		-----		-----
Net income (pro forma)	\$	8,658	\$	7,252
		=====		=====
Net income per share (Basic) -				
	As reported	\$.51		\$.49
	Pro forma	.51		.48
Net income per share (Diluted) -				
	As reported	.50		.47
	Pro forma	.50		.46

Note K - Product Warranty Costs

The Company generally offers warranties for most of its products for periods from one to five years. The specific terms and conditions of these warranties vary depending on the product sold and country in which the Company does business. The Company estimates the costs that may be incurred under its warranty and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability include that number of units sold, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amount as necessary.

Changes in the Company's warranty liability for the three months ended March 31, 2003 are as follows (in thousands):

Balance as of December 31, 2002	\$	2,674
Warranties issued during the quarter		755
Settlements made during the quarter		(497)

Balance as of March 31, 2003	\$	2,932
		=====

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Thomas' discussion and analysis of its financial condition and results of operations are based upon Thomas' consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. When preparing these consolidated financial statements, the Company is required to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company evaluates its estimates, including, but not limited to, those related to product warranties, bad debts, inventories, equity investments, income taxes, pensions and other post-retirement benefits, contingencies, and litigation. The Company bases its estimates on historical experience and on various other assumptions that are

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

In response to the Securities and Exchange Commission's (SEC) Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies", the Company identified the following critical accounting policies which affect its more significant judgments and estimates used in the preparation of its consolidated financial statements. Based on the SEC's suggestions, included with the accounting policies are potential adverse results which could occur if different assumptions or conditions were to prevail.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of Thomas' customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Thomas provides for the estimated cost of product warranties. While the Company engages in extensive product quality programs and processes, should actual product failure rates differ from estimates, revisions to the estimated warranty liability would be required. Thomas writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market

Item 2. Management's Discussion and Analysis - Continued

conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. With respect to the Rietschle acquisition in 2002, the Company utilized an independent appraisal in determining the fair value of assets and liabilities acquired. The purchase price allocation has not yet been finalized, and as a result, the amounts recorded could change as the allocation is finalized. If actual market conditions or other factors differ in the future from those used by the independent appraiser, then additional asset write-downs may be required. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," Thomas tests at least annually for impairment of goodwill and indefinite lived intangible assets. If facts and circumstances lead the Company's management to believe that the cost of one of these assets may be impaired, then further evaluations would be performed and possible write-downs could occur. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company evaluates long-lived assets for impairment and assesses their recoverability based upon anticipated future cash flows. If facts and circumstances lead the Company's management to believe that the cost of one of its long-lived assets may be impaired, then further evaluations would be performed and possible write-downs could occur.

Thomas holds a 32 percent minority interest in the Genlyte Thomas Group LLC (GTG) joint venture, which comprises Thomas' lighting segment and is accounted for using the equity method. If future adverse changes in market conditions or poor operating results of GTG occurred, it could result in losses or an inability to recover the carrying value of the Company's investment, thereby possibly requiring an impairment charge in the future. GTG's critical accounting policies are determined separately by The Genlyte Group Incorporated, which owns 68 percent of GTG and consolidates the GTG results.

RESULTS OF OPERATIONS

On August 29, 2002, the Company purchased substantially all the assets and

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

liabilities of Werner Rietschle Holding GmbH ("Rietschle"), a privately held company based in Schopfheim, Germany. See Note B in the notes to condensed consolidated financial statements. Rietschle's operating results are included in the Company's operating results since the date of acquisition.

The Company's net income was \$8.8 million in the first quarter ended March 31, 2003, compared to \$7.4 million in the first quarter ended March 31, 2002. Included in this amount was approximately \$1.0 million related to Rietschle's operating results after netting interest expense on acquisition debt and other transaction related expenses. Excluding the impact of Rietschle's operating results, net income for the 2003 first quarter would have been \$7.8 million or 4.7% higher than the comparable 2002 period, primarily due to higher sales volume in both the Pump and Compressor Segment and Lighting Segment.

PUMP AND COMPRESSOR SEGMENT

Net sales during the first quarter ended March 31, 2003, increased 100.5% to \$92.3 million compared to \$46.1 million for the first quarter of 2002. Included in 2003 was \$39.9 million related to Rietschle net sales. Excluding the Rietschle net sales, 2003 net sales would have increased 13.9%. Also favorably impacting the 2003 net sales were the effects of exchange rates. If measured in constant exchange rates and when excluding the Rietschle net sales, 2003 net sales would have increased 7.5%. The following comments regarding net sales are based on comparisons of the 2003 and 2002 first quarters when excluding the Rietschle net sales and the effects of exchange rates. North American operations reported increases in 2003 sales compared to 2002 due to continued strength in the automotive market. Europe also reported higher net sales due to increases from the automotive, medical, and certain industrial markets. Net sales decreased in the Asia Pacific operations due to softness in the environmental and medical markets.

Item 2. Management's Discussion and Analysis - Continued

Gross profit for the Pump and Compressor Segment was \$33.1 million, or 35.9% of sales in the first quarter of 2003, compared to \$16.9 million, or 36.7% in the first quarter of 2002. Excluding Rietschle's operating results in 2003, the Company's gross profit percent would have been 35.4%. The reduction in the gross profit percentage was primarily due to the negative impact from a new product in North America, which is in the process of being transferred to China for lower cost production. The impact in the first quarter of 2003 related to this was \$.5 million.

The Pump and Compressor Segment's selling, general and administrative (SG&A) expenses were \$22.8 million, or 24.7% of sales, in the first quarter of 2003, compared to \$9.3 million, or 20.3%, in the same period in 2002. These exclude corporate expenses which are discussed in a separate section below. The higher percent of sales in 2003 for SG&A expenses, when including Rietschle, is due to the increased number of Rietschle sales and service offices throughout the world, which require a higher level of SG&A costs to operate. Excluding Rietschle's SG&A expenses, the 2003 SG&A expenses would be at 19.9% of sales, which is down slightly from the 2002 percentage.

Operating income for the first quarter ended March 31, 2003, was \$10.3 million or 36.8% higher than the \$7.5 million in the first quarter of 2002. Included in the 2003 first quarter were \$2.6 million related to Rietschle operating income. Excluding Rietschle, the first quarter operating income would have increased 2.7%. Also favorably impacting the 2003 operating income were the effects of exchange rates. If measured in constant exchange rates and when excluding the Rietschle operating income, the 2003 operating income would have decreased 2.7%. The following comments regarding operating income are based on comparisons of

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

the 2003 and 2002 first quarters when excluding the Rietschle operating income and the effects of exchange rates. The North American operations posted improved operating income results primarily due to increased sales volume. These improved results were partially offset by lower margins on a new product, which is in the process of being transferred to China for lower cost production. The European operations reported lower operating income in the first quarter of 2003 versus 2002, primarily due to unfavorable product mix. The Asia Pacific operating income was lower than the comparable 2002 periods due to lower sales volume.

LIGHTING SEGMENT

The Genlyte Group (Genlyte) and Thomas formed the Genlyte Thomas Group LLC (GTG) on August 30, 1998. The Lighting Segment's operating income includes our 32% interest in the GTG joint venture, as well as expenses related to Thomas Industries stock options issued to GTG employees. The Lighting Segment earnings increased 2.3% to \$6.1 million in the first quarter of 2003, compared to \$6.0 million in the same period in 2002. This increase is due primarily to a 2.5% increase in sales.

Thomas' investment in GTG is accounted for using the equity method of accounting. Under the terms of the LLC Agreement, any time on or after January 31, 2002, Thomas has the right (a "put right"), but not the obligation, to require the Joint Venture (GTG) to purchase all, but not less than all, of Thomas' ownership interest in GTG at the applicable purchase price. The purchase price shall be equal to the "Fair Market Value" of GTG multiplied by Thomas' ownership percentage in GTG. The "Fair Market Value" means the value of the total interest in GTG computed as a going concern, including the control premium.

Also under the terms of the LLC Agreement, on or after the final settlement or disposition of Genlyte's case related to the Keene Creditors Trust lawsuit against Genlyte and others, either Thomas or Genlyte has the right, but not the obligation to buy the other parties' interest in GTG (the "Offer Right"). If

Item 2. Management's Discussion and Analysis - Continued

Thomas and Genlyte cannot agree on the terms, then GTG or the business of GTG shall be sold to the highest bidder. Either party may participate in bidding for the purchase of GTG or the business of GTG. On March 14, 2003, the Southern District of New York Federal District Court dismissed the Genlyte case noted above. On April 14, 2003, the Creditors Trust filed a Notice of Appeal to the United States Court of Appeals for the Second Circuit from the final judgement entered on March 17, 2003. The Notice claims to bring up for review all orders, opinions, and decisions previously entered in the action. Therefore, as of May 12, 2003, no final settlement or disposition has occurred and neither party has the ability to exercise this right.

In the event of a Change of Control (i) of Thomas, GTG has the right, but not the obligation, to purchase Thomas' interest for a purchase price equal to Fair Market Value of GTG multiplied by Thomas' ownership interest or (ii) of Genlyte, Thomas has the right, but not the obligation, to sell its interest to the Joint Venture for a purchase price equal to Fair Market Value of GTG multiplied by Thomas' ownership interest. The definition of "Change of Control" includes the acquisition by any person of 25% or more of Thomas' outstanding common stock.

In the event of a Deadlock (as defined below), Thomas may exercise its Put Right in accordance with the LLC Agreement or Genlyte may, in its sole discretion, cause the entire Joint Venture or business of GTG to be sold. A "Deadlock" shall be deemed to exist if (i) the Management Board of GTG fails to agree on a matter for which Special Approval is required in accordance with the LLC Agreement and

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

(ii) such disagreement continues for 90 days. The definition of "Special Approval" includes the approval of at least a majority of the management board representatives, including, in all instances, approval by at least one representative appointed by Thomas.

CORPORATE

As disclosed in Note F (Segment Disclosures) in the consolidated financial statements, consolidated operating income includes corporate expenses. Corporate expenses were \$1.8 million for the three months ended March 31, 2003, compared to \$1.5 million for 2002. The increase in 2003 relates to higher banking, audit, and tax fees as a result of the Rietschle acquisition.

Interest expense for the three months ended March 31, 2003 was \$1.1 million compared to \$.6 million for 2002. The 2003 amount includes \$.8 million related to the Rietschle acquisition. Excluding Rietschle related amounts, the 2003 interest expense was \$.3 million. The reduction in 2003, when excluding the Rietschle acquisition, was primarily related to the \$7.7 million payment of long-term debt on January 31, 2003, which carried a 9.36% annual interest rate. Interest rates were also lower in 2003 compared to 2002.

Interest income and other for the three months ended March 31, 2003 was a charge of \$39 thousand compared to \$242 thousand of income in the comparable period in 2002. The decrease from 2002, relates to lower amounts of invested cash in 2003 and lower interest rates versus 2002. The 2003 first quarter charge also includes negative impact from foreign currency transaction losses, compared to favorable impacts in the first quarter of 2002.

Income tax provisions were \$4.7 million and \$4.3 million in the three months ended March 31, 2003 and 2002, respectively. The effective income tax rate was 35.0% in 2003, compared to 36.5% in 2002. The decline in the effective tax rate in 2003 was primarily due to the tax benefits to be achieved through the Rietschle acquisition.

Item 2. Management's Discussion and Analysis - Continued

LIQUIDITY AND SOURCES OF CAPITAL

Cash and cash equivalents increased \$.4 million to \$19.3 million at March 31, 2003, compared to \$18.9 million at December 31, 2002. This increase was primarily related to the \$7.7 million long-term debt payment on January 31, 2003, which was offset by proceeds from additional long-term debt borrowings of \$12.0 million, at lower interest rates. These additional proceeds were also used for working capital needs during the three months ended March 31, 2003.

Cash flows provided by operations in the first quarter of 2003 were \$.8 million compared to cash flows provided by operations of \$1.7 million in the first quarter of 2002. The decrease in cash flows were primarily related to increases in accounts receivable and inventory in the first quarter of 2003 compared to 2002. Our first quarter net cash from operating activities has historically been relatively low since the formation of the GTG joint venture. The Company receives no distributions from GTG until after the first quarter of each year. In accordance with the joint venture agreement, the Company does receive periodic reimbursements of income taxes beginning in the second quarter and also receives contractually a minimum of a \$3.0 million dividend in the fourth quarter of each year.

Dividends paid in 2003 were \$1.5 million compared with \$1.3 million in 2002. The 2003 dividends increased primarily due to the issuance of 1.8 million shares in connection with the acquisition of Rietschle.

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

As of March 31, 2003, the Company had standby letters of credit totaling \$4,410,000 with expiration dates during 2003. The Company anticipates that these letters of credit will be renewed at their expiration dates.

The Company announced in December 1999 that it planned to repurchase, from time to time depending on market conditions and other factors, up to 15 percent, or 2,373,000 shares, of its outstanding Common Stock in the open market or through privately negotiated transactions at the prevailing market prices. During 2003, no purchases were made. Through March 31, 2003, the Company has purchased, on a cumulative basis, 879,189 shares at a cost of \$17.3 million, or an average cost of \$19.72 per share. The Company plans to fund any purchase of Company stock through a combination of cash flows generated from operating activities and our revolving line of credit.

Working capital increased from \$82.0 million at December 31, 2002, to \$90.7 million at March 31, 2003, primarily due to increases in accounts receivable and inventories to support business activities.

Dollars in Thousands	March 31, 2003 ----	December 31, 2002 ----
Working capital	\$ 90,676	\$82,030
Current ratio	2.74	2.66
Long-term debt, less current portion	\$108,491	\$104,047
Long-term debt to total capital	24.9%	24.9%

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 \$107.4 million are not restricted at March 31, 2003. Thomas is in compliance with all covenants or other requirements set forth in its borrowing agreements. In the

Item 2. Management's Discussion and Analysis - Continued

event of non-compliance or if Thomas prepays the debt, then Thomas would incur a penalty. At March 31, 2003, the prepayment penalty would have been approximately \$1.9 million on a pre-tax basis.

As of March 31, 2003, the Company had a \$120 million revolving line of credit with its banks through August 28, 2005, \$90.0 million of which was outstanding. This line of credit was used to fund the cash payment of \$83 million for the Rietschle acquisition and to support the short-term needs of the business for working capital changes, fixed asset additions, and general business use. As of March 31, 2003, the Company had uncommitted short-term borrowing arrangements being used by some of its foreign offices which totaled \$58 thousand. As of March 31, 2003 and December 31, 2002, except as described above related to the GTG joint venture, management was aware of no relationships with any other unconsolidated entities, financial partnerships, structured finance entities, or special purpose entities which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

FORWARD-LOOKING STATEMENTS

The Company makes forward-looking statements from time to time and desires to take advantage of the "safe harbor" which is afforded such statements under the Private Securities Litigation Reform Act of 1995 when they are accompanied by meaningful cautionary statements identifying important factors that could cause

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

actual results to differ materially from those in the forward-looking statements.

The statements contained in the foregoing "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as other statements contained in this Quarterly Report and statements contained in future filings with the Securities and Exchange Commission and publicly disseminated press releases, and statements which may be made from time to time in the future by management of the Company in presentations to shareholders, prospective investors, and others interested in the business and financial affairs of the Company, which are not historical facts, are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements. Any projections of financial performance or statements concerning expectations as to future developments should not be construed in any manner as a guarantee that such results or developments will, in fact, occur. There can be no assurance that any forward-looking statement will be realized or that actual results will not be significantly different from that set forth in such forward-looking statement. In addition to the risks and uncertainties of ordinary business operations, the forward-looking statements of the Company referred to above are also subject to the following risks and uncertainties:

- o The Company operates in a highly competitive business environment, and its sales could be negatively affected by its inability to maintain or increase prices, changes in geographic or product mix, or the decision of its customers to purchase competitive products instead of the Company's products. Sales could also be affected by pricing, purchasing, financing, operational, advertising, or promotional decisions made by purchasers of the Company's products.
- o The Pump and Compressor Segment operates in a market where technology improvements and the introduction of products for new applications are necessary for future growth. The Company could experience difficulties or delays in the development, production, testing, and marketing of new products. As an original equipment supplier, the Company's results of operations are directly affected by the success of its customers' products.

Item 2. Management's Discussion and Analysis - Continued

- o The Pump and Compressor Segment has several key customers, none of which are 10% or more of our consolidated sales. However, the loss of any of these key customers could have a negative affect on the Company's results.
- o On an annual basis, the Company negotiates renewals for property, casualty, workers compensation, general liability, product liability, and health insurance coverages. Due to conditions within these insurance markets and other factors beyond the Company's control, future coverages and the amount of the related premiums could have a negative affect on the Company's results.
- o The Pump and Compressor Segment has the leading market share in the oxygen concentrator Original Equipment Manufacturers (OEM) market worldwide. The Company's market share could be reduced significantly due to a competitor, the vertical integration by our customers, or new technology replacing compressed air in oxygen concentrators. The loss of market share in the oxygen concentrator OEM market could have a significant affect on the Company's results.

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

- o GTG, which comprises the Company's Lighting Segment, participates in highly competitive markets that are dependent on the level of residential, commercial, and industrial construction activity in North America. Changes in interest rates, consumer preferences, office and plant occupancy rates, and acceptance of new products affect the Lighting Segment.
- o As the Company's business continues to expand outside the United States, the Company could experience currency exchange rate fluctuations. The Company could also be affected by nationalizations; unstable governments, economies, or legal systems; terrorist attacks; or inter-governmental disputes. These currency, economic, and political uncertainties may affect the Company's results.
- o With the Rietschle acquisition, the Company is in the process of integrating the Rietschle business. There can be no assurance that the integration will occur in a timely fashion or in a manner which will allow the Company to realize the full benefit of its strategies. As part of the integration process, the Company plans on achieving certain synergies. There can be no assurance that the synergies will be realized in a timely manner, if at all.
- o With the Rietschle acquisition, the Company has a larger percentage of its net assets exposed to foreign currency risks. As a result, this increased exposure to foreign currency risks may adversely affect the Company's results.
- o With the Rietschle acquisition, the Company has a leading market share in supplying compressors and systems to the printing industry worldwide. The Company's market share could be reduced significantly due to competition or technology. The loss of market share in the printing industry could have a significant adverse affect on the Company's results.

The forward-looking statements made by the Company are based on estimates that the Company believes are reasonable. However, the Company's actual results could differ materially from such estimates and expectations as a result of being positively or negatively affected by the factors as described above, as well as other unexpected, unanticipated, or unforeseen factors.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company's long-term debt bears interest at both fixed and variable rates. Variable rate long-term debt includes the \$1.25 million Industrial Revenue Bond and the \$90.0 million outstanding from the revolving line of credit facility that accrue interest at variable rates, but which can be fixed for six month intervals. Short-term borrowings of \$58 thousand at March 31, 2003, are priced at variable interest rates. The Company's results of operations and cash flows, therefore, would only be affected by interest rate changes to its variable rate debt. At March 31, 2003, \$91.3 million was outstanding. A 100 basis point movement in the interest rate on the variable rate debt of \$91.3 million would result in an \$913,000 annualized effect on interest expense and cash flows (\$593,000 net of tax).

The Company also has short-term investments, including cash equivalents, of \$14.0 million as of March 31, 2003 that bear interest at variable rates. A 100

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

basis point movement in the interest rate would result in an approximate \$140,000 annualized effect on interest income and cash flows (\$91,000 net of tax).

The fair value of the Company's long-term debt 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 \$217,000 annualized effect on the fair value of long-term debt (\$141,000 net of tax).

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 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, Asia, and South America. Our Lighting Segment currency exposure is primarily in Canada.

Item 4. Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation within 90 days of the filing date of this report, that our disclosure controls and procedures are effective in ensuring that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the previous mentioned evaluation.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

99.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant Section 906 of the Sarbanes - Oxley Act of 2002, filed herewith.

(b) No reports on Form 8-K were filed during the quarter.

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

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

and Chief Financial Officer

Date May 12, 2003

CERTIFICATIONS

I, Timothy C. Brown, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Thomas Industries Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ Timothy C. Brown

Timothy C. Brown, Chairman,
President and CEO

CERTIFICATIONS

I, Phillip J. Stuecker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Thomas Industries Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ Phillip J. Stuecker

Phillip J. Stuecker, Vice
President and Chief
Financial Officer