

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

THOMAS INDUSTRIES INC  
Form 10-Q  
August 12, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR  
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2003

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, SUITE 300, 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 August 11, 2003, 17,221,169 shares of the registrant's Common Stock were outstanding (net of treasury shares).

PART I. - FINANCIAL INFORMATION

## Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

### 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		
	2003	2002	
Net sales	\$ 95,810	\$ 49,928	\$1
Cost of products sold	62,050	31,919	1
Gross profit	33,760	18,009	
Selling, general and administrative expenses	25,194	11,414	
Equity income from GTG	6,887	7,522	
Operating income	15,453	14,117	
Interest expense	1,026	560	
Interest income and other income	94	43	
Income before income taxes and minority interest	14,521	13,600	
Income taxes	5,079	4,964	
Income before minority interest	9,442	8,636	
Minority interest, net of tax	10	--	
Net income	\$ 9,432	\$ 8,636	\$
Net income per share:			
Basic	\$ 0.55	\$ 0.57	\$
Diluted	\$ 0.54	\$ 0.54	\$
Dividends declared per share:	\$ 0.095	\$ 0.085	\$
Weighted average number of shares outstanding:			
Basic	17,179	15,276	
Diluted	17,550	15,883	

See notes to condensed consolidated financial statements.

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

THOMAS INDUSTRIES INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (DOLLARS IN THOUSANDS)

	(Unaudited)
	June
	2003
	-----
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 17
Accounts receivable, less allowance (2003--\$2,395; 2002--\$2,270)	55
Inventories:	
Finished products	27
Raw materials	19
Work in process	14
	-----
Deferred income taxes	62
Other current assets	7
	-----
Total current assets	150
Investment in GTG	203
Property, plant and equipment Less accumulated depreciation and amortization	166
	-----
Goodwill	95
Other intangible assets, net	54
Other assets	20
	-----
Total assets	\$ 528
	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	
Current liabilities:	
Notes payable	\$ 3
Accounts payable	11
Accrued expenses and other current liabilities	27
Dividends payable	1
Income taxes payable	3
Current portion of long-term debt	9
	-----
Total current liabilities	57
Deferred income taxes	7
Long-term debt, less current portion	103
Long-term pension liability	10
Other long-term liabilities	7
	-----

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Total liabilities	186
Minority interest	
Shareholders' equity:	
Preferred stock, \$1 par value, 3,000,000 shares authorized - none issued	18
Common stock, \$1 par value, shares authorized: 60,000,000; shares issued: 2003 - 18,025,087; 2002 - 17,947,630	135
Capital surplus	1
Deferred compensation	(1)
Treasury stock held for deferred compensation	200
Retained earnings	
Accumulated other comprehensive income (loss)	(12)
Less cost of 822,339 treasury shares	
Total shareholders' equity	342
Total liabilities and shareholders' equity	\$ 528

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

3

THOMAS INDUSTRIES INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW  
(DOLLARS IN THOUSANDS)

OPERATING ACTIVITIES	\$ 18
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and intangible amortization	7
Deferred income taxes	(1)
Equity income from GTG	(13)
Distributions from GTG	3
Other items	
Changes in operating assets and liabilities net of effect of acquisitions:	
Accounts receivable	(3)
Inventories	(5)
Accounts payable	(4)
Income taxes payable	3
Accrued expenses and other current liabilities	4
Other	(1)
Net cash provided by operating activities	7

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

INVESTING ACTIVITIES

Purchases of property, plant and equipment	(6)
Purchase of 20% minority interest of Italian subsidiary	(1)
Sales of property, plant and equipment	

Net cash used in investing activities	(7)
---------------------------------------	-----

FINANCING ACTIVITIES

Proceeds from short-term debt	1
Payments on long-term debt	(12)
Proceeds from long-term debt	12
Dividends paid	(2)
Other	1

Net cash used in financing activities	(1)
---------------------------------------	-----

Effect of exchange rate changes

Net decrease in cash and cash equivalents	(1)
Cash and cash equivalents at beginning of period	18

Cash and cash equivalents at end of period	\$17
--	------

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 six-month period ended June 30, 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

-----

WERNER RIETSCHLE HOLDING GMBH ACQUISITION:

## Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

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. 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 \$85.0 million was outstanding as of June 30, 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 June 30, 2003 financial statements. This allocation is preliminary as the Company finalizes information, including appraisals, about the fair value of assets and liabilities acquired. Accordingly, the amounts recorded will change as the allocation is finalized.

Supplemental pro forma information below for the three and six months ended June 30, 2002, is presented as though the business combination had been completed as of the beginning of the periods 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 periods.

(In thousands, except per share data)	Three Months Ended June 30, 2002 -----	Six Months Ended June 30, 2002 -----
Net sales	\$84,986	\$164,020
Net income	\$ 9,631	\$ 17,930
Earnings per share - diluted	\$ .54	\$ 1.00

5

The aggregate purchase price consists of (in thousands):

Cash	\$ 83,288
Fair value of Thomas common stock	44,754
Transaction costs	5,922
	-----
Total aggregate purchase price	\$133,964
	=====

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	8,378
Property, plant and equipment	47,976
Other intangibles	17,463
Other assets	3,113

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Current liabilities	(24,103)
Long-term debt	(19,536)
Other long-term liabilities	(7,619)
	-----
	83,508
Goodwill	50,456
	-----
Aggregate purchase price	\$133,964
	=====

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 \$12,210,000 of trademarks, which are not being amortized.

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

20% MINORITY INTEREST IN RIETSCHLE ITALIAN SUBSIDIARY:

On April 11, 2003, the Company purchased the remaining 20% minority interest in the Company's Italian subsidiary for \$1.5 million. All of the purchase price was preliminarily allocated to goodwill. The Company now owns 100% of the Italian subsidiary.

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 JUNE 30		SIX MONTH ENDED JUNE
	2003	2002	2003
	----	----	----
Net income	\$9,432	\$8,636	\$18,238
Other comprehensive income (loss):			
Minimum pension liability	(36)	-	(63)
Related tax expense	13	-	22
Foreign currency translation	7,255	5,667	11,090
	-----	-----	-----

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Total change in other comprehensive income	7,232	5,667	11,049
	-----	-----	-----
Total comprehensive income	\$16,664	\$14,303	\$29,287
	=====	=====	=====

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 JUNE 30		SIX MONTHS ENDED JUNE 30
	2003	2002	2003
	----	----	----
Numerator:			
Net income	\$ 9,432	\$8,636	\$18,238
	-----	-----	-----
Denominator:			
Weighted average shares outstanding	17,179	15,276	17,159
Effect of dilutive securities:			
Director and employee stock options	349	570	330
Employee performance shares	22	37	25
	-----	-----	-----
Dilutive potential common shares	371	607	355
	-----	-----	-----
Denominator for diluted earnings per share -adjusted weighted average shares and assumed conversions	17,550	15,883	17,514
	=====	=====	=====

Note F - Segment Disclosures

(In thousands)	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30
	2003	2002	2003
	----	----	----
Total net sales including intercompany sales			
Pump and Compressor	\$117,813	\$56,261	\$229,940
Intercompany sales			
Pump and Compressor	(22,003)	(6,333)	(41,784)
	-----	-----	-----
Net sales to unaffiliated customers			
Pump and Compressor	\$ 95,810	\$49,928	\$188,156
	=====	=====	=====
Operating income			
Pump and Compressor	\$ 10,334	\$8,014	\$20,659
	=====	=====	=====



Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Lighting*	6,887	7,522	13,030
Corporate	(1,768)	(1,419)	(3,556)
	-----	-----	-----
	\$ 15,453	\$14,117	\$ 30,133
	=====	=====	=====

7

\*Three months ended June 30 consists of equity income of \$6,952,000 in 2003 and \$7,572,000 in 2002 from our 32% interest in the joint venture, Genlyte Thomas Group LLC (GTG), less \$65,000 in 2003 and \$50,000 in 2002, related to expense recorded for Thomas Industries stock options issued to GTG employees. Six months ended June 30 consists of equity income of \$13,174,000 in 2003 and \$13,625,000 in 2002 from our 32 percent interest in GTG less \$144,000 in 2003 and \$101,000 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 six months ended June 30, 2003 were as follows (in thousands):

Balance as of December 31, 2002	\$ 55,669
Rietschle acquisition adjustments	1,296
20% minority interest acquisition	1,484
Translation adjustments and other	(3,779)
	-----
Balance as of June 30, 2003	\$ 54,670
	=====

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):

	June 30, 2003			December 31, 2002		
	Life	Cost	Accumulated Amortization	Life	Cost	Accumulated Amortization
	----	----	-----	----	----	-----
Licenses	18-19	\$ 483	\$ 192	18-19	\$ 466	\$ 192
Patents	5-20	5,621	490	5-20	5,137	490
Other	1-10	2,881	659	1-10	2,633	659
		-----	-----		-----	-----
Total		\$8,985	\$1,341		\$ 8,236	\$ 1,341
		=====	=====		=====	=====

## Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

The June 30, 2003 cost amount includes \$8.4 million related to the Rietschle acquisition allocated to patents and other intangibles. The total intangible amortization expense for the six months ended June 30, 2003 and 2002 was \$471,000 and \$9,000, 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	\$855
2004	738
2005	738
2006	738
2007	729

As of June 30, 2003, \$12,210,000 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 June 30, 2003 and December 31, 2002.

8

### 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)

	(Unaudited) June 30, 2003 ----	December 31, 2002 ----
GTG balance sheets:		
Current assets	\$404,606	\$405,138
Long-term assets	285,504	267,843
Current liabilities	174,282	187,211

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Long-term liabilities 53,775 69,795

	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
GTG income statements (unaudited):				
Net sales	\$254,113	\$247,767	\$492,026	\$479,793
Gross profit	88,729	87,569	170,559	167,789
Earnings before interest and taxes	23,259	25,787	44,422	46,870
Net income	21,724	23,664	41,169	42,579
Amounts recorded by Thomas Industries Inc.:				
Equity income from GTG	\$6,952	\$7,572	\$13,174	\$13,625
Stock option expense	(65)	(50)	(144)	(101)
Equity income reported by Thomas	\$6,887	\$7,522	\$13,030	\$13,524

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.

9

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

	Three Months Ended June 30		
	2003	2002	
Net income (as reported)	\$ 9,432	\$ 8,636	\$ 18
Add: Stock-based compensation expense for GTG employees included in reported net income, net of related tax effect.	59	49	

## Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Deduct: Total stock-based employee compensation determined under fair value based method for all awards, net of related tax effect.

	(209)	(260)
Net income (pro forma)	\$ 9,282	\$ 8,425
	\$	\$
Net income per share (Basic) -		
As reported	\$ .55	\$ .57
Pro forma	.54	.55
Net income per share (Diluted) -		
As reported	.54	.54
Pro forma	.53	.53

### 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 six months ended June 30, 2003 are as follows (in thousands):

Balance as of December 31, 2002	\$ 2,674
Warranties issued during the six months	1,641
Settlements made during the six months	(1,070)
	\$ 3,245
	\$ 3,245

## 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 bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about

## Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

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 reserves 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 conditions. If actual market conditions are less favorable than those projected by management, additional inventory reserves 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 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 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. As we integrate the Rietschle and Thomas entities, it becomes more difficult to determine the impact of the Rietschle acquisition, on a stand-alone basis. The Company has

## Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

made its best estimate of the Rietschle impact to various income statement line items, such as, net sales, gross profit, operating income and net income. Eventually, it will not be meaningful to make these estimates. At the end of the second quarter, the Company announced

11

### Item 2. Management's Discussion and Analysis - Continued

the shutdown of a Rietschle factory in Fleurier, Switzerland. The Company made an estimate of the shutdown costs related to severance payments and other costs to exit the facility, which would be incurred in future months. The amount of this estimate is \$1.7 million. The Company has concluded that these costs should be recognized as liabilities assumed in the Rietschle acquisition and included in the allocation of the acquisition cost in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and the Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity". This did not have an impact to the second quarter or six months results.

The Company's net income was \$9.4 million in the second quarter ended June 30, 2003, compared to \$8.6 million in the second quarter ended June 30, 2002. Included in the 2003 amount was approximately \$.8 million related to Rietschle's estimated net income after netting interest expense on acquisition debt and other transaction related expenses. Excluding the impact of Rietschle, net income for the 2003 second quarter would have been \$8.6 million or flat when compared to the 2002 period. For the six months ended June 30, 2003, net income was \$18.2 million, compared to \$16.1 million in the comparable period in 2002. Rietschle's estimated net income in the six months ended June 30, 2003, were \$2.0 million. Net income for the six months ended June 30, 2003, would have been \$16.3 million or 1.3% higher than the comparable 2002 period, when excluding Rietschle.

#### PUMP AND COMPRESSOR SEGMENT

Net sales for the second quarter ended June 30, 2003, increased 91.9% to \$95.8 million compared to \$49.9 million for the second quarter of 2002. Included in 2003 was \$41.9 million related to Rietschle's estimated net sales. Also favorably impacting the 2003 second quarter net sales were the effects of exchange rates, which increased net sales of the former Thomas locations by approximately \$2.8 million. Excluding the Rietschle net sales and the sales increase due to exchange rate fluctuation, the 2003 net sales would have increased 2.2%. The following comments regarding net sales are based on comparisons of the 2003 and 2002 second quarters when excluding the Rietschle net sales and the effects of exchange rates. North American operations recorded increases in 2003 sales compared to 2002 due to strength in the automotive and medical markets. These were partially offset by lower sales in the environmental market. Europe recorded higher sales due to increases from the environmental and medical markets, which were partially offset by lower sales to the automotive market. Net sales decreased in the Asia Pacific operations due to lower sales in the environmental and medical markets. Net sales for the six months ended June 30, 2003, increased 96% to \$188.2 million compared to \$96.0 million for the comparable 2002 period. Included in 2003 was \$81.2 million related to Rietschle's estimated net sales. The favorable effects of exchange rates increased the 2003 net sales by \$5.8 million. Excluding the Rietschle net sales and the sales increase due to exchange rate fluctuations, the 2003 net sales for the six months ended June 30, 2003, would have increased 5.4%. When comparing the 2003 and 2002 six month period ended June 30, the market trends and explanations for changes were the same as those included above regarding the second quarter.

## Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Gross profit for the Pump and Compressor Segment was \$33.8 million, or 35.2% of sales in the second quarter of 2003, compared to \$18.0 million, or 36.1% in the second quarter of 2002. Excluding Rietschle's estimated gross profit and the impact of exchange rate fluctuations in 2003, the Company's gross profit percent would have been 35.6%. For the six months ended June 30, gross profit was \$66.9 million, or 35.5% of sales in 2003, compared to \$34.9 million, or 36.4% for the comparable period in 2002. Excluding Rietschle's estimated gross profit and the impact of exchange rate fluctuations in 2003, the Company's gross profit percent would have been 35.3% for the six months ended June 30, 2003. The reduction in the gross profit percentage was primarily due to the negative impact from the new product being transitioned to Chinese production, sales mix and pricing pressures in some of our markets.

12

### Item 2. Management's Discussion and Analysis - Continued

The Pump and Compressor Segment's selling, general and administrative (SG&A) expenses were \$23.4 million, or 24.5% of sales, in the second quarter of 2003, compared to \$10.0 million, or 20.0%, in the same period in 2002. These exclude corporate expenses, which are discussed in a separate section below. The higher percent of sales in the second quarter of 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 estimated SG&A expenses and the impact of exchange rate fluctuations, the 2003 second quarter SG&A expenses would be 20.3% of sales, which is slightly higher than the 2002 second quarter percentage. SG&A expenses for the six months ended June 30, 2003, was \$46.2 million, or 24.6% of sales, compared to \$19.3 million, or 20.2% for the same period in 2002. As mentioned for the second quarter above, the Rietschle acquisition is the primary reason for the higher percentage in 2003. Excluding Rietschle's estimated SG&A expenses and the impact of exchange rate fluctuations, the 2003 SG&A expenses for the six months ended June 30, 2003 would be 20.5% of sales.

Operating income for the Pump and Compressor Segment was \$10.3 million for the second quarter of 2003, compared to \$8.0 million for the 2002 second quarter. Included in the 2003 second quarter was \$2.0 million, related to Rietschle's estimated operating income, and \$.6 million related to the favorable impact of exchange rate fluctuations. Excluding these items, the 2003 operating income would have been 2.8% below the 2002 second quarter level. The following comments regarding operating income are based on comparisons of the 2003 and 2002 second quarters when excluding the Rietschle operating income and the effects of exchange rates. The North American operations reported lower operating income results primarily due to lower margins on a new product, which is in the process of being transferred to China for lower cost production. The European operations posted higher operating income in the 2003 second quarter versus 2002, primarily due to increased sales volume and favorable product mix. The Asia Pacific operating income was lower due to lower sales volume and unfavorable product mix. Operating income for the six months ended June 30, 2003, was \$20.7 million, compared to \$15.6 million for the comparable period in 2002. Included in the 2003 six month period was \$4.7 million related to Rietschle's estimated operating income and \$1.0 million related to the favorable impact of exchange rate fluctuations. Excluding these items, the 2003 six month period operating income would have been 3.5% below the 2002 six-month period. The following comments regarding operating income are based on comparisons of the 2003 and 2002 six-month periods when excluding the Rietschle operating income and the effects of exchange rates. The North American operations posted higher operating income primarily due to strong shipments in the first quarter of 2003, which were partially offset by lower margins on a new product being transitioned to

## Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Chinese production. The European operations reported lower operating income for the six-month period due to unfavorable product mix incurred on first quarter shipments. The Asia Pacific operating income was lower due to lower sales volume and unfavorable product mix.

### 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 decreased 8.4% to \$6.9 million in the second quarter of 2003, compared to \$7.5 million in the same period in 2002. This decrease was primarily related to foreign currency transaction losses related to GTG's Canadian divisions, as well as a 1.6% reduction in sales volume, when excluding the recent Vari-Lite and Shakespeare acquisitions made by GTG. GTG also incurred higher legal, pension and insurance costs in the second quarter of 2003, compared to 2002. For the six-month period ended June 30, 2003, the Lighting Segment earnings were \$13.0 million, or 3.7% below the \$13.5 million reported for the comparable 2002 period. The explanation for the lower six-month earnings is the same as described above for the second quarter, but the decrease was smaller due to an increase in earnings

13

### Item 2. Management's Discussion and Analysis - Continued

during the first quarter of 2003 compared to 2002. GTG sales for the six-month period ended June 30, 2003, were down .6% from the 2002 levels, when excluding recent acquisitions.

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 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 judgment entered on March 17, 2003. The Notice claims to bring up for review all orders, opinions, and decisions previously entered in the action.

Therefore, 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



## Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

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 (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 June 30, 2003, compared to \$1.4 million for 2002. The increase in 2003 relates to higher banking, audit and tax fees as a result of the Rietschle acquisition, as well as higher costs associated with Sarbanes-Oxley Act compliance. Corporate expenses were \$3.6 million for the six months ended June 30, 2003, compared to \$2.9 million for the comparable period in 2002. The increases in corporate expenses were due to the same explanations given above for the second quarter increase.

Interest expense for the three months ended June 30, 2003 was \$1.0 million compared to \$.6 million for 2002. The 2003 amount includes \$.6 million related to the Rietschle acquisition. Excluding Rietschle related amounts, the 2003 interest expense was \$.4 million. Interest expense for the six months ended Item

14

### 2. Management's Discussion and Analysis - Continued

June 30, 2003, was \$2.1 million compared to \$1.2 million for 2002. The 2003 six-month period includes \$1.3 million related to the Rietschle acquisition. Excluding Rietschle related amounts, the 2003 interest expense for the six-month period was \$.8 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 June 30, 2003, was \$94 thousand compared to \$43 thousand of income in the comparable period in 2002. The increase from 2002 relates primarily to the Rietschle acquisition. Excluding Rietschle, interest income and other would have decreased by \$21 thousand. For the six months ended June 30, 2003, interest income and other was \$55 thousand compared to \$285 thousand in 2002. Excluding Rietschle for the six-month period in 2003, would have reduced the reported amount by \$57 thousand, resulting in a charge of \$2 thousand. The decreases in both the second quarter and six-month periods compared to 2002, relates to lower amounts of invested cash in 2003 and lower interest rates versus 2002. The six-month period comparison also includes negative impacts from foreign currency translation losses in the first quarter of 2003, compared to favorable impacts in the first quarter of 2002.

Income tax provisions were \$5.1 million and \$5.0 million in the three months ended June 30, 2003, and 2002, respectively. Income tax provisions were \$9.8 million and \$9.2 million in the six months ended June 30, 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

## Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

tax benefits achieved through the Rietschle acquisition.

### LIQUIDITY AND SOURCES OF CAPITAL

Cash and cash equivalents decreased \$1.2 million to \$17.7 million at June 30, 2003, compared to \$18.9 million at December 31, 2002. This decrease 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 \$7.0 million, at lower interest rates. These additional proceeds were used for working capital needs during the six months ended June 30, 2003, as well as capital expenditures, which were \$3.6 million higher in the first six months of 2003 compared to the comparable period in 2002.

Cash flows provided by operations in the first six months of 2003 were \$5.8 million compared to cash flows provided by operations of \$3.0 million in the first six months of 2002. The increase in cash flows were primarily related to increases in net income in the six months ended June 30, 2003, compared to 2002.

Dividends paid in 2003 were \$2.9 million compared with \$2.6 million in 2002. The 2003 dividends increased primarily due to the issuance of 1.8 million shares in connection with the acquisition of Rietschle.

As of June 30, 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. No purchases were made under this repurchase plan during 2003. Under the December 1999 repurchase plan, the Company has purchased, on a cumulative basis through June 30, 2003, 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

15

### Item 2. Management's Discussion and Analysis - Continued

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 \$94.5 million at June 30, 2003, primarily due to increases in accounts receivable and inventories to support business activities.

Dollars in thousands	June 30, 2003 ----	December 31, 2002 ----
Working capital	\$ 92,721	\$82,030
Current ratio	2.61	2.66
Long-term debt, less current portion	\$103,888	\$104,047
Long-term debt to total capital	23.3%	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 \$112.8 million are not restricted at June 30, 2003. Thomas is in compliance with all covenants or other requirements set forth in its borrowing

## Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

agreements. In the event of non-compliance or if Thomas prepays the debt, then Thomas would incur a penalty. At June 30, 2003, the prepayment penalty would have been approximately \$1.5 million on a pre-tax basis.

As of June 30, 2003, the Company had a \$120 million revolving line of credit with its banks through August 28, 2005, \$85.0 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, fixed asset additions, and general business use. As of June 30, 2003, the Company had uncommitted short-term borrowing arrangements being used by some of its foreign offices which totaled \$3.3 million. As of June 30, 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 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

16

### Item 2. Management's Discussion and Analysis - Continued

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 On an annual basis, the Company negotiates renewals for property, casualty,

## Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

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 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.
- 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 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 adverse affect on 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 or at the projected levels.
- 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.
- 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.

## Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

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 \$85.0 million outstanding from the revolving line of credit facility that accrue interest at variable rates. Short-term borrowings of \$3.3 million at June 30, 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 June 30, 2003, \$89.6 million was outstanding. A 100 basis point movement in the interest rate on the variable rate debt of \$89.6 million would result in an \$896,000 annualized effect on interest expense and cash flows (\$582,000 net of tax).

The Company also has short-term investments, including cash equivalents, of \$12.2 million as of June 30, 2003, that bear interest at variable rates. A 100 basis point movement in the interest rate would result in an approximate \$122,000 annualized effect on interest income and cash flows (\$79,000 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 \$176,000 annualized effect on the fair value of long-term debt (\$114,000 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 as of the end of the period covered by the report, that the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) are effective to ensure that information required to be disclosed in the reports that the Company files or submits 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.

## 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 17, 2003.
- (b) Class II Directors elected at the Annual Meeting of

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Shareholders were Timothy C. Brown, Franklin J. Lunding, Jr. and Dieter W. Rietschle. Directors whose term of office as a director continued after the meeting were Wallace H. Dunbar, Joseph Ferguson, Lawrence E. Gloyd, William M. Jordan, and Anthony A. Massaro.

18

(c) A representative of Gabelli Asset Management Inc. presented a resolution for a vote at the annual meeting. The resolution was requesting that the Board of Directors redeem the Preferred Stock Purchase Rights issued pursuant to the Rights Agreement dated January 5, 1998.

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

Proposal No. 1 - Election of Directors

	For	Withheld
	---	-----
Timothy C. Brown	12,716,499	3,185,459
Franklin J. Lunding, Jr.	15,718,694	183,264
Dieter W. Rietschle	12,727,119	3,174,839

Proposal No. 2 - Resolution to redeem Preferred Stock Purchase Rights

For	3,043,427
Against	12,855,317

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) and Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) and Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith

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

(b) Reports of Form 8-K

A Form 8-K was filed on April 16, 2003, attaching a press release announcing first quarter 2003 earnings.

A Form 8-K was filed on June 9, 2003, attaching a press release announcing second quarter earnings outlook.

Items 1, 2, 3 and 5 are not applicable and have been omitted.

19

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  
& Chief Financial Officer

Date: August 12, 2003

20