

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

THOMAS INDUSTRIES INC
Form 10-Q
November 13, 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 September 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 November 11, 2003, 17,261,603 shares of the registrant's Common Stock were outstanding (net of treasury shares).

PART I. - FINANCIAL INFORMATION

ITEM 1. Financial Statements (Unaudited)

THOMAS INDUSTRIES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(IN THOUSANDS EXCEPT AMOUNTS PER SHARE)

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2003	2002	2003	2002
Net sales	\$ 88,985	\$ 59,241	\$277,141	\$155,226
Cost of products sold	59,472	38,065	180,753	99,146
Gross profit	29,513	21,176	96,388	56,080
Selling, general and administrative expenses	24,222	15,036	73,994	37,283
Equity income from GTG	10,615	7,498	23,645	21,022
Operating income	15,906	13,638	46,039	39,819
Interest expense	951	912	3,063	2,091
Interest income and other income	280	(128)	335	157
Income before income taxes and minority interest	15,235	12,598	43,311	37,885
Income taxes	4,647	4,599	14,468	13,829
Income before minority interest	10,588	7,999	28,843	24,056
Minority interest, net of tax	5	14	22	14
Net income	\$ 10,583	\$ 7,985	\$ 28,821	\$ 24,042
Net income per share:				
Basic	\$ 0.61	\$ 0.50	\$ 1.68	\$ 1.55
Diluted	\$ 0.60	\$ 0.49	\$ 1.64	\$ 1.50
Dividends declared per share:	\$ 0.095	\$ 0.085	\$ 0.275	\$ 0.255
Weighted average number of shares outstanding:				
Basic	17,217	15,894	17,179	15,471
Diluted	17,594	16,375	17,527	16,005

See notes to condensed consolidated financial statements.

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,500	\$ 18
Accounts receivable, less allowance (2003--\$2,368; 2002--\$2,270)	54,946	50
Inventories:		
Finished products	27,225	23
Raw materials	25,715	17
Work in process	8,313	11
	61,253	52
Deferred income taxes	7,590	4
Other current assets	7,016	5
Total current assets	152,305	131
Investment in GTG	210,342	188
Property, plant and equipment	172,863	153
Less accumulated depreciation and amortization	(73,877)	(62)
	98,986	91
Goodwill	60,089	55
Other intangible assets, net	19,657	19
Other assets	3,452	4
Total assets	\$ 544,831	\$ 491
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 5,010	\$ 1
Accounts payable	13,061	15
Accrued expenses and other current liabilities	29,397	21
Dividends payable	1,636	1
Income taxes payable	4,811	
Current portion of long-term debt	9,771	9
Total current liabilities	63,686	49
Deferred income taxes	4,822	5
Long-term debt, less current portion	104,307	104
Long-term pension liability	10,621	10
Other long-term liabilities	8,761	7
Total liabilities	192,197	176
Minority interest	31	
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 - 18,050,013; 2002 - 17,947,630	18,050	17
Capital surplus	136,068	133
Deferred compensation	1,184	
Treasury stock held for deferred compensation	(1,184)	
Retained earnings	209,445	185
Accumulated other comprehensive income (loss)	1,099	(10)
Less cost of 822,339 treasury shares	(12,059)	(12)
Total shareholders' equity	352,603	314

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Total liabilities and shareholders' equity

\$ 544,831 \$ 491

* 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)

	NINE MONTHS ENDED SEPTEMBER	
	2003	
	\$	\$
OPERATING ACTIVITIES		
Net income	\$ 28,821	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and intangible amortization	11,608	
Deferred income taxes	(3,695)	
Equity income from GTG	(23,645)	
Distributions from GTG	6,999	
Other items	338	
Changes in operating assets and liabilities net of effect of acquisitions:		
Accounts receivable	(1,514)	
Inventories	(3,436)	
Accounts payable	(3,259)	
Income taxes payable	4,234	
Accrued expenses and other current liabilities	6,495	
Other	(4,541)	
Net cash provided by operating activities	18,405	
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(13,382)	
Purchase of companies (net of cash acquired)	(3,174)	
Sales of property, plant and equipment	606	
Net cash used in investing activities	(15,950)	
FINANCING ACTIVITIES		
Proceeds from short-term debt	3,528	
Proceeds from long-term debt	15,247	
Payments from long-term debt	(16,203)	
Dividends paid	(4,546)	
Other	1,375	
Net cash (used in) provided by financing activities	(599)	
Effect of exchange rate changes	765	

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Net increase (decrease) in cash and cash equivalents	2,621	(
Cash and cash equivalents at beginning of period	18,879	
Cash and cash equivalents at end of period	\$ 21,500	\$

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 nine-month period ended September 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, the unaudited consolidated financial statements include all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation of the financial position and the results of operations. 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 - Acquisitions

WERNER RIETSCHLE HOLDING GMBH 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. 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 \$89.3 million was outstanding as of September 30, 2003. Rietschle's operating results are included in the Company's results since the date of acquisition.

A purchase price allocation was made and reflected in the September 30, 2003 financial statements. The fair value of the assets have been finalized, as well as the majority of the liabilities acquired; however, certain pre-acquisition claims are still being evaluated. Accordingly, the amounts recorded may change as the allocation is finalized.

Supplemental pro forma information below for the three and nine months ended

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

September 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
Sept. 30, 2002

Net sales	\$83,975
Net income	\$ 8,993
Earnings per share - diluted	\$.51

5

The aggregate purchase price consists of (in thousands):

Cash	\$ 83,288
Fair value of Thomas common stock	44,754
Transaction costs	5,891

Total aggregate purchase price	\$ 133,933
	=====

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	24,959
Inventories	28,256
Other current assets	8,378
Property, plant and equipment	47,976
Other intangibles	16,655
Other assets	3,113
Current liabilities	(27,516)
Long-term debt	(19,536)
Other long-term liabilities	(7,619)

	78,153
Goodwill	55,780

Aggregate purchase price	\$133,933
	=====

The valuations of property, plant and equipment and other intangible assets are based on results of independent appraisals. 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 \$11,701,000 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:

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

On April 11, 2003, the Company purchased the remaining 20% minority interests 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.

ALDAX AB ACQUISITION:

On July 31, 2003, the Company purchased all of the outstanding equity interests of Aldax AB, of Stockholm, Sweden for \$2.7 million, of which \$1.7 million was paid in cash at the acquisition date, while \$1.0 million was set up as a long-term liability to be paid on July 31, 2005, after the fair value of assets and liabilities have been finalized. Approximately \$2.0 million of the purchase price was tentatively allocated to goodwill.

Note C - Contingencies

On August 13, 2002, a petition was filed in the District Court of Jefferson County, Texas adding Thomas Industries Inc. as a third party defendant in a lawsuit captioned Hydro Action, Inc. v. Jesse James, individually, and d/b/a/ James Backhoe Service of Dietrich, Illinois, Inc. and Septic Solutions, Inc. (the "Third Party Plaintiffs") (the "Original Lawsuit"). The Original Lawsuit

6

alleged that the Company violated the Texas Deceptive Trade Practices Act and breached warranties of merchantability and fitness for a particular purpose with respect to pumps sold by the Company and used in septic tanks manufactured or sold by the plaintiffs. The Original Lawsuit has been stayed as a result of the bankruptcy filing by Hydro Action, Inc. On October 8, 2003, a lawsuit was filed against the Company, Gig Drewery, Yasunaga Corporation, Rietschle Thomas and Aqua-Partners, Ltd. in the District Court of Jefferson County, Texas making the same allegations set forth in the Original Lawsuit as well as alleging breach of contract, negligence and product liability and requesting class-action certification. No class has been certified. The Third Party Plaintiffs are plaintiffs in this action. This complaint has been amended to include approximately 28 plaintiffs. The complaint currently seeks \$3 million per plaintiff and punitive and exemplary damages. The total sales related to these products were approximately \$900,000. Although this litigation is in the preliminary stages, the Company believes it has meritorious defenses to the claims and intends to vigorously defend this matter. Litigation is subject to many uncertainties and the Company cannot guarantee the outcome of these proceedings. However, based upon information currently available, the Company does not believe that the outcome of these proceedings will have a material adverse effect on the consolidated financial position, results of operations, or cash flows of the Company.

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. If an unfavorable outcome were to occur, the impact could be material to the Company.

Note D - Comprehensive Income

The reconciliation of net income to comprehensive income follows:

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

(In thousands)	THREE MONTHS		NINE MONTHS	
	ENDED SEPT. 30		ENDED SEPT. 30	
	2003	2002	2003	2002
	----	----	----	----
Net income	\$ 10,583	\$ 7,985	\$ 28,821	\$ 24,042
Other comprehensive income (loss):				
Minimum pension liability	2	--	(61)	--
Related tax expense	(1)	--	21	--
Foreign currency translation	886	(931)	11,976	4,213
	-----	-----	-----	-----
Total change in other comprehensive income	887	(931)	11,936	4,213
	-----	-----	-----	-----
Total comprehensive income	\$ 11,470	\$ 7,054	\$ 40,757	\$ 28,255
	=====	=====	=====	=====

7

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		NINE MONTHS	
	ENDED SEPT. 30		ENDED SEPT. 30	
	2003	2002	2003	2002
	----	----	----	----
Numerator:				
Net income	\$10,583	\$ 7,985	\$28,821	\$24,042
	=====	=====	=====	=====
Denominator:				
Weighted average shares outstanding	17,217	15,894	17,179	15,471
Effect of dilutive securities:				
Director and employee stock options	365	443	334	496
Employee performance shares	12	38	14	38
	-----	-----	-----	-----
Dilutive potential common shares	377	481	348	534
	-----	-----	-----	-----
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	17,594	16,375	17,527	16,005
	=====	=====	=====	=====

Note F - Segment Disclosures

(In thousands)	THREE MONTHS		NINE MONTHS	
	ENDED SEPT. 30		ENDED SEPT. 30	

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

	2003 ----	2002 ----	2003 ----	2002 ----
Total net sales including intercompany sales				
Pump and Compressor	\$ 110,631	\$ 69,640	\$ 340,571	\$ 177,858
Intercompany sales				
Pump and Compressor	(21,646)	(10,399)	(63,430)	(22,632)
	-----	-----	-----	-----
Net sales to unaffiliated customers				
Pump and Compressor	\$ 88,985	\$ 59,241	\$ 277,141	\$ 155,226
	=====	=====	=====	=====
Operating income				
Pump and Compressor	\$ 7,247	\$ 7,742	\$ 27,906	\$ 23,303
Lighting*	10,615	7,498	23,645	21,022
Corporate	(1,956)	(1,602)	(5,512)	(4,506)
	-----	-----	-----	-----
	\$ 15,906	\$ 13,638	\$ 46,039	\$ 39,819
	=====	=====	=====	=====

*Three months ended September 30 consists of equity income of \$10,679,000 in 2003 and \$7,547,000 in 2002 from our 32% interest in the joint venture, Genlyte Thomas Group LLC (GTG), less \$64,000 in 2003 and \$49,000 in 2002 related to expense recorded for Thomas Industries stock options issued to GTG employees. Nine months ended September 30 consists of equity income of \$23,853,000 in 2003 and \$21,172,000 in 2002 from our 32% interest in GTG less \$208,000 in 2003 and \$150,000 in 2002 related to expense recorded for Thomas Industries stock options issued to GTG employees. The three and nine month periods include a non-recurring gain of \$2,272,000, net of legal fees, related to the settlement of GTG's patent infringement lawsuit against Acuity Brands.

Note G - Goodwill and Other Intangible Assets

The changes in net carrying amount of goodwill for the nine months ended Sept. 30, 2003 were as follows (in thousands):

8

Balance as of December 31, 2002	\$ 55,669
Rietschle acquisition adjustments	4,534
20% minority interest acquisition	1,494
Aldax acquisition	1,988
Translation adjustments and other	(3,597)

Balance as of September 30, 2003	\$ 60,089
	=====

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 Statement of Financial Accounting Standards ("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

	Sept. 30, 2003			December 31, 2002		
	Life	Cost	Accumulated Amortization	Life	Cost	Accumulated Amortization
Licenses	18-19	\$ 483	\$ 197	18-19	\$ 466	\$
Patents	5-20	5,395	589	5-20	5,137	
Other	1-10	2,897	724	1-10	2,633	
Total		\$ 8,775	\$ 1,510		\$ 8,236	\$

The cost amount includes \$8.2 million related to the Rietschle acquisition allocated to patents and other intangibles. The total intangible amortization expense for the nine months ended September 30, 2003 and 2002 was \$632,000 and \$141,000, respectively.

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

2003	\$837
2004	720
2005	720
2006	720
2007	720

As of September 30, 2003, \$11,701,000 has been 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 September 30, 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.

9

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)			
	Sept. 30,	December 31,		
	2003	2002		
	----	----		
GTG balance sheets:				
Current assets	\$447,777	\$405,138		
Long-term assets	283,484	267,843		
Current liabilities	195,353	187,211		
Long-term liabilities	52,650	69,795		
	Three Months		Nine Months	
	Ended Sept. 30		Ended Sept. 30	
	-----	-----	-----	-----
	2003	2002	2003	2002
	----	----	----	----
GTG income statements (unaudited):				
Net sales	\$ 272,769	\$ 248,268	\$ 764,795	\$ 728,061
Gross profit	96,623	86,325	267,182	254,114
Earnings before interest and taxes	36,659	26,332	81,081	73,202
Net income	33,373	23,583	74,542	66,163
Amounts recorded by Thomas Industries Inc.:				
Equity income from GTG	\$ 10,679	\$ 7,547	\$ 23,853	\$ 21,172
Stock option expense	(64)	(49)	(208)	(150)
	-----	-----	-----	-----
Equity income reported by Thomas	\$ 10,615	\$ 7,498	\$ 23,645	\$ 21,022
	=====	=====	=====	=====

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 (in thousands, except per share data):

	Three Months Ended		Nine
	Sept. 30		S
	-----		-----
	2003	2002	2003

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Net income (as reported)	\$ 10,583	\$ 7,985	\$ 28,821
Add: Stock-based compensation expense for GTG employees included in reported net income, net of related tax effect	59	49	190
Deduct: Total stock-based employee compensation determined under fair value based method for all awards, net of related tax effect	(209)	(270)	(639)
Net income (pro forma)	\$ 10,433	\$ 7,764	\$ 28,372
Net income per share (Basic) - As reported	\$.61	\$.50	\$ 1.68
Pro forma	.61	.49	1.65
Net income per share (Diluted) - As reported	.60	.49	1.64
Pro forma	.59	.47	1.62

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 since December 31, 2002 are as follows (in thousands):

Balance as of December 31, 2002	\$ 2,674	
Warranties issued	2,470	
Settlements and other	(777)	
	\$ 4,367	
Balance as of September 30, 2003	\$ 4,367	

Note L - Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46 "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 provides guidance on how to identify a variable interest entity ("VIE") and determine when the assets, liabilities, non-controlling interest, and results of operations of a VIE need to be included in a company's consolidated financial statements. FIN 46 also requires additional disclosures by primary beneficiaries and other significant variable interest holders. FIN 46 is currently effective for all new VIEs existing as of January 31, 2003 from the third quarter to year-end for companies that have not previously issued financial statement reporting interests in VIEs in accordance with FIN 46. The Company continues to assess the impact of FIN 46 but does not believe it will have an effect on the financial statements when implemented.

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 requires that certain financial instruments, which under previous guidance were

11

accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatorily redeemable stock, certain financial instruments that require or may require that issuer to buy back some of its shares in exchange for cash or other assets, and certain obligations that can be settled with shares of stock. Although certain portions of SFAS No. 150 have been deferred indefinitely, certain portions of the statement were effective during the third quarter of 2003. The provisions of this statement did not have and are not expected to have an impact on the Company's statement of financial position.

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 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. Certain amounts of the purchase price allocation have 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

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

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

12

Item 2. Management's Discussion and Analysis - Continued

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 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.

The Company's net income was \$10.6 million in the third quarter ended September 30, 2003, compared to \$8.0 million in the third quarter ended September 30, 2002. Included in the third quarter of 2003 net income was a previously announced non-recurring gain of \$1.4 million related to the settlement of GTG's patent infringement lawsuit. Rietschle's estimated net income after netting interest expense on acquisition debt and other transaction related expenses was negligible in the third quarters of 2003 and 2002. For the nine months ended September 30, 2003, net income was \$28.8 million, compared to \$24.0 million in the comparable period in 2002. Rietschle's estimated net income in the nine months ended September 30, 2003, was \$2.0 million, compared to breakeven in 2002. Excluding the impact of Rietschle and the non-recurring gain, net income for the 2003 nine month period ended September 30, 2003, would have been \$25.4 million, or 5.8% higher than the comparable 2002 period.

PUMP AND COMPRESSOR SEGMENT

Net sales for the third quarter ended September 30, 2003, increased 50.2% to \$89.0 million compared to \$59.2 million for the third quarter of 2002. Included in 2003 and 2002 were \$38.8 million and \$11.6 million, respectively, related to

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Rietschle's estimated sales. Also favorably impacting the 2003 third quarter net sales were the effects of exchange rates, which increased net sales by approximately \$3.6 million. Excluding the Rietschle net sales and the sales increase due to exchange rate fluctuation, the 2003 net sales would have decreased 2.1%. The following comments regarding net sales are based on comparisons of the 2003 and 2002 third quarters when excluding the Rietschle net sales and the effects of exchange rates. Net sales in the North American operations were down slightly due primarily to lower sales in the automotive market and competitive pricing pressures, which were partially offset by increased unit sales to the medical market. European sales were down primarily due to lower sales to the automotive, industrial and business equipment markets. Net sales decreased in the Asia Pacific operations due to lower sales in the environmental market. Net sales for the nine months ended September 30, 2003, increased 78.5% to \$277.1 million compared to \$155.2 million for the comparable 2002 period. Included in 2003 and 2002 were \$120.0 million and \$11.6 million, respectively, related to Rietschle's estimated sales. The favorable effects of exchange rates increased the 2003 net sales by \$9.3 million. Excluding the Rietschle net sales and the sales increase due to exchange rate fluctuations, the 2003 net sales for the nine months ended September 30, 2003, would have increased 2.9%. The following comments regarding net sales are based on comparisons of the 2003 and 2002 nine month periods when excluding the Rietschle net sales and the effects of exchange rates. North American operations recorded

13

Item 2. Management's Discussion and Analysis - Continued

increases in 2003 sales compared to 2002 due primarily to strength in the automotive and medical markets, which were partially offset by lower sales in the environmental market and competitive pricing pressures. Net sales in the European operations were up slightly due to improved sales to the environmental and medical markets. Net sales decreased in the Asia Pacific operations due to lower sales in the environmental and medical markets. With respect to the Rietschle net sales for the third quarter and nine month periods, net sales were lower than originally expected due to some implementation issues related to an ERP system at our Schopfheim, Germany factory, as well as the vacation season in Europe.

Gross profit for the Pump and Compressor Segment was \$29.5 million, or 33.2% of sales in the third quarter of 2003, compared to \$21.2 million, or 35.7% in the third quarter of 2002. Excluding Rietschle's estimated gross profit and the impact of exchange rate fluctuations in 2003 and 2002, the Company's gross profit percent would have been 35.3% and 35.9%, respectively. For the nine months ended September 30, gross profit was \$96.4 million, or 34.8% of sales in 2003, compared to \$56.1 million, or 36.1% for the comparable period in 2002. Excluding Rietschle's estimated gross profit and the impact of exchange rate fluctuations in 2003 and 2002, the Company's gross profit percent would have been 35.3% and 36.2%, respectively, for the nine month periods. The reduction in the gross profit percentage for the third quarter and nine month periods was primarily due to the negative impact from a new product being transitioned to Chinese production, sales mix and competitive pricing pressures in some of our markets, as well as unfavorable absorption due to the Rietschle sales shortfall and some costs associated with the transfer of production lines from our Fluerier, Switzerland facility to the other locations.

The Pump and Compressor Segment's selling, general and administrative (SG&A) expenses were \$22.3 million, or 25.0% of sales, in the third quarter of 2003, compared to \$13.4 million, or 22.7%, 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 third quarter of 2003 for SG&A expenses, when including

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

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 third quarter SG&A expenses would be 21.3% of sales, which is slightly higher than the 2002 third quarter percentage of 20.8%. SG&A expenses for the nine months ended September 30, 2003, were \$68.5 million, or 24.7% of sales, compared to \$32.8 million, or 21.1% for the same period in 2002. As mentioned for the third 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 nine months ended September 30, 2003 would be 20.7% of sales, which is slightly higher than the 2002 percentage of 20.4%.

Operating income for the Pump and Compressor Segment was \$7.2 million for the third quarter of 2003, compared to \$7.7 million for the 2002 third quarter. Included in the 2003 and 2002 third quarters was \$.6 million and \$.5 million, respectively, related to Rietschle's estimated operating income, and \$.1 million in 2003 related to the favorable impact of exchange rate fluctuations. Excluding these items, the 2003 operating income would have been 9.0% below the 2002 third quarter level. The following comments regarding operating income are based on comparisons of the 2003 and 2002 third 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 product being transferred to China for lower cost production, as well as competitive pricing pressures and sales mix. The European operations posted lower operating income in the 2003 third quarter versus 2002, primarily due to lower sales volume. The Asia Pacific operating income was lower due to lower sales volume and unfavorable product mix. Operating income for the nine months ended September 30, 2003, was \$27.9 million, compared to \$23.3 million for the comparable period in 2002. Included in the 2003 and 2002 nine month periods were \$5.2 million and \$.5 million, respectively, related to Rietschle's estimated operating income and \$1.1 million in 2003 related to the favorable impact of exchange rate fluctuations.

14

Item 2. Management's Discussion and Analysis - Continued

Excluding these items, the 2003 nine month period operating income would have been 5.3% below the 2002 nine month period. The following comments regarding operating income are based on comparisons of the 2003 and 2002 nine month periods when excluding the Rietschle operating income and the effects of exchange rates. The North American operations posted slightly lower operating income primarily due to lower margins on a new product being transitioned to Chinese production and competitive pricing pressures. The European operations reported lower operating income for the nine 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. With respect to the Rietschle operating income for the third quarter and nine month periods, our operating income was lower than originally expected due to a shortfall in sales, which led to unfavorable absorption, as well as some additional expenses associated with the transfer of production lines from our Fluerier, Switzerland facility to other locations.

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 41.6% to \$10.6 million in the third quarter of 2003, compared to \$7.5

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

million in the same period in 2002. Included in the third quarter earnings for 2003 was a previously announced non-recurring pre-tax gain of \$2.3 million related to the settlement of GTG's patent infringement lawsuit. Excluding this non-recurring gain, the Lighting Segment's third quarter 2003 earnings would have increased 10.7% over the comparable 2002 period. This increase was primarily related to a 9.9% increase in GTG's sales, when comparing the 2003 third quarter to the same period in 2002. Approximately 6.9% of the sales increase related to the recent Vari-Lite and Shakespeare acquisitions made by GTG. These two acquisitions also contributed toward the increase in earnings. For the nine month period ended September 30, 2003, the Lighting Segment earnings were \$23.6 million, or 12.5% higher than the \$21.0 million reported for the comparable 2002 period. Excluding the non-recurring gain, the 2003 nine month earnings would have increased 1.4% over the comparable 2002 period. This year-to-date increase was primarily due to a 5.0% sales increase, which was partially offset by foreign currency transaction losses related to GTG's Canadian divisions and higher legal expenses. Excluding recent acquisitions, GTG's sales increase for the nine month period would be .6%.

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.

15

Item 2. Management's Discussion and Analysis - Continued

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 \$2.0 million for the three months ended September 30, 2003, compared to \$1.6 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 \$5.5 million for the nine months ended September 30, 2003, compared to \$4.5 million for the comparable period in 2002. The increases in corporate expenses were due to the same factors given above for the third quarter increase.

Interest expense for the three months ended September 30, 2003 was \$1.0 million compared to \$.9 million for 2002. The 2003 and 2002 amounts include \$.6 million and \$.3 million, respectively, related to the Rietschle acquisition. Interest expense for the nine months ended September 30, 2003, was \$3.1 million compared to \$2.1 million for 2002. The 2003 and 2002 nine month periods include \$1.9 million and \$.3 million, respectively, related to the Rietschle acquisition. 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 September 30, 2003 was income of \$280 thousand compared to expense of \$128 thousand in the comparable period in 2002. The primary reason for the increase in income was that foreign currency transaction gains were recorded in the 2003 three month period compared to transaction losses recorded in the 2002 period. Excluding Rietschle, interest income and other would have been income of \$104 thousand and \$98 thousand for three months ended September 30, 2003 and 2002, respectively. For the nine months ended September 30, 2003, interest income and other was income of \$335 thousand compared to income of \$157 thousand in 2002. The primary reason for the increase in income was due to Rietschle's foreign currency transaction gains in the 2003 nine month period compared to the transaction losses recorded in the 2002 nine month period. Excluding Rietschle, interest income and other would have been income of \$134 thousand and \$383 thousand for the nine months ended September 30, 2003 and 2002, respectively. The decrease in the 2003 nine month period compared to 2002, when excluding Rietschle, relates to lower amounts of invested cash in 2003 and lower interest rates versus 2002.

Income tax provisions were \$4.6 million in both the three months ended September 30, 2003 and 2002. Income tax provisions were \$14.5 million and \$13.8 million in the nine months ended September 30, 2003 and 2002, respectively. The effective income tax rate was 30.5% and 36.5% for the third quarters of 2003 and 2002,

16

Item 2. Management's Discussion and Analysis - Continued

respectively. The effective income tax rate was 33.4% and 36.5% for the nine month periods in 2003 and 2002, respectively. The decline in the effective tax rate in 2003 was primarily due to the tax benefits achieved through the Rietschle acquisition, as well as an increase in the amount of GTG foreign equity earnings recorded net of tax and the effect of foreign tax rates.

LIQUIDITY AND SOURCES OF CAPITAL

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Cash flows provided by operations in the first nine months of 2003 were \$18.4 million compared to \$14.3 million in the first nine months of 2002. The increase in cash flows were primarily related to increases in net income and lower income tax payments, in the nine months ended September 30, 2003.

Cash used in investing activities was \$16.0 million for the nine months ended September 30, 2003, compared to \$88.3 million in the comparable 2002 period. The reduction in cash usage was primarily due to the Rietschle acquisition in August 2002 for \$83.5 million and only \$3.2 million used for acquisitions in the 2003 nine month period. This was partially offset by higher purchases of property, plant and equipment, which were \$13.4 million in the first nine months of 2003, compared to \$4.9 million in the comparable 2002 period.

Financing activities used cash of \$.6 million in the nine months ended September 30, 2003, as compared to providing cash of \$59.3 million in the comparable 2002 period. The primary reason for the change between periods is due to lower proceeds from long-term debt in the first nine months of 2003, compared to the first nine months of 2002. The 2002 nine month period included \$80.0 million of proceeds from the \$120.0 million revolving credit facility, which was used to finance the cash portion of the Rietschle purchase price on August 29, 2002.

Dividends paid in 2003 were \$4.5 million compared with \$3.9 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 September 30, 2003, the Company had standby letters of credit totaling \$4,410,000 with expiration dates during 2004. 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 September 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 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 \$88.6 million at September 30, 2003, primarily due to increases in accounts receivable and inventories to support business activities.

Dollars in thousands	Sept. 30, 2003 ----	December 31, 2002 ----
Working capital	\$ 88,619	\$ 82,030
Current ratio	2.39	2.66
Long-term debt, less current portion	\$ 104,307	\$ 104,047
Long-term debt to total capital	22.8%	24.9%

Item 2. Management's Discussion and Analysis - Continued

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

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

earnings of \$119.1 million are not restricted at September 30, 2003. Thomas is currently in compliance with all covenants or other requirements set forth in its borrowing agreements. In the event of non-compliance or if Thomas prepays the debt, then Thomas would incur a penalty. At September 30, 2003, the prepayment penalty would have been approximately \$1.5 million on a pre-tax basis.

As of September 30, 2003, the Company had a \$120 million revolving line of credit with its banks through August 28, 2005, \$89.3 million of which was outstanding. Of the \$89.3 million outstanding at September 30, 2003, \$87.0 million was classified as long-term debt and \$2.3 million was classified as notes payable, since the \$2.3 million was paid off in October 2003. 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 September 30, 2003, the Company had uncommitted short-term borrowing arrangements being used by some of its foreign offices which totaled \$2.7 million, which excludes the \$2.3 million from the revolving line of credit, noted above. As of September 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 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.

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Item 2. Management's Discussion and Analysis - Continued

- 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 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.

19

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 \$89.3 million outstanding from the revolving line of credit facility that accrue interest at variable rates. Short-term borrowings of \$2.7 million at September 30, 2003, are priced at variable interest rates. The Company's results of operations and cash flows are only affected by interest rate changes to its variable rate debt. At September 30, 2003, \$93.3 million was outstanding. A 100 basis point movement in the interest rate on the variable rate debt of \$93.3 million would result in an \$933,000 annualized effect on interest expense and cash flows (\$621,000 net of tax).

The Company also has short-term investments, including cash equivalents, of \$9.9 million as of September 30, 2003, that bear interest at variable rates. A 100 basis point movement in the interest rate would result in an approximate \$99,000 annualized effect on interest income and cash flows (\$66,000 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 \$135,000 annualized effect on the fair value of long-term debt (\$90,000 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

The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this 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. There were no changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2003 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On August 13, 2002, a petition was filed in the District Court of Jefferson

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

County, Texas adding Thomas Industries Inc. as a third party defendant in a lawsuit captioned Hydro Action, Inc. v. Jesse James, individually, and d/b/a/ James Backhoe Service of Dietrich, Illinois, Inc. and Septic Solutions, Inc. (the "Third Party Plaintiffs") (the "Original Lawsuit"). The Original Lawsuit alleged that the Company violated the Texas Deceptive Trade Practices Act and breached warranties of merchantability and fitness for a particular purpose with respect to pumps sold by the Company and used in septic tanks manufactured or sold by the plaintiffs. The Original Lawsuit has been stayed as a result of the bankruptcy filing by Hydro Action, Inc. On October 8, 2003, a lawsuit was filed against the Company, Gig Brewery, Yasunaga Corporation, Rietschle Thomas and Aqua-Partners, Ltd. in the District Court of Jefferson County, Texas making the same allegations set forth in the Original Lawsuit as well as alleging breach of contract, negligence and product liability and requesting class-action certification. No class has

20

Item 1. Legal Proceedings - Continued

been certified. The Third Party Plaintiffs are plaintiffs in this action. This complaint has been amended to include approximately 28 plaintiffs. The complaint currently seeks \$3 million per plaintiff and punitive and exemplary damages. The total sales related to these products were approximately \$900,000. Although this litigation is in the preliminary stages, the Company believes it has meritorious defenses to the claims and intends to vigorously defend this matter. Litigation is subject to many uncertainties and the Company cannot guarantee the outcome of these proceedings. However, based upon information currently available, the Company does not believe that the outcome of these proceedings will have a material adverse effect on the consolidated financial position, results of operations, or cash flows of the Company.

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 July 21, 2003, attaching a press release announcing second quarter 2003 earnings.

A Form 8-K was filed on August 29, 2003, attaching a press release announcing a gain as a result of the settlement of a patent infringement lawsuit by Genlyte Thomas Group.

A Form 8-K was filed on September 23, 2003, attaching a press release announcing third quarter earnings outlook.

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

Items 2, 3, 4 and 5 are not applicable and have been omitted.

21

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: November 13, 2003

22