THOMAS INDUSTRIES INC
Form 10-Q
May 11, 2001

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 March 31, 2001

Commission File Number 1-5426.

THOMAS INDUSTRIES INC.

(Exact name of registrant as specified in its charter)

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

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

Not Applicable

(Former name, former address, and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No

The number of shares outstanding of issuer's Common Stock, $1 par value, as of April 28, 2001, was 15,161,185 shares.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	Three Months Ended March 31	
	2001	2000
Net sales	$49,696	$50,811
Cost of products sold	31,395	33,012
Gross profit	18,301	17,799
Selling, general, and administrative expenses	11,384	11,159
Equity income from Lighting	5,061	5,411
Operating income	11,978	12,051
Interest expense	942	987
Interest income and other	612	575
Income before income taxes	11,648	11,639
Income taxes	4,368	4,481
Net income	$ 7,280	$ 7,158
Net income per share:		
Basic	$.48	$.46
Diluted	$.47	$.45
Dividends declared per share	$.085	$.075
Weighted average number of shares outstanding		
Basic	15,117	15,582
Diluted	15,620	15,950

See notes to condensed consolidated financial statements.

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

ASSETS	(Unaudited) March 31 2001	Decembe 200
Current assets:		
Cash and cash equivalents	$ 8,288	$ 13,
Accounts receivable, less allowance (2001--$766; 2000--$752)	24,436	22,
Inventories:		
Finished goods	6,964	7,
Raw materials	11,020	11,
Work in process	4,542	4,
	22,526	22,
Deferred income taxes	3,170	3,
Other current assets	3,491	2,
Total current assets	61,911	63,
Investment in GTG	173,143	168,
Property, plant and equipment	88,818	87,
Less accumulated depreciation and amortization	49,143	48,
	39,675	39,
Note receivable from GTG	22,287	22,
Intangible assets--less accumulated amortization	9,594	10,
Other assets	3,677	3,
Total assets	$310,287	$308,
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 5,750	$
Accounts payable	7,289	7,
Accrued expenses and other current liabilities	18,878	18,
Current portion of long-term debt	7,786	7,
Total current liabilities	39,703	33,
Deferred income taxes	9,319	9,
Long-term debt (less current portion)	32,983	40,
Other long-term liabilities	6,965	7,
Total liabilities	88,970	90,
Shareholders' equity:		
Preferred Stock, $1 par value, 3,000,000 shares authorized--none issued	--	
Common Stock, $1 par value, shares authorized: 60,000,000; shares issued: 2001 -- 17,774,045; 2000 -- 17,670,342	17,774	17,
Capital surplus	113,046	111,

Deferred compensation	715	
Treasury stock held for deferred compensation	(715)	(
Retained earnings	141,145	135,
Accumulated other comprehensive income (loss)	(12,191)	(9,
Less cost of treasury shares:		
(2001--2,622,339; 2000--2,619,039)	(38,457)	(38,
Total shareholders' equity	221,317	217,
Total liabilities and shareholders' equity	$310,287	$308,

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

3

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

	Three Months Ended March 31	
	2001	2000
Operating activities:		
Net income	$ 7,280	$ 7,158
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Depreciation and amortization	2,140	2,189
Deferred income taxes	(334)	(280)
Equity income from Lighting	(5,061)	(5,411)
Other items	24	133
Changes in operating assets and liabilities:		
Accounts receivable	(2,720)	(4,640)
Inventories	(1,074)	(380)
Accounts payable	19	1,083
Accrued expenses and other liabilities	475	3,864
Other	(1,148)	322
Net cash (used in)/provided by operating activities	(399)	4,038
Investing activities:		
Purchases of property, plant and equipment	(2,596)	(2,002)
Sale of property, plant and equipment	10	2
Net cash used in investing activities	(2,586)	(2,000)
Financing activities:		
Proceeds from notes payable to banks, net	5,750	600
Payments on long-term debt	(7,744)	
(7,743)		
Treasury stock purchased	(67)	(5,334)
Dividends paid	(1,129)	(1,187)

Other	1,168	316
Net cash used in financing activities	(2,022)	(13,348)
Effect of exchange rate change	(646)	(306)
Net decrease in cash and cash equivalents	(5,653)	(11,616)
Cash and cash equivalents at beginning of period	13,941	16,487
Cash and cash equivalents at end of period	$ 8,288	$ 4,871

See notes to condensed consolidated financial statements.

THOMAS INDUSTRIES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note A - Basis of Presentation

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

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

Note B - Contingencies

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

Note C - Comprehensive Income

Reconciliation of net income to comprehensive income for the period indicated follows:

(In Thousands) For the three months ended March 31:	2001	2000
Net income	$7,280	$7,158
Foreign currency translation	(3,133)	(1,215)
Comprehensive income	$4,147	$5,943

Note D - Net Income Per Share

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

(In Thousands)	Three Months Ended March 31 2001	Three Months Ended March 31 2000
Numerator:		
Net income	$ 7,280	$ 7,158
Denominator:		
Weighted average shares outstanding	15,117	15,582
Effect of dilutive securities:		
Director and employee stock options	486	334
Employee performance shares	17	34
Dilutive potential common shares	503	368
Denominator for diluted earnings per share--adjusted weighted average shares and assumed conversions	15,620	15,950

Note E - Genlyte Thomas Group LLC

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

Genlyte Thomas Group LLC
Condensed Financial Information

(Dollars in Thousands)

	(Unaudited) March 31 2001	December 31 2000
Balance sheet:		
Current assets	$336,939	$326,626
Long-term assets	282,420	288,082
Current liabilities	159,353	177,454
Long-term liabilities	97,957	89,948

	Three Months Ended March 31	
	2001	2000
Income statement:		
Net sales	$244,795	$246,360
Gross profit	85,347	83,940
Earnings before interest and taxes	19,929	20,196
Net income*	17,632	18,563

*Amounts recorded by Thomas Industries Inc.:

Equity income from GTG	$ 5,642	$ 5,940
Stock option expense	(52)	--
Amortization of excess investment	(529)	(529)
Equity income reported by Thomas	$ 5,061	$ 5,411

Note F - Receivables from Affiliate

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

Note G - Segment Disclosures

(In Thousands)	Three Months Ended March 31	
	2001	2000
Revenues		
Total net sales including intercompany sales		
Pump and Compressor	$56,482	$55,573
Intercompany sales		
Pump and Compressor	(6,786)	(4,762)

Net sales to unaffiliated customers		
Pump and Compressor	$49,696	$50,811
	======	======
Operating Income		
Pump and Compressor	$ 8,543	$ 8,474
Lighting*	5,061	5,411
Corporate	(1,626)	(1,834)
	------	-----
	$11,978	$12,051
	======	======

*Consists of equity income of $5,642,000 in 2001 and $5,940,000 in 2000 from our 32% interest in the Genlyte Thomas Group (GTG) joint venture, less $529,000 of amortization in both 2001 and 2000 of Thomas' excess investment and less $52,000 in 2001 related to expense recorded for Thomas Industries stock options issued to GTG employees.

Note H - Shipping and Handling Costs

In September 2000, the Emerging Issues Task Force (EITF) reached a consensus on Issue 00-10, "Accounting for Shipping and Handling Fees and Costs." The EITF requires that all shipping and handling amounts billed to a customer in a sale transaction be classified as revenue. The EITF also states that a company cannot net the shipping and handling costs against the shipping and handling revenues in the financial statements. Accordingly, the Company has restated net sales and cost of sales for the three months ended March 31, 2000, by reclassifying shipping and handling costs totaling $425,000 from net sales to cost of sales.

Note I - Short-Term Borrowings

As of March 31, 2001, the Company had short-term borrowings of $5,750,000 which bear interest at variable rates. These borrowings were primarily used to fund working capital needs, capital expenditures, and our long-term debt payment. Short-term borrowings at December 31, 2000, and March 31, 2000, were zero and $600,000, respectively.

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

Results of Operations

Net sales during the first quarter ended March 31, 2001, decreased 2.2% to $49.7 million compared to $50.8 million for the first quarter of 2000. The 2000 net sales and cost of sales have been restated due to an Emerging Issues Task Force consensus on Issue 00-10, "Accounting for Shipping and Handling Fees and Costs," as noted in our 2000 Annual Report. Our North American operations had a decline in net sales, primarily as a result of our larger OEM medical customers pushing out orders and adjusting their inventories. Our European and Asia Pacific operations showed strong results despite weakening local currencies. Our overall sales would be 3% higher if measured in constant exchange rates.

Operating income for the first quarter ended March 31, 2001, was $12.0 million, or .6% lower than the prior-year amount of $12.1 million. Our Pump and Compressor Segment posted an .8% increase in operating income over the 2000 first quarter. This was principally due to favorable sales mix and continued cost reduction programs in our manufacturing process. As a percent of net sales, our gross profit and operating income percentages for this segment showed improvement over the first quarter of 2000. Our Lighting Segment (GTG Joint Venture) results decreased to $5.1 million in the first quarter of 2001, compared to $5.4 million in the same period last year. This was primarily due to our share of increased interest expense, foreign income tax, and domestic franchise tax at the Joint Venture level, which were higher due to acquisitions made by the Joint Venture. Additionally, the economic slowdown has led to relatively flat sales for the Joint Venture.

Net income for the 2001 first quarter of $7.3 million was 1.7% higher than the $7.2 million for the comparable 2000 period and was a record for any first-quarter period. The increase was primarily related to a lower effective tax rate in the first quarter of 2001.

Interest expense for the 2001 first quarter was $.9 million, or 4.6% lower than the 2000 amount of $1.0 million. This reduction was primarily related to the $7.7 million payment of long-term debt on January 31, 2001, which reduced our interest expense over the prior-year amount.

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

Working capital of $22.2 million at March 31, 2001, is $8.4 million lower than the amount at December 31, 2000, primarily resulting from the $7.7 million long-term debt payment on January 31, 2001, capital expenditures of $2.6 million, increases in accounts receivable of $2.7 million, and increases in inventory of $1.1 million, offset by proceeds from short-term borrowings of $5.8 million. For the period December 31, 2000, through March 31, 2001, the Company purchased an additional 3,300 shares under the stock repurchase program that was announced in December 1999. Through May 11, 2001, the Company has purchased, on a cumulative basis, 879,189 shares at an aggregate cost of $17.3 million. Accounts receivable at March 31, 2001, have increased by 9.8% since December 31, 2000, due to a higher concentration of shipments occurring toward the end of the first quarter of 2001 compared to the end of the fourth quarter of 2000. The number of days sales in receivables at March 31, 2001, compared to December 31, 2000, has decreased to 45.9 days from 49.3. Annualized inventory turnover at March 31, 2001, of 4.94 decreased from the December 31, 2000, level of 5.04.

Certain loan agreements of the Company include restrictions on working capital, operating leases, tangible net worth, and the payment of cash dividends and stock distributions. Under the most restrictive of these arrangements, retained earnings of $71.4 million are not restricted at March 31, 2001.

As of March 31, 2001, the Company had available credit of $15.3 million with banks under borrowing arrangements, of which $7.3 million was unused. Anticipated funds from operations, along with available short-term credit, are expected to be sufficient to meet cash requirements in the year ahead. Cash in excess of operating requirements will continue to be invested in investment grade, short-term securities.

New European Currency

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's long-term debt bears interest at fixed rates with the exception of the $8 million note that accrues interest at a variable rate. Short-term borrowings are also priced at variable interest rates. The Company's results of operations and cash flows, therefore, would only be affected by interest rate changes to the extent of variable rate debt. At March 31, 2001, the variable rate debt outstanding was $13.8 million, consisting of the $8 million long-term note and the $5.8 million of short-term borrowings. A 100 basis point movement in the interest rate on the $13.8 million variable rate debt would result in a $138,000 annualized effect on interest expense and cash flows.

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

The fair value of the Company's long-term debt with fixed interest rates is estimated based on current interest rates offered to the Company for similar instruments. A 100 basis point movement in the interest rate would result in an approximate $700,000 annualized effect on the fair value of long-term debt.

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

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

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

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THOMAS INDUSTRIES INC.

Registrant

/s/ Phillip J. Stuecker

Phillip J. Stuecker, Vice President and Chief Financial Officer

Date May 11, 2001