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THOMAS INDUSTRIES INC
Form 10-Q
November 09, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934 [X]

For the quarterly period ended: September 30, 2001

Commission File Number 1-5426.

THOMAS INDUSTRIES INC.

(Exact name of registrant as specified in its charter)

Delaware

61-0505332

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification No.)

4360 Brownsboro Road, Louisville, Kentucky

40207

(Address of principal executive office)

(Zip Code)

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

Not Applicable (Former name, former address, and former fiscal year, if changed since last report.)

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

The number of shares outstanding of issuer's Common Stock, \$1 par value, as of October 27, 2001, was 15,197,761 shares.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2001	2000	2001	2000
Net sales	\$ 44,008	\$ 45,048	\$140,619	\$144,295
Cost of products sold	28,613	28,503	90,170	92,122
Gross profit	15,395	16,545	50,449	52,173
Selling, general, and administrative expenses	10,733	10,364	32,720	32,375
Equity income from Lighting	6,508	6,556	17,681	17,862
Operating income	11,170	12,737	35,410	37,660
Interest expense	914	968	2,800	2,939
Interest income and other	312	538	1,331	2,410
Income before income taxes	10,568	12,307	33,941	37,131
Income taxes	3,963	4,736	12,728	13,990
Net income	\$ 6,605	\$ 7,571	\$ 21,213	\$ 23,141
Net income per share:				
Basic	\$.43	\$.49	\$ 1.40	\$ 1.49
Diluted	\$.42	\$.48	\$ 1.35	\$ 1.46
Dividends declared per share	\$.085	\$.075	\$.255	\$.225
Weighted average number of shares outstanding:				
Basic	15,184	15,399	15,155	15,499
Diluted	15,721	15,750	15,674	15,833

See notes to condensed consolidated financial statements.

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

	(Unaudited) September 30 2001 ----	December 31 2000* ----
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,962	\$ 13,941
Accounts receivable, less allowance (2001--\$899; 2000--\$752)	23,259	22,255
Inventories:		
Finished products	6,504	7,046
Raw materials	11,438	11,032
Work in process	3,836	4,210
	-----	-----
	21,778	22,288
Deferred income taxes	2,969	3,082
Other current assets	3,034	2,251
	-----	-----
Total current assets	62,002	63,817
Investment in GTG	179,727	168,954
Property, plant, and equipment	93,907	87,556
Less accumulated depreciation and amortization	53,505	48,035
	-----	-----
	40,402	39,521
Note receivable from GTG	22,287	22,287
Intangible assets--less accumulated amortization	9,532	10,111
Other assets	3,729	3,430
	-----	-----
Total assets	\$317,679	\$308,120
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Notes payable	\$ 350	\$ --
Accounts payable	6,519	7,385
Accrued Expenses and other current liabilities	17,845	18,014
Current portion of long-term debt	7,786	7,786
	-----	-----
Total current liabilities	32,500	33,185
Deferred income taxes	9,407	9,415
Long-term debt (less current portion)	34,955	40,727
Other long-term liabilities	6,698	7,436
	-----	-----
Total liabilities	83,560	90,763
Shareholders' equity		
Preferred Stock, \$1 par value, 3,000,000 shares authorized--none issued	--	--
Common Stock, \$1 par value, shares authorized: 60,000,000; Shares issued: 2001--17,812,511 2000--17,670,342	17,812	17,670

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Capital surplus	113,410	111,982
Deferred compensation	751	401
Treasury stock held for deferred compensation	(751)	(401)
Retained earnings	152,498	135,153
Accumulated other comprehensive income (loss)	(11,144)	(9,058)
Less cost of treasury shares:		
(2001--2,622,339; 2000--2,619,039)	(38,457)	(38,390)
	-----	-----
Total shareholders' equity	234,119	217,357
	-----	-----
Total liabilities and shareholders' equity	\$317,679	\$308,120
	=====	=====

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

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

	Nine Months Ended September 30	
	2001	2000
	----	----
Operating activities:		
Net income	\$21,213	\$23,141
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Depreciation and amortization	6,300	6,372
Deferred income taxes	(221)	(734)
Equity income from Lighting	(17,681)	(17,862)
Distributions from Lighting	6,092	7,597
Other items	81	202
Changes in operating assets and liabilities:		
Accounts receivable	(1,349)	(3,837)
Inventories	12	(2,048)
Accounts payable	(810)	(159)
Accrued expenses and other liabilities	(1,093)	3,185
Other	(550)	899
	-----	-----
Net cash provided by operating activities	11,994	16,756
Investing activities:		
Purchases of property, plant and equipment	(7,033)	(7,821)
Sale of property, plant and equipment	26	12
	-----	-----
Net cash used in investing activities	(7,007)	(7,809)
Financing activities:		
Proceeds from notes payable to banks, net	350	-0-
Payments on long-term debt	(7,772)	(7,770)
Proceeds from long-term debt	2,000	8,000
Treasury stock purchased	(67)	(11,723)

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Dividends paid	(3,706)	(3,519)
Other	1,570	1,018
	-----	-----
Net cash used in financing activities	(7,625)	(13,994)
Effect of exchange rate change	(341)	(947)
	-----	-----
Net decrease in cash and cash equivalents	(2,979)	(5,994)
Cash and cash equivalents at beginning of period	13,941	16,487
	-----	-----
Cash and cash equivalents at end of period	\$10,962	\$10,493
	=====	=====

See notes to condensed consolidated financial statements.

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

Note B - Contingencies

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

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Note C - Comprehensive Income

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

(In Thousands)

For the three months ended September 30:	2001	2000
	----	----
Net income	\$6,605	\$7,571
Foreign currency translation	1,177	(2,081)
	-----	-----
Comprehensive income	\$7,782	\$5,490
	=====	=====

For the nine months ended September 30:

Net income	\$21,213	\$23,141
Foreign currency translation	(2,086)	(4,207)
	-----	-----
Comprehensive income	\$19,127	\$18,934
	=====	=====

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Note D - Net Income Per Share

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

(In Thousands)	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2001	2000	2001	2000
	----	----	----	----
Numerator:				
Net income	\$ 6,605	\$ 7,571	\$21,213	\$23,141
	=====	=====	=====	=====
Denominator:				
Weighted average shares outstanding	15,184	15,399	15,155	15,499
Effect of dilutive securities:				
Director and employee stock options	513	339	494	318
Employee performance shares	24	12	25	16
	-----	-----	-----	-----
Dilutive potential common shares	537	351	519	334
	-----	-----	-----	-----
Denominator for diluted earnings per share--adjusted weighted average shares and assumed conversions	15,721	15,750	15,674	15,833
	=====	=====	=====	=====

Note E - Genlyte Thomas Group LLC

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

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

	(Unaudited)			
	Septemeber 30	December 31		
	2001	2000		
	----	----		
Balance sheet:				
Current assets	\$358,017	\$326,626		
Long-term assets	277,296	288,082		
Current liabilities	165,742	177,454		
Long-term liabilities	83,642	89,948		
		Three Months	Nine Months	
		Ended Sept. 30	Ended Sept. 30	
		-----	-----	
	2001	2000	2001	2000
	----	----	----	----
Income statement:				
Net sales	\$251,348	\$259,292	\$753,985	\$758,000
Gross profit	88,525	90,101	264,527	260,000
Earnings before interest and taxes	24,976	24,611	68,591	67,000
Net income*	22,153	22,214	60,699	60,000
*Amounts recorded by Thomas Industries Inc.:				
Equity income from GTG	\$ 7,090	\$ 7,109	\$ 19,424	\$ 19,000
Stock option expense	(53)	(24)	(156)	(156)
Amortization of excess investment	(529)	(529)	(1,587)	(1,587)
	-----	-----	-----	-----
Equity income reported by Thomas	\$ 6,508	\$ 6,556	\$ 17,681	\$ 17,000
	=====	=====	=====	=====

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Note F - Receivables from Affiliate

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

Note G - Segment Disclosures

Three Months Ended

Nine Months Ended

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	September 30		September 30	
	2001	2000	2001	2000
Total net sales including intercompany sales				
Pump and Compressor	\$49,878	\$51,769	\$158,783	\$161,902
Intercompany sales				
Pump and Compressor	\$(5,870)	\$(6,721)	\$(18,164)	\$(17,607)
Net sales to unaffiliated customers				
Pump and Compressor	\$44,008	\$45,048	\$140,619	\$144,295
Operating income				
Pump and Compressor	\$ 5,909	\$ 7,659	\$ 22,018	\$ 24,827
Lighting*	6,508	6,556	17,681	17,862
Corporate	(1,247)	(1,478)	(4,289)	(5,029)
	\$11,170	\$12,737	\$ 35,410	\$ 37,660

*Three months ended September 30 consists of equity income of \$7,090,000 in 2001 and \$7,109,000 in 2000 from our 32% interest in the joint venture, Genlyte Thomas Group LLC (GTG), less \$529,000 of amortization in both 2001 and 2000 of Thomas' excess investment and less \$53,000 in 2001 and \$24,000 in 2000, related to expense recorded for Thomas Industries stock options issued to GTG employees. Nine months ended September 30 consists of equity income of \$19,424,000 in 2001 and \$19,473,000 in 2000 from our 32% interest in GTG, less \$1,587,000 of amortization in both 2001 and 2000 of Thomas' excess investment and less \$156,000 in 2001 and \$24,000 in 2000, related to expense recorded for Thomas Industries stock options issued to GTG employees.

Note H - Accounting Pronouncement

In September 2000, the Emerging Issues Task Force reached a consensus on Issue 00-10, "Accounting for Shipping and Handling Fees and Costs." The EITF requires that all shipping and handling amounts billed to a customer in a sale transaction be classified as revenue. The EITF also states that a company cannot net the shipping and handling costs against the shipping and handling revenues in the financial statements. Accordingly, Thomas has restated net sales and cost of sales for the three months and nine months ended September 30, 2000, by reclassifying shipping and handling costs totaling \$384,000 and \$1,277,000 respectively, from net sales to costs of sales.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" (SFAS 141) and SFAS No. 142, "Goodwill and Other

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

Note I - Short-Term Borrowings

As of September 30, 2001, the Company had short-term borrowings of \$350,000 which bear interest at variable rates. These borrowings were primarily used to fund working capital needs and capital expenditures. We paid down \$3,700,000 of short-term borrowings during the third quarter of 2001. Short-term borrowings at December 31, 2000, and September 30, 2000, were zero.

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

Results of Operations

Net sales during the third quarter ended September 30, 2001, decreased 2.3% to \$44 million compared to \$45 million for the third quarter of 2000. The 2000 net sales and cost of sales have been restated due to an Emerging Issues Task Force consensus on Issue 00-10, "Accounting for Shipping and Handling Fees and Costs," as noted in our 2000 Annual Report. The shortfall in sales came primarily from the North American operations, where we experienced softness and continued to see many of our customers push out or cancel orders. A bright spot for the quarter was in the medical market, which comprises over a third of our North American sales. Oxygen concentrator sales, which represent our single largest application in the medical market, increased 19 percent over the third quarter of 2000. The European and Asia Pacific operations were flat compared to the third quarter of 2000, primarily due to softness in certain markets and to weakening local currencies. Overall third quarter sales would be 1.3% higher if measured in constant exchange rates. Net sales for the nine-month period ended September 30, 2001, were \$140.6 million compared to \$144.3 million for the prior year. This decline was attributed to softness in the North American operations, while the European and Asia Pacific operations posted increases in net sales, despite negative currency effects. Overall sales for the nine-month period would be 2.2% higher if measured in constant exchange rates.

Operating income for the third quarter ended September 30, 2001, was \$11.2 million or 12.3% lower than the prior-year amount of \$12.7 million. The Pump and Compressor Segment had a 22.8% decline in operating income over the 2000 third quarter. This decline was due to several factors including pricing pressures, unfavorable manufacturing variances due to lower plant utilization, and unfavorable exchange rate effects. Also, due to the high number of OEM projects that we are currently working on, which may not generate sales volume until six to twenty four months in the future, we are currently absorbing higher engineering costs. For the third quarter of 2001, our engineering costs are up 12.6% over last year's third quarter and are also up as a percent of sales, due to the lower volume. We are committed to this engineering effort which will benefit our company in the future. The Lighting Segment

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Item 2. Management's Discussion and Analysis - Continued

(GTG Joint Venture) results decreased slightly to \$6.5 million in the third quarter of 2001, compared to \$6.6 million in the same period last year. This was primarily due to the Company's share of increased interest expense and foreign income tax at the Joint Venture level, which occurred due to acquisitions by GTG. Corporate expenses decreased to \$1.2 million in the third quarter of 2001, compared to \$1.5 million in the same period last year. This decline was primarily due to lower compensation and professional fees in 2001. Operating income for the nine-month period ended September 30, 2001, was \$35.4 million compared to \$37.7 million in 2000. The Pump and Compressor Segment posted a 11.3% decline from 2000, primarily due to pricing pressures, unfavorable manufacturing variances, and negative exchange rate effects. The Lighting Segment's income decreased to \$17.7 million in the nine-month period of 2001, compared to \$17.9 million in 2000. This decline was primarily due to the Company's share of increased interest expense and foreign tax at the Joint Venture level, which occurred due to acquisitions by GTG. Corporate expenses also decreased to \$4.3 million in 2001, compared to \$5.0 million in 2000, with the reduction primarily due to reduced compensation and professional fees.

Net income for the 2001 third quarter of \$6.6 million was 12.8 percent lower than the \$7.6 million for the comparable 2000 period. Net income for the nine-month period ended September 30, 2001, was \$21.2 million compared to \$22.3 million in 2000, after excluding a one-time gain of \$.8 million from the proceeds of a life insurance policy recorded in the second quarter of 2000. The third quarter and nine-month decreases from 2000 were primarily due to the operating income discussion above and lower interest income on investments, partially offset by lower interest expense and a lower effective tax rate in 2001.

Interest expense for the 2001 third quarter was \$.9 million compared to the 2000 amount of \$1.0 million. The 2001 nine-month interest expense was \$2.8 million compared to \$2.9 million for 2000. The reductions in the third quarter and nine-month periods were primarily related to the \$7.7 million payment of long-term debt on January 31, 2001, which carried a 9.36 percent annual interest rate. This payment did reduce interest expense over the prior-year amounts but was partially offset by interest expense in 2001 on higher amounts of short-term borrowings and additional long-term debt proceeds, of which \$8.0 million was received on September 29, 2000, and \$2.0 million on May 31, 2001. The additional short-term and long-term borrowings in 2001 were at variable interest rates, which were lower than the comparable rates in 2000.

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

Working capital of \$29.5 million at September 30, 2001, is \$1.1 million lower than the amount at December 31, 2000, primarily resulting from the \$7.7 million long-term debt payment on January 31, 2001, offset by proceeds from long-term borrowings of \$2.0 million received May 31, 2001, and distributions of \$6.1 million from GTG. For the period December 31, 2000, through September 30, 2001, the Company purchased an additional 3,300 shares for the stock repurchase program that was announced in December 1999. Through November 9,

Item 2. Management's Discussion and Analysis - Continued

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2001, the Company has purchased, on a cumulative basis, 879,189 shares at an aggregate cost of \$17.3 million. Accounts receivable at September 30, 2001, have increased by 5.0 percent since December 31, 2000, due to a higher concentration of shipments occurring toward the end of the third quarter of 2001 compared to the end of the fourth quarter of 2000. The number of days sales in receivables at September 30, 2001, compared to December 31, 2000, has decreased to 49.0 days from 49.3. Inventory at September 30, 2001, has decreased 2.2 percent since December 31, 2000; while annualized inventory turnover at September 30, 2001, of 4.70 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 \$79.3 million are not restricted at September 30, 2001.

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

New European Currency

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company's long-term debt bears interest at fixed rates with the exception of the \$10 million note that accrues interest at variable rates. The Company's results of operations and cash flows, therefore, would only be affected by interest rate changes to the extent of variable rate debt. At September 30, 2001, the variable rate debt outstanding was \$10.4 million, consisting of the \$10 million long-term note and the \$.4 million of short-term borrowings. A 100 basis point movement in the interest rate on the \$10.4 million variable rate debt would result in a \$104,000 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

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Item 3. Quantitative and Qualitative Disclosures about Market Risk - Continued

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 \$575,000 annualized effect on the fair value of long-term debt.

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

PART II. OTHER INFORMATION

Item 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 November 9, 2001
