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THOMAS INDUSTRIES INC
Form 10-Q
May 11, 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

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 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.

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| | | |
|---|-----------|--------|
| 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.

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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) |

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| | | |
|--|----------|----------|
| 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.

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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 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

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

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

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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 March 31 | |
|--|--------------------------------|----------|
| | 2001 | 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

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(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 |
| | ===== | ===== |

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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) |
| | ----- | ----- |

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| | | |
|-------------------------------------|----------|----------|
| 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 Financial 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

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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.

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Item 2. Management's Discussion and Analysis - Continued

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

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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.

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Item 2. Management's Discussion and Analysis - Continued

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

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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.

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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

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