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THOMAS INDUSTRIES INC  
Form 10-Q  
August 14, 2002

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: June 30, 2002

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

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 July 26, 2002, was 15,279,716 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<br>June 30 |          | Six      |
|--------------------------------------------------|-------------------------------|----------|----------|
|                                                  | 2002                          | 2001     | 2002     |
|                                                  | ----                          | ----     | ----     |
| Net sales                                        | \$49,928                      | \$46,915 | \$95,985 |
| Cost of products sold                            | 31,919                        | 30,162   | 61,081   |
|                                                  | -----                         | -----    | -----    |
| Gross profit                                     | 18,009                        | 16,753   | 34,904   |
| Selling, general, and<br>administrative expenses | 11,414                        | 10,603   | 22,247   |
| Equity income from GTG                           | 7,522                         | 6,112    | 13,524   |
|                                                  | -----                         | -----    | -----    |
| Operating income                                 | 14,117                        | 12,262   | 26,181   |
| Interest expense                                 | 560                           | 944      | 1,179    |
| Interest income and other                        | 43                            | 407      | 285      |
|                                                  | -----                         | -----    | -----    |
| Income before income taxes                       | 13,600                        | 11,725   | 25,287   |
| Income taxes                                     | 4,964                         | 4,397    | 9,230    |
|                                                  | -----                         | -----    | -----    |
| Net income                                       | \$ 8,636                      | \$ 7,328 | \$16,057 |
|                                                  | =====                         | =====    | =====    |
| Net income per share:                            |                               |          |          |
| Basic                                            | \$.57                         | \$.48    | \$1.05   |
| Diluted                                          | \$.54                         | \$.47    | \$1.02   |
| Dividends declared per share:                    | \$.085                        | \$.085   | \$.17    |
| Weighted average number of shares outstanding:   |                               |          |          |
| Basic                                            | 15,276                        | 15,163   | 15,260   |
| Diluted                                          | 15,883                        | 15,722   | 15,817   |

See notes to condensed consolidated financial statements.

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

|                                                                       | (Unaudited)<br>June 30<br>2002<br>---- | December 31<br>2001*<br>----- |
|-----------------------------------------------------------------------|----------------------------------------|-------------------------------|
| <b>ASSETS</b>                                                         |                                        |                               |
| Current assets                                                        |                                        |                               |
| Cash and cash equivalents                                             | \$ 21,148                              | \$ 29,500                     |
| Accounts receivable, less allowance<br>(2002--\$1,597; 2001--\$1,103) | 25,918                                 | 21,026                        |
| Inventories:                                                          |                                        |                               |
| Finished products                                                     | 7,393                                  | 6,311                         |
| Raw materials                                                         | 11,454                                 | 10,882                        |
| Work in process                                                       | 3,753                                  | 3,503                         |
|                                                                       | -----                                  | -----                         |
|                                                                       | 22,600                                 | 20,696                        |
| Deferred income taxes                                                 | 2,689                                  | 2,497                         |
| Other current assets                                                  | 2,044                                  | 2,442                         |
|                                                                       | -----                                  | -----                         |
| Total current assets                                                  | 74,399                                 | 76,161                        |
| Investment in GTG                                                     | 191,133                                | 179,219                       |
| Property, plant, and equipment                                        | 97,418                                 | 92,378                        |
| Less accumulated depreciation and amortization                        | (58,179)                               | (52,608)                      |
|                                                                       | -----                                  | -----                         |
|                                                                       | 39,239                                 | 39,770                        |
| Goodwill                                                              | 9,920                                  | 9,244                         |
| Other intangible assets--less accumulated<br>amortization             | 500                                    | 427                           |
| Other assets                                                          | 3,319                                  | 1,893                         |
|                                                                       | -----                                  | -----                         |
| Total assets                                                          | \$ 318,510                             | \$ 306,714                    |
|                                                                       | =====                                  | =====                         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                           |                                        |                               |
| Current liabilities                                                   |                                        |                               |
| Accounts payable                                                      | \$ 7,629                               | \$ 6,861                      |
| Accrued Expenses and other current liabilities                        | 12,019                                 | 11,738                        |
| Dividends payable                                                     | 1,299                                  | 1,295                         |
| Income taxes payable                                                  | 1,423                                  | 2,501                         |
| Current portion of long-term debt                                     | 7,788                                  | 7,788                         |
|                                                                       | -----                                  | -----                         |
| Total current liabilities                                             | 30,158                                 | 30,183                        |
| Deferred income taxes                                                 | 5,572                                  | 5,349                         |
| Long-term debt (less current portion)                                 | 17,180                                 | 24,938                        |
| Other long-term liabilities                                           | 8,511                                  | 8,531                         |
|                                                                       | -----                                  | -----                         |

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|                                                                                                                    |                   |            |        |
|--------------------------------------------------------------------------------------------------------------------|-------------------|------------|--------|
|                                                                                                                    | Total liabilities | 61,421     | 69,001 |
| Shareholders' equity                                                                                               |                   |            |        |
| Preferred Stock, \$1 par value,<br>3,000,000 shares authorized--none issued                                        | --                | --         |        |
| Common Stock, \$1 par value, shares authorized:<br>60,000,000; Shares issued: 2002--17,901,939<br>2001--17,855,511 | 17,902            | 17,856     |        |
| Capital surplus                                                                                                    | 115,066           | 114,342    |        |
| Deferred compensation                                                                                              | 802               | 739        |        |
| Treasury stock held for deferred compensation                                                                      | (802)             | (739)      |        |
| Retained earnings                                                                                                  | 171,623           | 158,161    |        |
| Accumulated other comprehensive income (loss)                                                                      | (9,045)           | (14,189)   |        |
| Less cost of treasury shares: 2,622,339 shares                                                                     | (38,457)          | (38,457)   |        |
|                                                                                                                    | -----             | -----      |        |
| Total shareholders' equity                                                                                         | 257,089           | 237,713    |        |
|                                                                                                                    | -----             | -----      |        |
| Total liabilities and shareholders' equity                                                                         | \$ 318,510        | \$ 306,714 |        |
|                                                                                                                    | =====             | =====      |        |

\*Derived from the audited December 31, 2001, 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)

|                                                                                                |                             |           |
|------------------------------------------------------------------------------------------------|-----------------------------|-----------|
|                                                                                                | Six Months Ended<br>June 30 |           |
|                                                                                                | -----                       |           |
|                                                                                                | 2002                        | 2001      |
|                                                                                                | ----                        | ----      |
| Operating activities:                                                                          |                             |           |
| Net income                                                                                     | \$ 16,057                   | \$ 14,608 |
| Adjustments to reconcile net income to net<br>cash (used in)/provided by operating activities: |                             |           |
| Depreciation                                                                                   | 4,080                       | 4,006     |
| Amortization                                                                                   | --                          | 242       |
| Deferred income taxes                                                                          | (79)                        | (334)     |
| Equity income from GTG                                                                         | (13,524)                    | (12,231)  |
| Amortization of excess investment in GTG                                                       | --                          | 1,058     |
| Distributions from GTG                                                                         | 2,860                       | 3,092     |
| Other items                                                                                    | 446                         | 24        |
| Changes in operating assets and liabilities:                                                   |                             |           |
| Accounts receivable                                                                            | (4,509)                     | (2,317)   |
| Inventories                                                                                    | (615)                       | (401)     |
| Accounts payable                                                                               | 556                         | (801)     |
| Income taxes payable                                                                           | (1,082)                     | (385)     |
| Accrued expenses and other liabilities                                                         | (90)                        | (1,956)   |
| Other                                                                                          | (1,147)                     | 158       |
|                                                                                                | -----                       | -----     |
| Net cash provided by operating activities                                                      | 2,953                       | 4,763     |
| Investing activities:                                                                          |                             |           |
| Purchases of property, plant and equipment                                                     | (2,951)                     | (5,244)   |
| Sale of property, plant and equipment                                                          | 111                         | 11        |
|                                                                                                | -----                       | -----     |
| Net cash used in investing activities                                                          | (2,840)                     | (5,233)   |

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## Financing activities:

|                                                  |           |          |
|--------------------------------------------------|-----------|----------|
| Proceeds from notes payable to banks             | --        | 4,050    |
| Payments on long-term debt                       | (7,758)   | (7,758)  |
| Proceeds from long-term debt                     | --        | 2,000    |
| Treasury stock purchased                         | --        | (67)     |
| Dividends paid                                   | (2,591)   | (2,417)  |
| Stock options exercised                          | 452       | 1,049    |
|                                                  | -----     | -----    |
| Net cash used in financing activities            | (9,897)   | (3,143)  |
| Effect of exchange rate change                   | 1,432     | (1,010)  |
|                                                  | -----     | -----    |
| Net decrease in cash and cash equivalents        | (8,352)   | (4,623)  |
| Cash and cash equivalents at beginning of period | 29,500    | 13,941   |
|                                                  | -----     | -----    |
| Cash and cash equivalents at end of period       | \$ 21,148 | \$ 9,318 |
|                                                  | =====     | =====    |

See notes to condensed consolidated financial statements.

## THOMAS INDUSTRIES INC. AND SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### Note A - Basis of Presentation

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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 six-month period ended June 30, 2002, are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. 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, 2001.

#### Note B - Contingencies

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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 periods indicated follows.

(In Thousands)

| For the three months ended June 30: | 2002     | 2001    |
|-------------------------------------|----------|---------|
|                                     | ----     | ----    |
| Net income                          | \$ 8,636 | \$7,328 |
| Foreign currency translation        | 5,667    | (130)   |
|                                     | -----    | -----   |
| Comprehensive income                | \$14,303 | \$7,198 |
|                                     | =====    | =====   |

For the six months ended June 30:

|                              |          |          |
|------------------------------|----------|----------|
| Net income                   | \$16,057 | \$14,608 |
| Foreign currency translation | 5,144    | (3,263)  |
|                              | -----    | -----    |
| Comprehensive income         | \$21,201 | \$11,345 |
|                              | =====    | =====    |

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### Note D - Net Income Per Share

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

| (In Thousands)                      | Three Months<br>Ended June 30 |          | Six Months<br>Ended June 30 |          |
|-------------------------------------|-------------------------------|----------|-----------------------------|----------|
|                                     | 2002                          | 2001     | 2002                        | 2001     |
|                                     | ----                          | ----     | ----                        | ----     |
| Numerator:                          |                               |          |                             |          |
| Net income                          | \$ 8,636                      | \$ 7,328 | \$16,057                    | \$14,608 |
|                                     | =====                         | =====    | =====                       | =====    |
| Denominator:                        |                               |          |                             |          |
| Weighted average shares outstanding | 15,276                        | 15,163   | 15,260                      | 15,140   |
| Effect of dilutive securities:      |                               |          |                             |          |
| Director and employee stock options | 570                           | 518      | 521                         | 494      |
| Employee performance shares         | 37                            | 41       | 36                          | 44       |
|                                     | -----                         | -----    | -----                       | -----    |

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|                                                                                                      |        |        |        |        |
|------------------------------------------------------------------------------------------------------|--------|--------|--------|--------|
| Dilutive potential common shares                                                                     | 607    | 559    | 557    | 538    |
|                                                                                                      | -----  | -----  | -----  | -----  |
| Denominator for diluted earnings per share--adjusted weighted average shares and assumed conversions | 15,883 | 15,722 | 15,817 | 15,678 |
|                                                                                                      | =====  | =====  | =====  | =====  |

## Note E - Segment Disclosures

| (In Thousands)                               | Three Months  |            | Six Months    |           |
|----------------------------------------------|---------------|------------|---------------|-----------|
|                                              | Ended June 30 |            | Ended June 30 |           |
|                                              | 2002          | 2001       | 2002          | 2001      |
|                                              | ----          | ----       | ----          | ----      |
| Total net sales including intercompany sales |               |            |               |           |
| Pump and Compressor                          | \$56,261      | \$52,423   | \$108,218     | \$108,905 |
| Intercompany sales                           |               |            |               |           |
| Pump and Compressor                          | \$ (6,333)    | \$ (5,508) | \$ (12,233)   | (12,294)  |
| Net sales to unaffiliated customers          |               |            |               |           |
| Pump and Compressor                          | \$49,928      | \$46,915   | \$95,985      | \$96,611  |
| Operating income                             |               |            |               |           |
| Pump and Compressor                          | \$ 8,014      | \$ 7,566   | \$15,561      | \$16,109  |
| Lighting*                                    | 7,522         | 6,112      | 13,524        | 11,173    |
| Corporate                                    | (1,419)       | (1,416)    | (2,904)       | (3,042)   |
|                                              | -----         | -----      | -----         | -----     |
|                                              | \$14,117      | \$12,262   | \$26,181      | \$24,240  |
|                                              | =====         | =====      | =====         | =====     |

\*Three months ended June 30 consists of equity income of \$7,572 in 2002 and \$6,692 in 2001 from our 32% interest in the joint venture, Genlyte Thomas Group LLC (GTG), less \$529 of amortization in 2001 of Thomas' excess investment and less \$50 in 2002 and \$51 in 2001, related to expense recorded for Thomas Industries stock options issued to GTG employees. Six months ended June 30 consists of equity income of \$13,625 in 2002 and \$12,334 in 2001 from our 32% interest in GTG, less \$1,058 of amortization in 2001 of Thomas' excess investment and less \$101 in 2002 and \$103 in 2001, related to expense recorded for Thomas Industries stock options issued to GTG employees.

## Note F - Goodwill and Other Intangible Assets

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" (SFAS 141) and SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). These statements established new accounting and reporting standards for business combinations and associated goodwill and intangible assets. SFAS 141, effective July 1, 2001, eliminates the pooling of interest method of accounting and amortization of goodwill for business combinations initiated after June 30,

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2001. SFAS 142, effective January 1, 2002, requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. During the first phase of implementing SFAS 142, the Company was required to identify its reporting units and to determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of December 31, 2001. Based upon a discounted cash flow analysis, the Company concluded that the fair value of its reporting units containing goodwill exceeded the carrying value. As a result, no impairment loss was recorded or recognized as a cumulative effect of a change in accounting principle. The Company is required to perform additional impairment tests on an annual basis prior to the issuance of the annual financial statements.

The following table provides comparative earnings and earnings per share had the non-amortization provisions of SFAS 142 been adopted for all periods presented:

|                                                                            | For Three Months<br>Ended<br>June 30 |         | For Six Months<br>Ended<br>June 30 |          |
|----------------------------------------------------------------------------|--------------------------------------|---------|------------------------------------|----------|
| (Thousands of dollars, except per share data)                              | 2002                                 | 2001    | 2002                               | 2001     |
| Reported net income                                                        | \$8,636                              | \$7,328 | \$16,057                           | \$14,608 |
| Add back: Pump and Compressor (P & C)<br>goodwill amortization, net of tax | --                                   | 93      | --                                 | 189      |
| Add back: Amortization of excess<br>investment in GTG, net of tax          | --                                   | 415     | --                                 | 829      |
| Add back: Amortization for GTG, net of tax                                 | --                                   | 327     | --                                 | 654      |
| Adjust: Intangible amortization, net of tax                                | --                                   | 1       | --                                 | 2        |
| Adjusted net income                                                        | \$8,636                              | \$8,164 | \$16,057                           | \$16,282 |
| Basic earnings per share:                                                  |                                      |         |                                    |          |
| Reported net income                                                        | \$.57                                | \$.4    | \$1.05                             | \$.96    |
| P & C goodwill amortization                                                | --                                   | .01     | --                                 | .01      |
| Amortization of excess investment in GTG                                   | --                                   | .03     | --                                 | .06      |
| GTG amortization                                                           | --                                   | .02     | --                                 | .04      |
| Intangible amortization                                                    | --                                   | --      | --                                 | --       |
| Adjusted net income                                                        | \$.57                                | \$.54   | \$1.05                             | \$1.08   |
| Diluted earnings per share:                                                |                                      |         |                                    |          |
| Reported net income                                                        | \$.54                                | \$.47   | \$1.02                             | \$.93    |
| P & C goodwill amortization                                                | --                                   | .01     | --                                 | .01      |
| Amortization of excess investment in GTG                                   | --                                   | .02     | --                                 | .06      |
| GTG amortization                                                           | --                                   | .02     | --                                 | .04      |
| Intangible amortization                                                    | --                                   | --      | --                                 | --       |
| Adjusted net income                                                        | \$.54                                | \$.52   | \$1.02                             | \$1.04   |

All other intangible assets have definite lives and are being amortized. In

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accordance with FASB 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. Balances at June 30, 2002 and December 31, 2001 are stated in thousands of dollars on the following table.

| June 30, 2002 |       |          |              | December 31, 2001 |          |              |  |
|---------------|-------|----------|--------------|-------------------|----------|--------------|--|
|               |       | Gross    | Accumulated  |                   | Gross    | Accumulated  |  |
|               | Life  | Carrying | Amortization |                   | Carrying | Amortization |  |
|               | ----  | Amount   | -----        |                   | Amount   | -----        |  |
| Licenses      | 18-19 | \$456    | \$52         | 5-20              | \$437    | \$38         |  |
| Patents       | 10-20 | 92       | 18           | 5-20              | 23       | 16           |  |
| Other         | 10    | 35       | 13           | 40                | 31       | 10           |  |
|               |       | ----     | ---          |                   | ----     | ---          |  |
| Total         |       | \$583    | \$83         |                   | \$491    | \$64         |  |
|               |       | =====    | ===          |                   | =====    | ===          |  |

The total intangible amortization expense for the quarters ended June 30, 2002 and 2001 was \$6 and \$8, respectively. The total amortization expense for the six months ended June 30, 2002 and 2001 was \$12 and \$16, respectively.

The estimated amortization expense stated in thousands of dollars for the next five fiscal years beginning January 1, 2002 is as follows:

|                                       |      |
|---------------------------------------|------|
| For the year ended December 31, 2002: | \$26 |
| For the year ended December 31, 2003: | \$29 |
| For the year ended December 31, 2004: | \$29 |
| For the year ended December 31, 2005: | \$29 |
| For the year ended December 31, 2006: | \$29 |

The goodwill included in the balance sheets is related to the Pump and Compressor Segment. The total change in goodwill from December 31, 2001 to June 30, 2002, was related to exchange rate fluctuation.

### Note G - 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)<br>June 30,<br>2002<br>---- | December 31,<br>2001<br>---- |
|-----------------------|-----------------------------------------|------------------------------|
| GTG balance sheets:   |                                         |                              |
| Current assets        | \$385,244                               | \$343,044                    |
| Long-term assets      | 273,746                                 | 276,077                      |
| Current liabilities   | 172,965                                 | 170,545                      |
| Long-term liabilities | 62,796                                  | 62,573                       |

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|                                             | Three Months<br>Ended June 30 |           | Six Months<br>Ended June 30 |           |
|---------------------------------------------|-------------------------------|-----------|-----------------------------|-----------|
|                                             | 2002                          | 2001      | 2002                        | 2001      |
| GTG income statements (unaudited):          |                               |           |                             |           |
| Net sales                                   | \$247,767                     | \$257,124 | \$479,793                   | \$501,225 |
| Gross profit                                | 87,569                        | 89,937    | 167,789                     | 174,590   |
| Earnings before interest and taxes          | 25,787                        | 23,686    | 46,870                      | 43,615    |
| Net income (1)                              | 23,664                        | 20,914    | 42,579                      | 38,546    |
| Amounts recorded by Thomas Industries Inc.: |                               |           |                             |           |
| Equity income from GTG (2)                  | \$7,572                       | \$6,692   | \$13,625                    | \$12,334  |
| Stock option expense                        | (50)                          | (51)      | (101)                       | (103)     |
| Amortization of excess investment (3)       | -                             | (529)     | -                           | (1,058)   |
| Equity income reported by Thomas            | \$7,522                       | \$6,112   | \$13,524                    | \$11,173  |

- (1) The quarter and six months ended June 30, 2002 include a favorable impact from the non-amortization provisions of FASB 142 of \$1.3 million and \$2.6 million, respectively.
- (2) The quarter and six months ended June 30, 2002 include a favorable impact from the non-amortization provisions of FASB 142 of \$.4 million and \$.8 million, respectively.
- (3) The quarter and six months ended June 30, 2002 include a favorable impact from the non-amortization provisions of FASB 142 of \$.5 million and \$1.1 million, respectively.

## Note H - New Accounting Pronouncements

FASB No. 141 and 142 are discussed in Note F above.

The FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), dated August 2001. This statement supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," and the accounting and reporting provisions of Accounting Principles Board (APB) Opinion No. 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and it broadens the presentation of discontinued operations to include more disposal transactions. The Company adopted the provisions of SFAS 144, as of January 1, 2002, which did not have an impact on our financial position and results of operations.

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

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### Critical Accounting Policies and Estimates

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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

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

affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company evaluates its estimates, including, but not limited to, those related to product warranties, bad debts, inventories, equity investments, income taxes, pensions and other post-retirement benefits, contingencies, and litigation. 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 writes down its inventory 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 write-downs may be required.

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

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The Company's net income was \$8.6 million in the second quarter ended June 30, 2002, compared to \$7.3 million in the second quarter ended June 30, 2001. The

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second quarter of 2002 was positively impacted by the change in accounting for goodwill required by SFAS No. 142, which was effective January 1, 2002, and eliminated the recording of goodwill amortization. Compared to the previous year's second quarter, this change in accounting increased net income by \$.8 million, or 5 cents per share. Excluding this impact for the accounting change, net income in the quarter ended June 30, 2002, would have increased 6.5% from the previous year's second quarter, primarily due to improvements in both operating Segments. Six month year-to-date net income

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

was \$16.1 million for the period ended June 30, 2002, compared to \$14.6 million in the comparable 2001 period. The change in accounting increased net income by \$1.7 million, or 11 cents per share in the six months ended June 30, 2002. Excluding this impact for the accounting change, net income in the six months ended June 30, 2002 would have decreased 1.5% from the 2001 first half period.

#### PUMP AND COMPRESSOR SEGMENT

Net sales during the second quarter ended June 30, 2002, increased 6.4% to \$49.9 million compared to \$46.9 million for the second quarter of 2001. The North American, European and Asia Pacific operations reported increases for the second quarter of 2002 compared to 2001. Overall, the second quarter sales increase of 6.4% would have been reduced to 5.2%, if measured in constant exchange rates. This exchange rate impact on net sales was primarily related to the European operation due to the strengthening of the euro. Year-to-date net sales for the six-month period ended June 30, 2002, decreased .6% to \$96.0 million compared to \$96.6 million for the comparable period in 2001. On a year-to-date basis, the North American operations had a decrease in sales, primarily due to a very weak start early in the first quarter of 2002. The European operations had a slight increase in sales for the six month period in 2002. The Asia Pacific operations posted very strong sales due to increased shipments for the environmental, medical and industrial markets. Overall, the first half sales would have been increased an additional .2% if measured in constant exchange rates.

Operating income for the second quarter ended June 30, 2002, was \$8.0 million or 5.9% higher than the prior year amount of \$7.6 million. The 2002 results were positively impacted by \$.1 million, due to the accounting change for goodwill amortization. The increase in operating income was primarily due to the sales volume increase. Excluding the impact of the accounting change for goodwill amortization, gross margins increased slightly to 35.8% compared to 35.7%, for the second quarter 2002 versus 2001. SG&A expenses increased to 20% as a percent of net sales for second quarter of 2002, compared to 19.6% for the comparable period in 2001. The 2002 second quarter SG&A expenses included an additional charge for potential collectibility issues in our account receivable. Excluding this charge, the 2002 second quarter SG&A expenses would be at 19.4% of net sales. Year-to-date operating income for the Pump and Compressor Segment for the six months ended June 30, 2002, was \$15.6 million or 3.4% lower than the 2001 first half amount of \$16.1 million. The 2002 results were positively impacted by \$.2 million, due to the accounting change for goodwill amortization. The reduction in the 2002 first half results were primarily due to a weak first quarter which was negatively impacted by several factors including sales volume shortfall, unfavorable manufacturing variances, and unfavorable exchange rate effects. Excluding the impact of the accounting change for goodwill amortization, gross margins for the six month period in 2002 were 36.1% compared to 36.3% in 2001. Excluding the additional charge in the second quarter of 2002 for potential collectibility issues, SG&A expense in the 2002 first half would be at 19.8% of net sales, compared to 19.6% in 2001.

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### LIGHTING SEGMENT

The Lighting Segment (GTG Joint Venture) results increased 23.1% to \$7.5 million in the second quarter of 2002, compared to \$6.1 million in the same period in 2001. The 2002 results were positively impacted by \$.9 million, due to the accounting change for goodwill amortization. This \$.9 million impact includes \$.5 million related to amortization of Thomas' excess investment and \$.4 million, which represents Thomas' 32% interest in GTG's

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

\$1.3 million of goodwill amortization in 2001. Therefore, excluding the impact from the accounting change, GTG's earnings increased 7.6% in 2002 compared to the 2001 second quarter. GTG's sales during the 2002 second quarter decreased 3.6% compared to the second quarter of 2001. The sales shortfall was primarily due to softness in the commercial and industrial markets while earnings improved due to favorable sales mix and aggressive cost control measures. Year-to-date GTG results for the six months ended June 30, 2002, increased 21.0% to \$13.5 million, compared to \$11.2 million in the 2001 first half. The 2002 results were positively impacted by \$1.9 million, due to the accounting change for goodwill amortization. This \$1.9 million impact includes \$1.1 million related to amortization of Thomas' excess investment and \$.8 million, which represents Thomas' 32% interest in GTG's \$2.6 million of goodwill amortization in 2001. Therefore, excluding the impact from the accounting change, GTG's earnings increased 4.1% in 2002 compared to the 2001 first six months. GTG's sales during the 2002 first half decreased 4.3% compared to the first half of 2001.

At 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 interests in GTG computed as a going concern, including the control premium. Further explanation can be found in our Joint Proxy Statement dated July 23, 1998, which is on file with the Securities and Exchange Commission. The Company will continue to review alternatives with respect to the GTG put right.

### CORPORATE

As noted in the Segment Disclosure footnote, consolidated operating income includes corporate expenses. Corporate expenses were \$1.4 million for the second quarter of 2002 and 2001. The 2002 amount included some increases for incentive and professional fee accruals, which were offset by savings from cost reductions implemented during the second half of 2001. Year-to-date corporate expenses for the six month period ended June 30, 2002, were \$2.9 million compared to \$3.0 million in the comparable 2001 period.

Interest expense for the 2002 second quarter was \$.6 million compared to \$.9 million for the second quarter of 2001. Year-to-date interest expense for the six month period ended June 30, 2002 was \$1.2 million compared to \$1.9 million for comparable 2001 period. The reduction in 2002 was primarily related to the \$7.7 million payment of long-term debt on January 31, 2002, which carried a 9.36% annual interest rate, as well as higher short-term and other long-term borrowing levels in 2001.

Interest income and other for the 2002 second quarter was \$43,000 compared to \$.4 million for the second quarter of 2001. The six month total for 2002 was \$.3 million compared to \$1.0 million for the comparable 2001 period. The decrease

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for the second quarter and June year-to-date periods primarily related to a \$22.3 million note receivable with GTG, from which the Company received interest income during 2001. GTG paid off this \$22.3 million note in November 2001 and the Company used some of these proceeds to partially pay down long-term debt. Additionally, in the second quarter of 2002, the Company recorded transaction losses due to the weakening of the U.S. dollar versus the euro, British pound sterling, and Japanese yen.

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

Income tax provisions were \$5.0 million and \$4.4 million for the second quarter 2002 and 2001, respectively. The June year-to-date income tax provisions were \$9.2 million and \$8.8 million for 2002 and 2001, respectively. Effective tax rates were 36.5% in the 2002 periods and 37.5% for the 2001 periods. The decline in the effective tax rate was primarily due to the accounting change related to goodwill amortization.

#### Liquidity and Sources of Capital

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Cash and cash equivalents decreased \$8.4 million to \$21.1 million at June 30, 2002, compared to \$29.5 million at December 31, 2001. This decrease was primarily related to the \$7.7 million long-term debt payment on January 31, 2002. Cash flows provided by operations in the first half of 2002 were \$3.0 million compared to \$4.8 million provided by operations in the first half of 2001. The decrease in cash flows were primarily related to an increase in accounts receivable due to increased sales volume in the second quarter 2002 versus 2001. The timing of our 2002 shipments also contributed to the increase in accounts receivable, since there was a larger amount of shipments in the last three weeks of June 2002 compared to June 2001.

Dividends paid in the first half of 2002 were \$2.6 million or \$.17 per share. The 2001 first half dividends paid were \$2.4 million or \$.16 per share. The Company increased its quarterly dividend per share from \$.075 to \$.085, effective with the April 1, 2001 dividend.

As of June 30, 2002, the Company had standby letters of credit totaling \$4.5 million with expiration dates during 2002. 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. During the first half of 2002, no purchases were made. Through June 30, 2002, the Company has purchased, on a cumulative basis, 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 common stock through a combination of cash flows generated from operating activities and uncommitted borrowing arrangements.

Working capital decreased from \$46.0 million at December 31, 2001, to \$44.2 million at June 30, 2002, primarily due to the \$7.7 million long-term debt payment.

|                      | June 30 | December 31 |
|----------------------|---------|-------------|
|                      | -----   | -----       |
| Dollars in Thousands | 2002    | 2001        |

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|                                      |          |          |
|--------------------------------------|----------|----------|
| Working capital                      | \$44,241 | \$45,978 |
| Current ratio                        | 2.47     | 2.52     |
| Long-term debt, less current portion | \$17,180 | \$24,938 |
| Long-term debt to total capital      | 6.3%     | 9.5%     |

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 \$92.8 million are not restricted at June

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

30, 2002. Thomas is 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 June 30, 2002, the prepayment penalty would have been approximately \$2.1 million on a pre-tax basis.

As of June 30, 2002, the Company had no short-term borrowing arrangements. Thomas currently expects to fund expenditures for capital requirements as well as liquidity needs from a combination of available cash balances, internally generated funds, and, if necessary, short-term financing arrangements. The Company does not have any bank committed lines of credit and management believes, if short-term borrowings were needed to support the sales growth of the business, that competitive financing could be obtained given the current financial position of the Company. Cash in excess of operating requirements will continue to be invested in high grade, short-term securities.

As disclosed in the footnotes to the consolidated financial statements, the Company does have a 32 percent interest in the GTG joint venture, which is accounted for using the equity method, and therefore, is an unconsolidated entity. At June 30, 2002 and December 31, 2001, except as described above, 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.

#### Proposed Acquisition Financing

The Company is currently in negotiation with a group of banks with respect to obtaining a \$120.0 million three-year revolving credit facility. The credit facility would primarily be used for acquisitions. Thomas is in the process of negotiating the possible acquisition of a company, which is proposed to be financed through borrowings under the revolving credit facility and the issuance of Thomas common stock. The Company has not executed definitive agreements with respect to the proposed financing or the possible acquisition and is contractually prohibited from disclosing any additional information. There can be no assurance that the Company will complete the proposed financing or the possible acquisition.

#### 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

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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 Form 10-Q 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

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

statements. Any projections of financial performances 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.
- 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 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 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 affect on the

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Company's results.

- o GTG, which comprises the Company's Lighting Segment, participates in a highly competitive market that is 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 changes in its ability to obtain or hedge against currency exchange rates and fluctuations in those rates. 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.

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The forward-looking statements made by the Company are based on estimates that the Company believes are reasonable. This means that the Company's actual results could differ materially from such estimates and expectations as a result of being positively or negatively affected by the factors as described above, as well as other unexpected, unanticipated, or unforeseen factors.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company's long-term debt bears interest at fixed rates, with the exception of the \$1.25 million Industrial Revenue Bond that accrues interest at a variable rate. Short-term borrowings are priced at variable interest rates. The Company's results of operations and cash flows, therefore, would only be affected by interest rate changes to the extent of variable rate debt. At June 30, 2002, only the \$1.25 million Industrial Revenue Bond was outstanding. A 100 basis point movement in the interest rate on the \$1.25 million bond would result in an \$12,500 annualized effect on interest expense and cash flows.

The Company also has short-term investments, included in cash equivalents, of \$19.3 million as of June 30, 2002 that bear interest at variable rates. Therefore, a 100 basis point movement in the interest rate would result in an approximate \$193,000 annualized effect on interest income and cash flows.

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 \$375,000 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

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### Item 4. Submission of Matters to a Vote of Security Holders

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- (a) A regular Annual Meeting of Shareholders was held on April 18, 2002.
- (b) Class I Directors elected at the Annual Meeting of Shareholders were Wallace H. Dunbar, Lawrence E. Gloyd, and William M. Jordan. Directors whose term of office as a director continued after the meeting were Timothy C. Brown, Joseph Ferguson, Anthony A. Massaro and Franklin J. Lunding, Jr. Gene P. Gardner retired as a director effective with the April 18, 2002 meeting.
- (c) The voting at the Annual Meeting of Shareholders was as follows:

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### Proposal No. 1 - Election of Directors

|                   | For<br>--- | Withheld<br>----- |
|-------------------|------------|-------------------|
| Wallace H. Dunbar | 13,954,326 | 80,088            |
| Lawrence E. Gloyd | 13,906,505 | 127,909           |
| William M. Jordan | 13,916,087 | 118,327           |

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

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

- (b) A Form 8-K was filed on May 21, 2002, announcing the appointment of Ernst & Young LLP as the registrant's independent auditors for 2002 and the termination of Arthur Andersen LLP as the previous independent auditors.

### 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.

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Registrant

/s/ Phillip J. Stuecker

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Phillip J. Stuecker, Vice President  
and Chief Financial Officer

Date August 14, 2002

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