

Edgar Filing: THOMAS INDUSTRIES INC - Form 10-Q

THOMAS INDUSTRIES INC  
Form 10-Q  
August 09, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2004

Commission File Number 1-5426

THOMAS INDUSTRIES INC.

-----  
(Exact name of Registrant as specified in its Charter)

DELAWARE

61-0505332

-----  
(State of incorporation)

-----  
(I.R.S. Employer Identification Number)

4360 BROWNSBORO ROAD, SUITE 300, LOUISVILLE, KENTUCKY

40207

-----  
(Address of principal executive offices)

-----  
(Zip Code)

502/893-4600

-----  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No \_\_\_

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes X No \_\_\_

As of July 28, 2004, 17,459,904 shares of the registrant's Common Stock were outstanding (net of treasury shares).

PART I. - FINANCIAL INFORMATION

ITEM 1. Financial Statements (Unaudited)

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

|  | THREE MONTHS ENDED<br>JUNE 30 |           | SIX MONTH<br>JUNE |
|--|-------------------------------|-----------|-------------------|
|  | 2004                          | 2003      | 2004              |
| Net sales .....  | \$ 102,656                    | \$ 95,810 | \$ 212,174        |
| Cost of products sold .....                            | 65,093                        | 62,050    | 136,228           |
| Gross profit .....                                     | 37,563                        | 33,760    | 75,946            |
| Selling, general and administrative<br>expenses .....  | 29,368                        | 25,194    | 58,368            |
| Equity income from GTG.....                            | 7,997                         | 6,887     | 15,419            |
| Operating income .....                                 | 16,192                        | 15,453    | 32,997            |
| Interest expense .....                                 | 935                           | 1,026     | 1,961             |
| Interest income and other income .....                 | (172)                         | 94        | 434               |
| Income before income taxes and minority interest ..... | 15,085                        | 14,521    | 31,470            |
| Income taxes .....                                     | 5,280                         | 5,079     | 11,015            |
| Income before minority interest .....                  | 9,805                         | 9,442     | 20,455            |
| Minority interest, net of tax .....                    | --                            | 10        | --                |
| Net income .....                                       | \$ 9,805                      | \$ 9,432  | \$ 20,455         |
| Net income per share:                                  |                               |           |                   |
| Basic .....  | \$ 0.56                       | \$ 0.55   | \$ 1.18           |
| Diluted .....  | \$ 0.55                       | \$ 0.54   | \$ 1.15           |
| Dividends declared per share: .....                    | \$ 0.095                      | \$ 0.095  | \$ 0.19           |
| Weighted average number of shares outstanding:         |                               |           |                   |
| Basic .....  | 17,391                        | 17,179    | 17,355            |
| Diluted .....  | 17,781                        | 17,550    | 17,743            |

See notes to condensed consolidated financial statements

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THOMAS INDUSTRIES INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (DOLLARS IN THOUSANDS)

|   | (Unaudited)<br>June 30<br>2004 | De    |
|---|--------------------------------|-------|
|   | -----                          | ----- |
| <b>ASSETS</b>   |                                |       |
| Current assets:   |                                |       |
| Cash and cash equivalents .....   | \$ 37,379                      | \$    |
| Accounts receivable, less allowance<br>(2004--\$2,149; 2003--\$2,270) ..... | 59,448                         |       |
| Inventories:  |                                |       |
| Finished products .....   | 31,622                         |       |
| Raw materials .....   | 30,342                         |       |
| Work in process .....   | 8,057                          |       |
|   | -----                          |       |
|   | 70,021                         |       |
| Deferred income taxes .....   | 6,804                          |       |
| Other current assets .....  | 5,806                          |       |
|   | -----                          |       |
| Total current assets .....  | 179,458                        |       |
| Investment in GTG .....   | 224,767                        |       |
| Property, plant and equipment .....   | 189,569                        |       |
| Less accumulated depreciation and amortization .....                        | (82,780)                       |       |
|   | -----                          |       |
|   | 106,789                        |       |
| Goodwill .....  | 62,545                         |       |
| Other intangible assets, net .....  | 21,110                         |       |
| Other assets .....  | 4,828                          |       |
|   | -----                          |       |
| Total assets .....  | \$ 599,497                     | \$    |
|   | =====                          |       |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                 |                                |       |
| Current liabilities:  |                                |       |
| Notes payable .....   | \$ 5,082                       | \$    |
| Accounts payable .....  | 15,350                         |       |
| Accrued expense and other current liabilities .....                         | 33,342                         |       |
| Dividends payable .....   | 1,651                          |       |
| Income taxes payable .....  | 3,985                          |       |
| Current portion of long-term debt .....                                     | 9,775                          |       |
|   | -----                          |       |
| Total current liabilities .....   | 69,185                         |       |
| Deferred income taxes .....   | 5,788                          |       |
| Long-term debt, less current portion .....                                  | 103,812                        |       |
| Long-term pension liability .....   | 13,189                         |       |
| Other long-term liabilities .....   | 9,184                          |       |
|   | -----                          |       |
| Total liabilities .....   | 201,158                        |       |
| 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          |                                |       |

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|   |            |    |
|---|------------|----|
| issued: 2004 - 18,274,960; 2003 - 18,108,664 .....  | 18,275     |    |
| Capital surplus .....                               | 139,791    |    |
| Deferred compensation .....                         | 1,518      |    |
| Treasury stock held for deferred compensation ..... | (1,518)    |    |
| Retained earnings .....                             | 233,454    |    |
| Accumulated other comprehensive income .....        | 18,878     |    |
| Less cost of 822,339 treasury shares .....          | (12,059)   |    |
|   | -----      |    |
| Total shareholders' equity .....                    | 398,339    |    |
|   | -----      |    |
| Total liabilities and shareholders' equity .....    | \$ 599,497 | \$ |
|   | =====      |    |

\* Derived from the audited December 31, 2003 consolidated balance sheet. See notes to condensed consolidated financial statements.

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THOMAS INDUSTRIES INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED)  
(DOLLARS IN THOUSANDS)

|   |    | SIX MONTHS<br>JUNE |
|---|----|--------------------|
|   |    | -----              |
|   |    | 2004               |
|   |    | -----              |
| OPERATING ACTIVITIES  |    |                    |
| Net income .....  | \$ | 20,455             |
| Adjustments to reconcile net income to net cash provided by operating activities: |    |                    |
| Depreciation and intangible amortization .....                                    |    | 8,147              |
| Deferred income taxes .....   |    | (458)              |
| Equity income from GTG .....  |    | (15,419)           |
| Distributions from GTG .....  |    | 4,350              |
| Other items .....   |    | 241                |
| Changes in operating assets and liabilities net of effect of acquisitions:        |    |                    |
| Accounts receivable .....   |    | (7,520)            |
| Inventories .....   |    | (5,145)            |
| Accounts payable .....  |    | 1,233              |
| Income taxes payable .....  |    | 4,194              |
| Accrued expenses and other current liabilities .....                              |    | 2,882              |
| Other .....   |    | 126                |
|   |    | -----              |
| Net cash provided by operating activities .....                                   |    | 13,086             |
| INVESTING ACTIVITIES  |    |                    |
| Purchases of property, plant and equipment .....                                  |    | (7,577)            |
| Sales of property, plant and equipment .....                                      |    | 47                 |
| Purchases of companies, net of cash acquired .....                                |    | 6,154              |
|   |    | -----              |

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|  |           |
|--|-----------|
| Net cash used in investing activities .....                | (1,376)   |
| FINANCING ACTIVITIES                                       |           |
| Proceeds from short-term debt, net .....                   | 2,091     |
| Payments on long-term debt .....                           | (17,288)  |
| Proceeds from long-term debt .....                         | 18,563    |
| Dividends paid .....                                       | (3,288)   |
| Other .....  | 1,569     |
| Net cash provided by (used in) financing activities.....   | 1,647     |
| Effect of exchange rate changes .....                      | 89        |
| Net increase (decrease) in cash and cash equivalents ..... | 13,446    |
| Cash and cash equivalents at beginning of period .....     | 23,933    |
| Cash and cash equivalents at end of period .....           | \$ 37,379 |

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 of Thomas Industries Inc. ("Thomas" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and with the instructions to Form 10-Q and Article 10-01 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

The results of operations for the three-month and six-month periods ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. In the opinion of the Company's management, the unaudited consolidated financial statements include all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation of the financial position and the results of operations. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

Note B - Acquisitions

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On June 3, 2004, the Company received \$6.2 million in cash, which represents an adjustment to the Company's purchase price of Werner Rietschle Holding GmbH ("Rietschle"). Rietschle was acquired on August 29, 2002. The original purchase price consisted of \$83.3 million in cash and 1.8 million treasury shares of the Company's common stock. The purchase agreement specified the negotiation process to be followed for various items in dispute, so that an adjustment to the purchase price could occur at a subsequent time. In June 2004, negotiations on certain disputed items were completed and this adjustment reduced goodwill by \$6.2 million.

The adjusted aggregate purchase price for Rietschle consists of (in thousands):

|  |           |
|--|-----------|
| Initial cash paid by the Company           | \$ 83,288 |
| Fair value of Thomas common stock          | 44,754    |
| Transaction costs                          | 5,931     |
| Purchase price adjustment received in cash | (6,154)   |
|  | -----     |
| Total adjusted aggregate purchase price    | \$127,819 |
|  | =====     |

On November 20, 2003, the Company purchased the remaining 25% minority interest in the Company's New Zealand subsidiary for \$244,000. All of the purchase price was allocated to goodwill. The Company now owns 100% of the New Zealand subsidiary.

On July 31, 2003, the Company purchased all of the outstanding equity interest of Aldax AB of Stockholm, Sweden for \$2.6 million, of which \$1.7 million was paid in cash at the acquisition date, while \$900,000 was recorded as a long-term liability to be paid on July 31, 2005 in accordance with the purchase agreement. Approximately \$2.0 million of the purchase price was allocated to goodwill.

On April 11, 2003, the Company purchased the remaining 20% minority interest in the Company's Italian subsidiary for \$1.5 million. All of the purchase price was allocated to goodwill. The Company now owns 100% of the Italian subsidiary.

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### Note C - Subsequent Event

-----

On July 31, 2004, the Company sold its 32% interest in the Genlyte Thomas Group LLC (GTG; see Note J) for approximately \$400 million, which is an estimate that will not be finalized until March 2005 due to tax considerations. Transaction costs and taxes are estimated to be \$83 million. Approximately \$103 million of the proceeds were used to pay down short-term and long-term debt. The only debt remaining outstanding are capitalized leases. The remaining proceeds will be invested in short-term investment grade instruments.

### Note D - Contingencies

-----

On August 13, 2002, a petition was filed in the District Court of Jefferson County, Texas, adding Thomas Industries Inc. as a third party defendant in a lawsuit captioned Hydro Action, Inc. v. Jesse James, individually and d/b/a James Backhoe Service of Dietrich, Illinois, Inc. and Original Septic Solutions, Inc. (the "Third Party Plaintiffs") (the "Original Lawsuit"). The Original Lawsuit alleged that the Company violated the Texas Deceptive Trade Practices Act and breached warranties of merchantability and fitness for a particular

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

The Company, like other similar manufacturers, is subject to environmental rules and regulations regarding the use, disposal and cleanup of substances regulated under environmental protection laws. It is the Company's policy to comply with these rules and regulations, and the Company believes that its practices and procedures are designed to meet this compliance. The Company is involved in remedial efforts at certain of its present and former locations. The Company records appropriate liabilities for such matters, when costs can be reasonably estimated. Management does not believe that the ultimate resolution of environmental matters will have a material adverse effect on its consolidated financial position, results of operations or liquidity.

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 consolidated 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 E - Comprehensive Income

-----  
The reconciliation of net income to comprehensive income follows (in thousands):

|                                      | THREE MONTHS<br>ENDED JUNE 30 |         | SIX MONTHS<br>ENDED JUNE 30 |
|--------------------------------------|-------------------------------|---------|-----------------------------|
|                                      | 2004                          | 2003    | 2004                        |
|                                      | ----                          | ----    | ----                        |
| Net income                           | \$9,805                       | \$9,432 | \$20,455                    |
| Other comprehensive income (loss):   |                               |         |                             |
| Minimum pension liability (increase) | 3                             | (36)    | 10                          |
| Related tax (benefit) expense        | (1)                           | 13      | (4)                         |
| Derivative adjustment                | 139                           | -       | (154)                       |
| Related tax (benefit) expense        | (53)                          | -       | 58                          |

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|  |          |          |          |
|--|----------|----------|----------|
| Foreign currency translation               | 2,458    | 7,255    | (5,000)  |
|  | -----    | -----    | -----    |
| Total change in other comprehensive income | 2,546    | 7,232    | (5,090)  |
|  | -----    | -----    | -----    |
| Total comprehensive income                 | \$12,351 | \$16,664 | \$15,365 |
|  | =====    | =====    | =====    |

Note F - 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<br>ENDED JUNE 30 |         | SIX MONTHS<br>ENDED JUNE |
|---|-------------------------------|---------|--------------------------|
|   | 2004                          | 2003    | 2004                     |
|   | -----                         | -----   | -----                    |
| Numerator:  |                               |         |                          |
| Net income  | \$9,805                       | \$9,432 | \$20,455                 |
|   | =====                         | =====   | =====                    |
| Denominator:  |                               |         |                          |
| Weighted average shares outstanding   | 17,391                        | 17,179  | 17,355                   |
| Effect of dilutive securities:  |                               |         |                          |
| Director and employee stock options   | 379                           | 349     | 375                      |
| Employee performance shares   | 11                            | 22      | 13                       |
|   | -----                         | -----   | -----                    |
| Dilutive potential common shares  | 390                           | 371     | 388                      |
|   | -----                         | -----   | -----                    |
| Denominator for diluted earnings per share<br>- adjusted weighted average shares and<br>assumed conversions | 17,781                        | 17,550  | 17,743                   |
|   | =====                         | =====   | =====                    |

Note G - Segment Disclosures

| (In thousands)                               | THREE MONTHS<br>ENDED JUNE 30 |           | SIX MONTHS<br>ENDED JUNE |
|--|-------------------------------|-----------|--------------------------|
|  | 2004                          | 2003      | 2004                     |
|  | -----                         | -----     | -----                    |
| Total net sales including intercompany sales |                               |           |                          |
| Pump and Compressor                          | \$127,996                     | \$117,813 | \$263,712                |
| Intercompany sales                           |                               |           |                          |
| Pump and Compressor                          | (25,340)                      | (22,003)  | (51,538)                 |
|  | -----                         | -----     | -----                    |
| Net sales to unaffiliated customers          |                               |           |                          |
| Pump and Compressor                          | \$102,656                     | \$ 95,810 | \$212,174                |
|  | =====                         | =====     | =====                    |
| Operating income                             |                               |           |                          |



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|                     |           |          |           |    |
|---------------------|-----------|----------|-----------|----|
| Pump and Compressor | \$ 10,873 | \$10,334 | \$22,516  | \$ |
| Lighting*           | 7,997     | 6,887    | 15,419    |    |
| Corporate           | (2,678)   | (1,768)  | (4,938)   |    |
|                     | -----     | -----    | -----     |    |
|                     | \$ 16,192 | \$15,453 | \$ 32,997 | \$ |
|                     | =====     | =====    | =====     |    |

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\*Three months ended June 30 consists of equity income of \$8,033,000 in 2004 and \$6,952,000 in 2003 from our 32% interest in the joint venture, Genlyte Thomas Group LLC (GTG), less \$36,000 in 2004 and \$65,000 in 2003 related to expense recorded for Thomas Industries stock options issued to GTG employees. Six months ended June 30 consists of equity income of \$15,545,000 in 2004 and \$13,174,000 in 2003 from our 32% interest in GTG, less \$126,000 in 2004 and \$144,000 in 2003 related to expense recorded for Thomas Industries stock options issued to GTG employees.

Note H - Goodwill and Other Intangible Assets

The changes in net carrying amount of goodwill for the six months ended June 30, 2004 were as follows (in thousands):

|                                      | SIX MONTHS ENDED<br>JUNE 30, 2004 |
|--------------------------------------|-----------------------------------|
|                                      | -----                             |
| Balance at beginning of period       | \$ 70,164                         |
| Adjustments to Rietschle acquisition | (6,196)                           |
| Translation adjustments and other    | (1,423)                           |
|                                      | -----                             |
| Balance at end of period             | \$ 62,545                         |
|                                      | =====                             |

The goodwill included in the balance sheets is related to the Pump and Compressor Segment.

Certain intangible assets have definite lives and are being amortized. Amortizable intangible assets consist of the following (in thousands):

|          | JUNE 30, 2004 |          |                             | DECEMBER 31, 2003 |           |                             |
|----------|---------------|----------|-----------------------------|-------------------|-----------|-----------------------------|
|          | LIFE          | COST     | ACCUMULATED<br>AMORTIZATION | LIFE              | COST      | ACCUMULATED<br>AMORTIZATION |
|          | ----          | ----     | -----                       | ----              | ----      | -----                       |
| Licenses | 18-19         | \$ 498   | \$ 215                      | 18-19             | \$ 503    | \$                          |
| Patents  | 5-20          | 5,781    | 995                         | 5-20              | 5,917     |                             |
| Other    | 1-15          | 3,781    | 1,061                       | 1-10              | 3,619     |                             |
|          |               | -----    | -----                       |                   | -----     |                             |
| Total    |               | \$10,060 | \$ 2,271                    |                   | \$ 10,039 | \$1                         |
|          |               | =====    | =====                       |                   | =====     | =====                       |

The total intangible amortization expense for the six months ended June 30, 2004

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and 2003 was \$442,000 and \$471,000, respectively.

The estimated amortization expense for the next five years beginning January 1, 2004 through December 31, 2008 is as follows (in thousands):

|      |       |
|------|-------|
| 2004 | \$891 |
| 2005 | 898   |
| 2006 | 898   |
| 2007 | 890   |
| 2008 | 842   |

The Company has various trademarks totaling \$12,535,000 at June 30, 2004 and \$12,831,000 at December 31, 2003, that are not amortized. Also included in other intangible assets is an intangible asset associated with the minimum pension liability of \$786,000 as of June 30, 2004 and December 31, 2003.

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Note I - Long-lived Assets

Consistent with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company evaluates long-lived assets for impairment and assesses their recoverability based upon anticipated future cash flows. If facts and circumstances lead the Company's management to believe that the cost of one of its assets may be impaired, the Company will evaluate the extent to which that cost is recoverable by comparing the future undiscounted cash flows estimated to be associated with that asset to the asset's carrying amount and write down that carrying amount to market value to the extent necessary.

Note J - Genlyte Thomas Group LLC (GTG)

The following table contains certain unaudited financial information for GTG.

GENLYTE THOMAS GROUP LLC  
CONDENSED FINANCIAL INFORMATION  
(DOLLARS IN THOUSANDS)

|                       | (UNAUDITED) |              |
|-----------------------|-------------|--------------|
|                       | JUNE 30,    | DECEMBER 31, |
|                       | 2004        | 2003         |
|                       | ----        | ----         |
| GTG balance sheets:   |             |              |
| Current assets        | \$511,876   | \$444,272    |
| Long-term assets      | 285,949     | 288,499      |
| Current liabilities   | 217,684     | 185,809      |
| Long-term liabilities | 51,802      | 51,003       |

|  | THREE MONTHS<br>ENDED JUNE 30 |      | SIX MONTHS<br>ENDED JUNE 30 |      |
|--|-------------------------------|------|-----------------------------|------|
|  | 2004                          | 2003 | 2004                        | 2003 |
|  | ----                          | ---- | ----                        | ---- |

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|   |           |           |           |         |
|---|-----------|-----------|-----------|---------|
| GTG income statements (unaudited):          |           |           |           |         |
| Net sales                                   | \$301,437 | \$254,113 | \$578,799 | \$492,0 |
| Gross profit                                | 107,549   | 88,729    | 202,665   | 170,5   |
| Earnings before interest and taxes          | 27,520    | 23,259    | 52,739    | 44,4    |
| Net income                                  | 25,104    | 21,724    | 48,578    | 41,1    |
|   |           |           |           |         |
| Amounts recorded by Thomas Industries Inc.: |           |           |           |         |
| Equity income from GTG                      | \$8,033   | \$6,952   | \$15,545  | \$13,1  |
| Stock option expense                        | (36)      | (65)      | (126)     | (1      |
|   | -----     | -----     | -----     | -----   |
| Equity income reported by Thomas            | \$7,997   | \$6,887   | \$15,419  | \$13,0  |
|   | =====     | =====     | =====     | =====   |

### Note K - Stock-Based Compensation

-----

Stock options are granted under various stock compensation programs to employees and independent directors. In December 2003, the Company adopted the fair value recognition provisions of accounting for stock-based compensation under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") which required the Company to expense the fair value of employee stock options prospectively for all employee awards granted, modified or settled after January 1, 2003. Awards under the Company's plan vest over a period of five years. For employee stock options granted prior to 2003, the Company continues to use the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

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Included in stock option activity, but accounted for in accordance with SFAS No. 123, are options granted to GTG employees, for which the Company has recorded compensation expense. This compensation expense, shown net of tax, is also included in the pro forma information below.

The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each period.

|  | THREE MONTHS ENDED |          |
|--|--------------------|----------|
|  | JUNE 30            |          |
|  | -----              | -----    |
|  | 2004               | 2003     |
|  | -----              | -----    |
| Net income (as reported)   | \$ 9,805           | \$ 9,432 |
| Add: Stock-based compensation expense for GTG employees included in reported net income, net of related tax effect                 | 33                 | 59       |
| Deduct: Total stock-based employee compensation determined under fair value based method for all awards, net of related tax effect | (146)              | (209)    |

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|                                  |             |    |        |    |        |
|----------------------------------|-------------|----|--------|----|--------|
| Net income (pro forma)           |             | \$ | 9,692  | \$ | 9,282  |
| Net income per share (Basic) -   | As reported |    | \$ .56 |    | \$ .55 |
|                                  | Pro forma   |    | .56    |    | .54    |
| Net income per share (Diluted) - | As reported |    | .55    |    | .54    |
|                                  | Pro forma   |    | .55    |    | .53    |

Note L - Product Warranty Costs

The Company generally offers warranties for most of its products for periods from one to five years. The specific terms and conditions of these warranties vary depending on the product sold and country in which the Company does business. The Company estimates the costs that may be incurred under its warranty and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability include that number of units sold, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amount as necessary.

Changes in the Company's warranty liability for June 30, 2004 are as follows (in thousands):

|                                | SIX MONTHS ENDED<br>JUNE 30, 2004 |
|--------------------------------|-----------------------------------|
| Balance at beginning of period | \$5,382                           |
| Warranties accrued             | 2,017                             |
| Settlements made and other     | (1,617)                           |
|                                | -----                             |
| Balance at end of period       | \$5,782                           |
|                                | =====                             |

Note M - Currency Risk Management

All derivative instruments are recorded at fair value on the balance sheet and all changes in fair value are recorded to earnings or to shareholders' equity through other comprehensive income in accordance with SFAS No. 133, as amended, "Accounting for Derivatives and Hedging Activity" (SFAS 133).

The Company uses forward currency exchange contracts to manage its exposures to the variability of cash flows primarily related to the purchase of inventory manufactured in Europe but inventoried and sold in non Euro-denominated countries. These contracts are designated as cash flow hedges.

The Company does not use derivative instruments for trading or speculative purposes.

All of the Company's derivative contracts are adjusted to current market values each period and qualify for hedge accounting under SFAS 133. The periodic gains and losses of the contracts designated as cash flows are deferred in other comprehensive income until the underlying transactions are recognized. Upon recognition, such gains and losses are recorded in operations as an adjustment

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to the carrying amounts of the underlying transactions in the period in which these transactions are recognized. The carrying values of derivative contracts are included in other current assets.

The Company's policy requires that contracts used as hedges must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. Hedging effectiveness is assessed periodically. Any contract that is either not designated as a hedge, or is so designated but is ineffective, is marked to market and recognized in earnings immediately. If a cash flow hedge ceases to qualify for hedge accounting or is terminated, the contract would continue to be carried on the balance sheet at fair value until settled and future adjustments to the contract's fair value would be recognized in earnings immediately. If a forecasted transaction were no longer probable to occur, amounts previously deferred in other comprehensive income would be recognized immediately in earnings.

Note N - Pension and Other Postretirement Benefit Costs

The components of net periodic benefit cost consisted of the following:

Three months ended June 30:

|                                 | PENSION BENEFITS |        |            |        |      |
|---------------------------------|------------------|--------|------------|--------|------|
|                                 | FOREIGN PLANS    |        | U.S. PLANS |        |      |
|                                 | 2004             | 2003   | 2004       | 2003   |      |
| Service cost                    | \$ 62            | \$ 72  | \$ 81      | \$ 71  | \$ 2 |
| Interest cost                   | 141              | 148    | 132        | 128    | 2    |
| Expected return on plan assets  | -                | -      | (156)      | (135)  |      |
| Other amortization and deferral | 4                | -      | 47         | 51     | 1    |
| Net Periodic Benefit cost       | \$ 207           | \$ 220 | \$ 104     | \$ 115 | \$ 5 |

Six months ended June 30:

|                                 | PENSION BENEFITS |        |            |        |       |
|---------------------------------|------------------|--------|------------|--------|-------|
|                                 | FOREIGN PLANS    |        | U.S. PLANS |        |       |
|                                 | 2004             | 2003   | 2004       | 2003   |       |
| Service cost                    | \$ 124           | \$ 144 | \$ 162     | \$ 142 | \$ 4  |
| Interest cost                   | 282              | 296    | 264        | 256    | 4     |
| Expected return on plan assets  | -                | -      | (312)      | (270)  |       |
| Other amortization and deferral | 8                | -      | 94         | 102    | 2     |
| Net Periodic Benefit cost       | \$ 414           | \$ 440 | \$ 208     | \$ 230 | \$ 10 |

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As of June 30, 2004, no contributions have been made, but the Company anticipates contributions to the plans of \$570,000 for 2004.

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### Note O - Recent Accounting Pronouncements

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In January 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires a company to consolidate a variable interest entity if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns, or both. The Company has adopted the provisions of FIN 46, which did not have an impact on the Company's financial statements or disclosures.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS No. 150"). SFAS No. 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatorily redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets, and certain obligations that can be settled with shares of stock. Although certain portions of SFAS No. 150 have been deferred indefinitely, certain portions of the statement became effective during the third quarter of 2003. The provisions of this statement did not have and are not expected to have an impact on the Company's statement of financial position.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"), which introduces a Medicare prescription drug benefit, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare benefit, was enacted. On May 19, 2004, the FASB issued Financial Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", ("FSP 106-2") to discuss certain accounting and disclosure issues raised by the Act. FSP 106-2 addresses accounting for the federal subsidy for the sponsors of single employer defined benefit postretirement healthcare plans and disclosure requirements for plans for which the employer has not yet been able to determine actuarial equivalency. Except for certain nonpublic entities, FSP 106-2 is effective for the first interim or annual period beginning after June 15, 2004 (the quarter ending September 30, 2004 for the Company). We have not yet concluded whether the prescription drug benefits provided under our postretirement plan are actuarially equivalent to the Medicare benefit as necessary to qualify for the subsidy. The reported net periodic benefit costs of our postretirement plan in the accompanying Financial Statements and Note N to the Financial Statements do not reflect the effects of the Act. Adoption of FSP 106-2 could require revisions to previously reported information. While we may be eligible for benefits under the Act based on the prescription drug benefits provided in our postretirement plan, we do not believe such benefits will have a material impact on our Financial Statements.

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

#### OVERVIEW

The Company operates in the Pump and Compressor Segment and until July 31, 2004, also operated in the Lighting Segment. The Pump and Compressor Segment designs, manufactures, markets, sells and services pump and compressor products through

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worldwide operations. In August 2002, we significantly increased the size of our pump and compressor business by acquiring substantially all the assets and liabilities of Werner Rietschle Holding GmbH ("Rietschle"), a privately held company based in Schopfheim, Germany. Rietschle's operating results are included in the Company's operating results since the August 29, 2002 acquisition date. The Pump and Compressor Segment supplies products to the original equipment manufacturer (OEM) market in such applications as medical equipment, environmental, mobile, printing, packaging and many others. An important market to the Company is the medical equipment market, which includes compressors used in oxygen concentrators, nebulizers, aspirators, and other devices. As previously announced, we expect our sales to the oxygen concentrator OEM market to be reduced in 2004 by \$4 million to \$6 million as a result of the loss of one of our customer's oxygen concentrator product lines to a competitor beginning late in the second quarter of

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

2004. Even with the loss of these sales, the Company believes it has the leading market share in the oxygen concentrator OEM market worldwide. Pricing in this market has continued to erode due to competition and threat of foreign manufacturers. In order to reduce our cost structure and remain price competitive, we are in the process of constructing a manufacturing facility in China, which should be in production in the first half of 2005. We continue to rationalize our existing production facilities around the world to achieve efficient high quality production capabilities. During 2003, we closed our manufacturing facility in Fleurier, Switzerland, and relocated this production to other facilities. We incurred moving related costs for this shutdown. As this was a former Rietschle facility, all other shutdown costs were recorded as goodwill as part of the opening balance sheet adjustments contemplated in the transaction. In 2003, we also built and opened a new facility in Memmingen, Germany and relocated from the older leased facility late in 2003, incurring approximately \$400,000 in relocation costs. This new facility allows the Company to produce in a more efficient manner and consolidate production. In February 2004, the Company announced the closing of its Wuppertal, Germany manufacturing facility which will generate approximately \$3.2 million of one-time costs in 2004. The Company has recorded \$1.1 million and \$1.9 million of pre-tax charges in the second quarter and the first six months of 2004, respectively, related to this closure. Production from the Wuppertal facility has now been transferred to the new Memmingen facility. We believe these steps were necessary to better position the Company for future growth opportunities given the current competitive environment. We have received certain commodity cost increases which will impact our costs in future periods, although we will attempt to offset these with price increases of our own. The Company is also experiencing increased costs related to requirements by Section 404 of the Sarbanes-Oxley Act. In the second quarter and six month periods ended June 30, 2004, the Company recorded approximately \$370,000 of pre-tax charges related to Sarbanes-Oxley and expects an additional \$900,000 in the second half of 2004, most of which will be in the third quarter.

Until July 31, 2004, the Company also operated in the Lighting Segment through its 32% interest in the Genlyte Thomas Group LLC (GTG) joint venture. The Company's investment in GTG was accounted for by using the equity method of accounting. GTG designs, manufacturers, markets, and sells lighting fixtures for a wide variety of applications in the commercial, industrial and residential markets for both indoor and outdoor fixtures. On July 31, 2004, the Company sold its 32% interest in GTG to The Genlyte Group Incorporated for approximately \$400 million. Since this sale occurred after the current reporting period, the

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Company's results for the three months and six months ended June 30, 2004, include its 32% interest in GTG for those periods. Given the sale of GTG, the Company is evaluating its segment reporting requirements for future filings.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Thomas' discussion and analysis of its financial condition and results of operations are based upon Thomas' consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. When preparing these consolidated financial statements, the Company is required to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company evaluates its estimates including, but not limited to, those related to product warranties, bad debts, inventories, equity investments, income taxes, pensions and other postretirement 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.

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

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. 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 conditions of Thomas' customers deteriorates, 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.

For the Rietschle acquisition which occurred in 2002, the Company utilized an independent appraiser in determining the fair value of assets and liabilities acquired. If actual market conditions or other factors are different than those used by the independent appraiser, then additional asset write-downs may be required.

Prior to the sale of Thomas' interest in GTG, Thomas held a 32 percent interest in GTG, which comprised Thomas' lighting segment and was accounted for using the equity method. GTG's critical accounting policies are determined separately by



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The Genlyte Group Incorporated, which consolidates the GTG results.

### RESULTS OF OPERATIONS

The Company's net income was \$9.8 million in the second quarter ended June 30, 2004, compared to \$9.4 million in the same period in 2003. Year-to-date net income was \$20.5 million for the six months ended June 30, 2004, compared to \$18.2 million for the 2003 six month period. The second quarter and six month increases of 4.0% and 12.2% respectively, were primarily due to higher sales volume and increased earnings from GTG. The Company's 2004 net income was negatively impacted in the second quarter and six month periods due to the strengthening of the euro. Also negatively impacting the 2004 net income were charges of \$.7 million in the second quarter and \$1.2 million in the six month period for costs associated with the closure of the Wuppertal, Germany facility. Costs related to Section 404 of the Sarbanes-Oxley Act was \$240,000 in the 2004 second quarter and first six months.

### PUMP AND COMPRESSOR SEGMENT

Net sales for the Pump and Compressor Segment increased 7.1% to \$102.7 million for the second quarter ended June 30, 2004, compared to \$95.8 million in the second quarter of 2003. This net sales increase of \$6.9 million included an estimated \$4.5 million related to the effects of exchange rate fluctuations. The North American operations reported an .8% decrease in 2004 second quarter net sales compared to 2003 due to weakness in the automotive and medical markets. Sales from our European operations increased 11.0% for the second quarter of 2004 versus 2003. We estimate that approximately two-thirds of this increase in Europe came from the favorable effect of exchange rates. Sales increases in Europe were primarily in the printing, environmental and food and beverage markets. These net sales increases were partially offset by lower sales to the automotive and medical markets in Europe. As previously

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

announced, our medical market sales for the 2004 second quarter were negatively impacted by the loss of one of our oxygen concentrator customers beginning in June. Asia Pacific reported a 23.8% increase in net sales compared to the second quarter of 2003. We estimate that approximately one-third of this increase in Asia Pacific net sales was due to exchange rate fluctuations. The Asia Pacific sales increases came primarily from the printing and medical markets. Net sales for the six months ended June 30, 2004, increased 12.8% to \$212.2 million compared to \$188.2 million for the comparable 2003 period. This sales increase of \$24.0 million included an estimated \$13.1 million related to the effects of exchange rate fluctuations. Net sales for the North American operations had a 2.5% increase in 2004 net sales compared to the 2003 six month period. This increase was primarily due to very strong first quarter sales in the medical market, as well as improvements in the laboratory and industrial markets. These increases were partially offset by lower sales in the automotive market. The European operations reported a 19.0% increase in 2004 net sales compared to 2003. We estimate that approximately two-thirds of the European net sales increase was due to exchange rate fluctuations. The European sales increases were primarily in the printing, environmental, food and beverage and industrial markets. Net sales in Asia Pacific increased 28.5% over the 2003 six month period. We estimated that approximately one-third of this increase was due to exchange rate impact. Asia Pacific reported increases in the printing, environmental, medical and industrial markets.

Gross profit for the Pump and Compressor Segment in the second quarter of 2004 was \$37.6 million, or 36.6% of net sales, compared to \$33.8 million, or 35.2% in

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the second quarter of 2003. Gross profit for the six months ended June 30, 2004 was \$75.9 million, or 35.8% of net sales, compared to \$66.9 million, or 35.5% in the same period in 2003. During the second quarter of 2004, we began to see favorable impacts from factory rationalization decisions made in 2003. Aggressive cost reductions plans are also providing favorable impacts.

The Pump and Compressor Segment's selling, general and administrative (SG&A) expenses were \$26.7 million, or 26.0% of net sales, in the second quarter of 2004, compared to \$23.4 million, or 24.5%, in the same period in 2003. SG&A expenses for the six months ended June 30, 2004 were \$53.4 million, or 25.2% of net sales, compared to \$46.2 million, or 24.6%, for 2003. The increase in the 2004 amounts for the second quarter and six month periods is primarily related to the sales volume increase, exchange rate impact, higher costs associated with our new ERP system and Sarbanes-Oxley costs. Additionally, we recorded expenses of \$1.1 million and \$1.9 million in the 2004 second quarter and six month periods, respectively, related to the 2004 Wuppertal facility closure.

Pump and Compressor Segment operating income for the second quarter ended June 30, 2004, was \$10.9 million, or 10.6% of net sales, compared to \$10.3 million, or 10.8%, in the second quarter of 2003. The 2004 second quarter includes Wuppertal shutdown expense of \$1.1 million. While the Europe and Asia Pacific operations had increases in operating income for the second quarter of 2004 compared to 2003, the North American operations reported a decrease due to higher SG&A costs. For the six months ended June 30, 2004, operating income was \$22.5 million, or 10.6% of net sales, compared to \$20.7 million, or 11.0%, in 2003. The 2004 six month period includes expense of \$1.9 million related to the Wuppertal shutdown. The North American operations were slightly below 2003 operating income levels due to weakness in the automotive market sales activity. Both the European and Asia Pacific operations reported increases in operating income for the 2004 six month period compared to 2003, primarily due to higher sales volume.

### LIGHTING SEGMENT

The Genlyte Group Incorporated (Genlyte) and Thomas formed the Genlyte Thomas Group LLC (GTG) on August 30, 1998. On July 31, 2004, Thomas sold its 32% interest in GTG to Genlyte for approximately \$400 million. Thomas' investment in GTG was accounted for using the equity method of accounting. The Lighting Segment's operating income includes our 32% interest in GTG, as well as

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

expenses related to Thomas Industries stock options issued to GTG employees and our amortization of Thomas' excess investment in GTG for periods prior to January 1, 2002. The Lighting Segment operating income for the second quarter of 2004 was \$8.0 million compared to \$6.9 million in the comparable 2003 period. This increase is due primarily to a 18.6% increase in GTG sales. For the six months ended June 30, 2004, operating income for the Lighting Segment was \$15.4 million compared to \$13.0 million in 2003. This increase is due primarily to a 17.6% increase in GTG sales.

### CORPORATE

As disclosed in Note F (Segment Disclosures) in the consolidated financial statements, consolidated operating income includes corporate expenses. Corporate expenses were \$2.7 million for the three months ended June 30, 2004, compared to \$1.8 million for 2003. For the six months ended June 30, 2004, corporate expenses were \$4.9 million, compared to \$3.6 million in 2003. The increase in 2004 for the second quarter and six month periods relates to higher personnel

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costs, higher costs associated with compliance with the Sarbanes-Oxley Act, higher Kentucky license taxes due to tax law changes, higher legal expenses related to the Rietschle Thomas integration, and additional costs related to expanding our presence in China.

Interest expense for the three months ended June 30, 2004 was \$.9 million compared to \$1.0 million for 2003. For the six months ended June 30, 2004, interest expense was \$2.0 million, compared to \$2.1 million for 2003. The slight reduction in interest expense in 2004 for the second quarter and six month periods is primarily related to the \$7.7 million payment of long-term debt on January 31, 2004, which carried a 9.36% annual interest rate. This was partially offset by higher short-term borrowing levels during 2004.

Interest income and other for the three months ended June 30, 2004 was expense of \$172 thousand compared to income of \$94 thousand in the second quarter of 2003. The 2004 second quarter includes negative impacts from foreign currency transaction losses, while 2003 includes positive impacts from foreign currency transaction gains. For the six months ended June 30, 2004, interest income and other was income of \$434 thousand compared to income of \$55 thousand in the 2003 period. The 2004 six month period includes a slight positive impact from foreign currency transaction gains. Interest income was also higher in 2004 compared to 2003 due to higher invested cash balances.

Income tax provisions were \$5.3 million and \$5.1 million in the three months ended June 30, 2004 and 2003, respectively. For the six months ended June 30, 2004, income tax provisions were \$11.0 million compared to \$9.8 million in 2003. The effective income tax rate was 35% in the second quarter and six month periods of 2004 and 2003.

### LIQUIDITY AND SOURCES OF CAPITAL

Cash flows provided by operations in the six months ended June 30, 2004 were \$13.1 million compared to \$7.3 million in the 2003 six month period. The increase in 2004 was primarily related to changes in accounts payable and income taxes payable, as well as increases in net income and increased distributions from GTG.

Cash used in investing activities was \$1.4 million for the first six months of 2004 compared to \$8.0 million in the comparable 2003 period. The 2004 amount includes capital expenditures of \$7.6 million, which are partially offset by cash received of \$6.2 million related to an adjustment to the Rietschle purchase price. The 2003 amount includes capital expenditures of \$6.5 million and \$1.5 million paid by the Company for the remaining 20% minority interest in our Italian subsidiary.

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

Financing activities provided cash of \$1.6 million in the first six months of 2004 and used cash of \$1.1 million in the first six months of 2003. The increase in 2004 relates primarily to additional net borrowings of short-term and long-term debt in 2004 of \$2.5 million.

Dividends paid in the first six months of 2004 and 2003 were \$3.3 million and \$2.9 million, respectively. The increase in 2004 primarily relates to an increase in the quarterly dividend per share from \$.085 to \$.095, effective with the April 1, 2003 dividend.

As of June 30, 2004, the Company had standby letters of credit totaling

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\$4,410,000 with expiration dates during 2004. The Company anticipates that these letters of credit will be renewed at their expiration dates.

The Company announced in December 1999 that it planned to repurchase, from time to time depending on market conditions and other factors, up to 15 percent, or 2,373,000 shares, of its outstanding Common Stock in the open market or through privately negotiated transactions at the prevailing market prices. No purchases were made under this repurchase plan during the first half of 2004. Under the December 1999 repurchase plan, the Company has purchased, on a cumulative basis through June 30, 2004, 879,189 shares at a cost of \$17.3 million, or an average cost of \$19.72 per share. The Company plans to fund any purchase of Company stock through a combination of cash flows generated from operating activities and our revolving line of credit.

Working capital increased from \$95.6 million at December 31, 2003, to \$110.3 million at June 30, 2004, primarily due to increases in accounts receivable and inventories to support business activities, as well as the \$6.2 million cash received for the Rietschle purchase price adjustment.

| (Dollars in thousands)               | June 30,<br>2004<br>---- | December 31,<br>2003<br>---- |
|--------------------------------------|--------------------------|------------------------------|
| Working capital                      | \$110,273                | \$95,581                     |
| Current ratio                        | 2.59                     | 2.59                         |
| Long-term debt, less current portion | \$103,812                | \$102,673                    |
| Long-term debt to total capital      | 20.7%                    | 21.1%                        |

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 \$136.0 million are not restricted at June 30, 2004. Thomas is currently in compliance with all covenants or other requirements set forth in its borrowing agreements. In the event of non-compliance or if Thomas prepays the debt, then Thomas would incur a penalty. At June 30, 2004, the prepayment penalty would have been approximately \$0.3 million on a pre-tax basis.

As of June 30, 2004, the Company had a \$120 million revolving line of credit with its banks through August 28, 2005, \$95 million of which was outstanding. This line of credit was used to fund the cash payment of \$83 million for the Rietschle acquisition and to support the short-term needs of the business for working capital changes, fixed asset additions, and general business use. As of June 30, 2004, the Company had uncommitted short-term borrowing arrangements being used by certain of its foreign offices which totaled \$5.1 million. As of June 30, 2004 and 2003, except as described above related to the GTG joint venture, management was aware of no relationships with any other unconsolidated entities, financial partnerships, structured finance entities, or special purpose entities which were established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

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

As mentioned in Note C, on July 31, 2004, the Company sold its 32% interest in GTG for approximately \$400 million. This transaction will create significant changes to our working capital and debt levels for our next 10-Q reporting requirement at September 30, 2004. Net cash proceeds of approximately \$317 million will initially increase working capital. Then this increase in working

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capital will be reduced by approximately \$103 million as debt is paid down resulting in lower debt levels.

### FORWARD-LOOKING STATEMENTS

The Company makes forward-looking statements from time to time and desires to take advantage of the "safe harbor" which is afforded such statements under the Private Securities Litigation Reform Act of 1995 when they are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements.

The statements contained in the foregoing "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as other statements contained in this Form 10-Q Report and statements contained in future filings with the Securities and Exchange Commission and publicly disseminated press releases, and statements which may be made from time to time in the future by management of the Company in presentations to shareholders, prospective investors, and others interested in the business and financial affairs of the Company, which are not historical facts, are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements. Any projections of financial performance or statements concerning expectations as to future developments should not be construed in any manner as a guarantee that such results or developments will, in fact, occur. There can be no assurance that any forward-looking statement will be realized or that actual results will not be significantly different from that set forth in such forward-looking statement. In addition to the risks and uncertainties of ordinary business operations, the forward-looking statements of the Company referred to above are also subject to the risks and uncertainties set forth in our annual report on Form 10-K for the year ended December 31, 2003.

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

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

The Company's long-term debt bears interest at variable rates, with the exception of the \$7.7 million senior notes that accrue interest at a 9.36% fixed rate. Short-term borrowings of \$5.1 million at June 30, 2004, are priced at variable interest rates. The Company's results of operations and cash flows, therefore, would be affected by interest rate changes to its variable rate debt. At June 30, 2004, \$111.0 million of variable rate debt was outstanding. A 100 basis point movement in the interest rate on the variable rate debt of \$111.0 million would result in an \$1,110,000 annualized effect on interest expense and cash flows. This interest rate risk on variable rate debt will be significantly lower for our next 10-Q reporting requirement as of September 30, 2004, due to the pay down of approximately \$103 million of debt with proceeds from the sale of GTG.

The Company also has short-term investments, including cash equivalents, of \$20.6 million as of June 30, 2004, that bear interest at variable rates. A 100 basis point movement in the interest rate would result in an approximate \$206,000 annualized effect on interest income and cash flows. This interest rate risk on variable rate investments will be significantly higher for our next 10-Q reporting requirement as of September 30, 2004, due to the invested proceeds from the sale of GTG.

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### ITEM 3. Quantitative and Qualitative Disclosures - Continued

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 \$47,000 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 currency exchange rates or changing economic conditions in the foreign markets in which the Company manufactures or distributes its products. Currency exposures for our Pump and Compressor Segment are concentrated in Germany but exist to a lesser extent in other parts of Europe, Asia, and South America. Our Lighting Segment currency exposure is primarily in Canada. There is a risk associated with changing foreign exchange rates. The Company's objective is to reduce earnings and cash flow volatility associated with foreign exchange rates to allow management to focus its attention on its core business issues and challenges. Accordingly, the Company enters into foreign currency forward contracts that change in value as foreign exchange rates change to protect the value of anticipated foreign currency revenues and expenses. The gains and losses on these contracts offset changes in the value of the underlying transactions as they occur. The Euro is the only currency hedged. At June 30, 2004, the Company held forward contracts expiring through June 2005 to hedge probable, but not firmly committed, intercompany inventory purchases. These hedging contracts are classified as cash flow hedges and accordingly, are adjusted to current market values through other comprehensive income until the underlying transactions are recognized. Upon recognition, such gains and losses are recorded in operations as an adjustment to the carrying amounts of the underlying transactions in the period in which these transactions are recognized. At June 30, 2004, the foreign currency forward contracts had a notional amount of Euro 6,000,000 and fair value of approximately \$24,000. The fair value of the foreign currency forward contracts, which represents an asset, is included in other current assets. The amount of net gain deferred through other comprehensive income as of June 30, 2004, was approximately \$24,000.

### ITEM 4. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that the Company's disclosure controls and procedures are effective in all material respects to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. There have been no significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls, during the period covered by this report.

## PART II. OTHER INFORMATION

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

- (a) A regular Annual Meeting of Shareholders was held on April 22, 2004.
- (b) Class III Directors elected at the Annual Meeting of Shareholders were H. Joseph Ferguson, Anthony A. Massaro, and George H. Walls, Jr. Directors whose

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terms of office as a director continued after the meeting were Timothy C. Brown, Wallace H. Dunbar, Lawrence E. Gloyd, William M. Jordan and Franklin J. Lunding, Jr.

- (c) The voting at the Annual Meeting of Shareholders was as follows:

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ITEM 4. Submission of Matters to a Vote of Security Holders - Continued

Proposal No. 1 - Election of Directors

|                      | For<br>--- | Withheld<br>----- |
|----------------------|------------|-------------------|
| H. Joseph Ferguson   | 15,850,996 | 344,415           |
| Anthony A. Massaro   | 15,815,383 | 380,028           |
| George H. Walls, Jr. | 15,568,145 | 627,265           |

Proposal No. 2 - Resolution to approve the Amended and Restated Thomas Industries Inc. 1995 Incentive Stock Plan

|         |            |
|---------|------------|
| For     | 13,272,987 |
| Against | 1,297,400  |
| Abstain | 742,193    |

Proposal No. 3 - Resolution to redeem Preferred Stock Purchase Rights

|         |           |
|---------|-----------|
| For     | 9,608,111 |
| Against | 5,536,655 |
| Abstain | 167,815   |

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 2 Purchase Agreement filed May 21, 2004 among Genlyte Thomas Group LLC, The Genlyte Group Incorporated and the Company, filed as Exhibit 2 to registrant's report on Form 8-K filed May 21, 2004, hereby incorporated by reference.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) and Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) and Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

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(b) Reports on Form 8-K

A Form 8-K was filed on April 21, 2004, attaching a press release announcing first quarter 2004 results.

A Form 8-K was filed on April 23, 2004, attaching a press release declaring a quarterly cash dividend and reporting on the results of the Annual Meeting of Shareholders.

A Form 8-K was filed on May 21, 2004, attaching a press release announcing the Corporation's agreement to sell its joint venture interest in Genlyte Thomas Group LLC and attaching purchase agreement.

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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.

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Registrant

/s/ Phillip J. Stuecker

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Phillip J. Stuecker, Vice President  
& Chief Financial Officer

Date: August 9, 2004

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