THOMAS INDUSTRIES INC
Form 10-Q
May 10, 2005

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 March 31, 2005

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 April 25, 2005, 17,853,675 shares of the registrant's Common Stock were outstanding (net of treasury shares).

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
MARCH 31

| | 2005 | 2004 |
|---|---|---|
| Net sales | $109,969 | $109,518 |
| Cost of products sold | 70,318 | 71,135 |
| Gross profit | 39,651 | 38,383 |
| Selling, general and administrative expenses | 30,669 | 29,000 |
| Equity income from GTG | -- | 7,422 |
| Operating income | 8,982 | 16,805 |
| Interest expense | 126 | 1,026 |
| Interest income | 1,326 | 108 |
| Other income (expense) | 604 | 498 |
| Income before income taxes | 10,786 | 16,385 |
| Income taxes | 3,354 | 5,735 |
| Net income | $ 7,432 | $ 10,650 |
| Net income per share: | | |
| Basic | $ 0.42 | $ 0.61 |
| Diluted | $ 0.41 | $ 0.60 |
| Dividends declared per share: | $ 0.095 | $ 0.095 |
| Weighted average number of shares outstanding: | | |
| Basic | 17,840 | 17,318 |
| Diluted | 18,172 | 17,779 |

See notes to condensed consolidated financial statements.

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

| | (Unaudited) | |
|---|---|---|
| | March 31 | Decembe |
| | 2005 | 200 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 46,275 | $ 133 |
| Short-term investments | 216,561 | 133 |
| Accounts receivable, less allowance (2005--$2,354; 2004--$2,303) | 62,913 | 58 |
| Inventories: | | |
| Finished products | 29,211 | 36 |

| | | |
|---|---|---|
| Raw materials | 33,804 | 31 |
| Work in process | 8,534 | 7 |
| | 71,549 | 75 |
| Deferred income taxes | 4,983 | 5 |
| Other current assets | 7,825 | 7 |
| Total current assets | 410,106 | 413 |
| | | |
| Property, plant and equipment | 202,293 | 202 |
| Less accumulated depreciation and amortization | (90,255) | (88 |
| | 112,038 | 114 |
| Goodwill | 70,821 | 68 |
| Other intangible assets, net | 25,761 | 22 |
| Other assets | 2,400 | 2 |
| Total assets | $ 621,126 | $ 621 |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 20,825 | $ 17 |
| Accrued expense and other current liabilities | 35,538 | 34 |
| Dividends payable | 1,696 | 1 |
| Income taxes payable | 2,696 | 1 |
| Current portion of long-term debt | 1,765 | 1 |
| Total current liabilities | 62,520 | 57 |
| | | |
| Deferred income taxes | 8,842 | 8 |
| Long-term debt, less current portion | 6,913 | 7 |
| Long-term pension liability | 12,170 | 12 |
| Other long-term liabilities | 8,484 | 8 |
| Total liabilities | 98,929 | 95 |
| | | |
| Shareholders' equity: | | |
| referred stock, $1 par value, 3,000,000 shares authorized - none issued | - | |
| P | - | |
| Common stock, $1 par value, shares authorized: 60,000,000; shares issued: 2005 - 18,676,014; 2004 - 18,648,723 | 18,676 | 18 |
| Capital surplus | 150,203 | 149 |
| Deferred compensation | 1,953 | 1 |
| Treasury stock held for deferred compensation | (1,953) | (1 |
| Retained earnings | 329,535 | 323 |
| Accumulated other comprehensive income | 35,842 | 46 |
| Less cost of 822,339 treasury shares | (12,059) | (12 |
| Total shareholders' equity | 522,197 | 526 |
| Total liabilities and shareholders' equity | $ 621,126 | $ 621 |

* Derived from the audited December 31, 2004 consolidated balance sheet.
See notes to condensed consolidated financial statements.

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

| | THREE MONTHS<br>MARCH 3 | |
|---|---|---|
| | 2005 | |
| OPERATING ACTIVITIES | | |
| Net income | $ 7,432 | $ |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation and intangible amortization | 4,578 | |
| Deferred income taxes | 471 | |
| Equity income from GTG | -- | |
| Other items | 178 | |
| Changes in operating assets and liabilities net of effect of acquisitions: | | |
| Accounts receivable | (6,538) | |
| Inventories | 1,913 | |
| Accounts payable | (335) | |
| Income taxes payable | 706 | |
| Accrued expenses and other current liabilities | (2,412) | |
| Other | 713 | |
| Net cash provided by operating activities | 6,706 | |
| INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment | (4,209) | |
| Proceeds from sale of property, plant and equipment | 87 | |
| Purchases of marketable securities | (134,573) | |
| Proceeds from sale of marketable securities | 51,639 | |
| Purchase of companies, net of cash acquired | (8,532) | |
| Net cash used in investing activities | (95,588) | |
| FINANCING ACTIVITIES | | |

| | | |
|---|---|---|
| Proceeds from short-term debt, net | -- | |
| Payments on long-term debt | (547) | |
| Proceeds from long-term debt | 119 | |
| Dividends paid | (1,689) | |
| Other | 255 | |
| Net cash (used in) provided by financing activities | (1,862) | |
| Effect of exchange rate changes | 3,547 | |
| Net (decrease) increase in cash and cash equivalents | (87,197) | |
| Cash and cash equivalents at beginning of period | 133,472 | |
| Cash and cash equivalents at end of period | $ 46,275 | $ |

See notes to condensed consolidated financial statements.

THOMAS INDUSTRIES INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## Note A - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements 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 period ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. 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, 2004.

## Note B - Acquisitions

On January 10, 2005, the Company acquired certain assets of the side channel blower business of Ruey Chaang Electric Co., Ltd. of Taipei, Taiwan for approximately $12 million. A partial payment of $8.4 million in cash was paid in January 2005, with the balance payable in the third quarter of 2005. A tentative purchase price allocation was made and reflected in the March 31, 2005 financial statements. This allocation is preliminary as the Company gathers additional information about the fair value of assets acquired. Accordingly, the amounts recorded will change as the allocation is finalized.

The aggregate purchase price consists of (in thousands):

| | |
|---|---|
| Cash | $12,000 |
| Transaction costs | 185 |
| Total aggregate purchase price | $12,185 |

The following summarizes the estimated fair values of the assets acquired at the date of acquisition (in thousands):

| | |
|---|---|
| Cash | $ 53 |
| Inventory | 674 |
| Property, plant and equipment | 885 |
| Other intangibles | 4,476 |
| | 6,088 |
| Goodwill | 6,097 |
| Aggregate purchase price | $12,185 |

The other intangible assets are being amortized on a straight line basis over a useful life range of three to ten years. The goodwill is allocated to the Pump and Compressor Segment.

On June 3, 2004, the Company received approximately $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. Other adjustments could occur in the future related to representations and warranties per the purchase agreement.

In estimating the fair values of the assets acquired and liabilities assumed in the Rietschle transaction, management considered a number of factors, including collectibility of accounts receivable, net realizable value and replacement cost of inventory, and the values of liabilities. In addition, an independent appraiser was used to assist in determining the value of property, plant and equipment and other intangible assets; however, management is ultimately responsible for the values recorded.

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 |

## Note C - Sale of 32% Interest in GTG

Effective with the close of business on July 31, 2004, the Company sold its 32% joint venture interest in the Genlyte Thomas Group LLC (GTG), which the Company accounted for using the equity method of accounting, to The Genlyte Group Incorporated (Nasdaq: GLYT) for approximately $400.9 million in cash. Approximately $102.7 million of the proceeds were used to pay down long-term debt on August 2, 2004. Approximately $80.5 million of the proceeds were used to pay a portion of the income taxes (due on the gain) and transaction costs during the third and fourth quarters.

The Company's adjusted book basis in GTG as of July 31, 2004 was as follows (in millions):

| | |
|---|---|
| Investment in GTG at July 31, 2004 | $230.5 |
| Thomas' adjustment for accelerated option expense treated as a transaction cost | (.2) |
| Other comprehensive loss items: | |
| Minimum pension liability | 5.5 |
| Foreign currency translation | .5 |
| Adjusted GTG book basis at July 31, 2004 | $236.3 |

The gain on the sale of GTG, which the Company recorded in the third quarter of 2004, was calculated as follows (in millions):

| | |
|---|---|
| Total sale price | $400.9 |
| Transaction costs | (4.2) |
| Net proceeds | 396.7 |
| Adjusted book basis at July 31, 2004 | (236.3) |
| Pre-tax book gain | 160.4 |
| Income taxes | (76.3) |
| Net after-tax gain | $ 84.1 |
| Earnings per share - diluted | $ 4.74 |

This gain calculation is an estimate subject to final determination of taxes of the transaction when tax returns are filed in 2005. The effective income tax rate recorded on the gain of 47.6% is primarily due to the basis differences for financial reporting and tax purposes in the partnership interest in GTG.

## 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 purpose with respect to pumps sold by the Company and used in septic tanks manufactured or sold by the plaintiffs. The Original Lawsuit was stayed as a result of the bankruptcy filing by Hydro Action, Inc. On October 8, 2003, a lawsuit was filed against the Company, Gig Drewery, 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. On September 29, 2004, the case was remanded to state court in Jefferson County and the stay is no longer in place. 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 this proceeding will have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

In the normal course of business, the Company is a party to other 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.

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 subject to various federal, state and local environmental laws and regulations that require remediation efforts at several locations including both current and former operating facilities. One of the most significant sites was a former manufacturing facility, which is located in Beaver Dam, Kentucky. Since 1992, the Company has been working under an Agreed Order with the Kentucky Natural Resources and Environmental Protection Cabinet to remediate this site. The Company has completed all closure activities and has received approval for implementation of a post-closure plan.

In 2004, a letter was received from the Wisconsin Department of Natural Resources (WDNR) indicating that the Company was solely responsible for remediation of a former manufacturing facility located in Fort Atkinson, Wisconsin, which was sold by the Company in 1985. In response to WDNR's demand, the Company has engaged a consultant to perform an initial hydrogeologic site investigation. This initial site investigation found elevated levels of volatile organic compounds including tetrachlorothene and its daughter products. This site investigation will be expanded to determine the extent of the contamination and to develop a remediation work plan. The Company provided a reserve of $900,000 in the third quarter and an additional $200,000 in the fourth quarter of 2004, respectively, for anticipated future costs associated with remediation of this site.

The Company's policy is to provide for environmental reserves on a discounted basis, when appropriate. Environmental reserves are subject to numerous inherent uncertainties that affect the ability to estimate future costs of required remediation efforts. Such uncertainties involve the nature and extent of contamination, the extent of required cleanup efforts under existing environmental regulations, widely varying costs of alternate cleanup methods, changes in environmental regulations, the potential effect of continuing improvements in remediation technology and the financial strength of other potentially responsible parties at multiparty sites. Reserves are reviewed for adequacy on a quarterly basis and adjusted, if necessary, as environmental assessment and remediation efforts proceed.

Changes in the Company's environmental reserve at March 31, 2005 and 2004 are as follows (in thousands):

| | THREE MONTHS ENDED MARCH 31 | |
|---|---|---|
| | 2005 | 2004 |
| Balance at beginning of period | $2,182 | $1,321 |
| Environmental accruals | - | - |
| Expenditures | (79) | (76) |
| Balance at end of period | $2,103 | $1,245 |

## Note E - Comprehensive Income

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

| | THREE MONTHS ENDED MARCH 31 | |
|---|---|---|
| | 2005 | 2004 |
| Net income | $ 7,432 | $10,650 |
| Other comprehensive income (loss): | | |
| Minimum pension liability (increase) | - | 7 |
| Related tax (benefit) expense | - | (3) |
| Derivative adjustment | (685) | (293) |
| Related tax (benefit) expense | 260 | 111 |
| Foreign currency translation | (10,691) | (7,458) |
| Total change in other comprehensive income | (11,116) | (7,636) |
| Total comprehensive (loss) income | $ (3,684) | $ 3,014 |

## 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 ENDED MARCH 31 | |
|---|---|---|
| | 2005 | 2004 |
| Numerator: | | |
| Net income | $ 7,432 | $10,650 |
| Denominator: | | |
| Weighted average shares outstanding | 17,840 | 17,318 |
| Effect of dilutive securities: | | |
| Director and employee stock options | 282 | 445 |
| Employee performance shares | 50 | 16 |
| Dilutive potential common shares | 332 | 461 |
| Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions | 18,172 | 17,779 |

Note G - Segment Disclosures

| (In thousands) | THREE MONTHS ENDED MARCH 31 | |
|---|---|---|
| | 2005 | 2004 |
| Net Sales | | |
| Pump and Compressor | $109,969 | $109,518 |
| Lighting | - | - |
| | $109,969 | $109,518 |
| Operating income | | |
| Pump and Compressor | $12,201 | $ 11,643 |
| Lighting* | - | 7,422 |
| Corporate | (3,219) | (2,260) |
| | $ 8,982 | $ 16,805 |

*Consists of equity income of $7,512,000 in 2004 from our previous 32% interest in the joint venture, Genlyte Thomas Group LLC (GTG), less $ 90,000 in 2004 related to expense recorded for Thomas stock options issued to GTG employees. The 2005 amount for the three month period is not comparable to 2004 since the Company sold its 32% interest in GTG on July 31, 2004.

Note H - Goodwill and Other Intangible Assets

The changes in net carrying amount of goodwill for the three months ended March 31, 2005 were as follows (in thousands):

| | THREE MONTHS ENDED<br>MARCH 31, 2005 |
|---|---|
| Balance at beginning of period | $ 68,639 |
| Adjustments to Ruey Chaang acquisition | 6,097 |
| Adjustments to Rietschle acquisition | (997) |
| Translation adjustments and other | (2,918) |
| Balance at end of period | $ 70,821 |

The goodwill included in the balance sheets is related to the Pump and Compressor Segment. There have been no indicators of impairment noted during the three months ended March 31, 2005.

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

| | MARCH 31, 2005 | | | DECEMBER 31, 2004 | | |
|---|---|---|---|---|---|---|
| | LIFE | COST | ACCUMULATED<br>AMORTIZATION | LIFE | COST | ACC<br>AMO |
| Licenses | 18-19 | $ 477 | $ 218 | 18-19 | $ 487 | $ |
| Patents | 5-20 | 6,069 | 1,362 | 5-20 | 6,320 | 1 |
| Other | 1-10 | 8,567 | 1,674 | 1-10 | 4,267 | 1 |
| Total | | $15,113 | $ 3,254 | | $11,074 | $2, |

The total intangible amortization expense for the three months ended March 31, 2005 and 2004 was $408,000 and $219,000, respectively.

The estimated amortization expense for the next five years beginning January 1, 2005 through December 31, 2009 is as follows (in thousands):

| | |
|---|---|
| 2005 | $1,651 |
| 2006 | 1,651 |
| 2007 | 1,641 |
| 2008 | 1,256 |
| 2009 | 1,153 |

The Company has various trademarks totaling $13,210,000 at March 31, 2005 and $13,876,000 at December 31, 2004, that are not amortized. Also included in other intangible assets is an intangible asset associated with the minimum pension liability of $692,000 as of March 31, 2005 and December 31, 2004.

## Note I - Long-lived Assets

The Company periodically evaluates the recoverability of the carrying amount of long-lived assets (including property, plant and equipment, and intangible assets with determinable lives) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. We evaluate events or changes in circumstances based on a number of factors including operating results, business plans and forecasts, general and industry trends and economic projections and anticipated cash flows. An impairment is assessed when the undiscounted expected future cash flows derived from an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset exceeds its fair value and are recognized in earnings. We also continually evaluate the estimated useful lives of all long-lived assets and when warranted revise such estimates based on current events. There were no significant impairment charges recorded in the three months ended March 31, 2005 and 2004.

## Note J - Genlyte Thomas Group LLC (GTG)

The following table contains certain unaudited financial information related to our joint venture interest in GTG. As discussed in Note C - Sale of 32% Interest in GTG, the Company sold its interest in GTG effective with the close of business on July 31, 2004.

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

| | MARCH 31, 2004 |
|---|---|
| GTG balance sheets: | |
| Current assets | $471,149 |
| Long-term assets | 287,014 |
| Current liabilities | 188,741 |
| Long-term liabilities | 51,750 |

| | THREE MONTHS ENDED MARCH 31, 2004 |
|---|---|
| GTG income statements (unaudited): | |
| Net sales | $277,362 |
| Gross Profit | 95,116 |
| Earnings before interest and taxes | 25,219 |
| Net income | 23,474 |
| | |
| Amounts recorded by Thomas Industries Inc.: | |
| Equity income from GTG | $ 7,512 |
| Stock option expense | (90) |
| Equity income reported by Thomas | $ 7,422 |

Changes in the Company's investment in GTG for March 31, 2004 are as follows (in thousands):

| | THREE MONTHS ENDED<br>MARCH 31, 2004 |
|---|---|
| Balance at beginning of period | $214,405 |
| GTG gross equity earnings | 7,512 |
| GTG cash distributions | - |
| GTG currency translation adjustment | (612) |
| GTG minimum pension adjustment & other | 48 |
| Balance at end of period | $221,353 |

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 granted prior to 2003 is amortized to expense over the options' vesting period.

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 for only the 2004 period, since the Company sold its 32% joint venture interest in GTG on July 31, 2004.

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<br>MARCH 31 | |
|---|---|---|
| | 2005 | 2004 |
| Net income (as reported) | $7,432 | $10,650 |
| Add: Stock-based compensation expense for GTG employees included in reported net income, net of related tax effect | - | 81 |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax effect | 69 | - |
| Deduct: Total stock-based employee compensation determined under fair value based method for all awards, net of related tax effect | (157) | (195) |

| | | | |
|---|---|---|---|
| Net income (pro forma) | | $7,344<br>======== | $10,536<br>========= |
| Net income per share (Basic) - | As reported | $ .42 | $ .61 |
| | Pro forma | .41 | .61 |
| Net income per share (Diluted) - | As reported | .41 | .60 |
| | Pro forma | .40 | .59 |

## 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 warranties 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 the three months ended March 31, 2005 and 2004 are as follows (in thousands):

| | THREE MONTHS ENDED MARCH 31 | |
|---|---|---|
| | 2005 | 2004 |
| Balance at beginning of period | $5,338 | $5,382 |
| Warranty accruals | 840 | 970 |
| Settlements made and other | (1,098) | (835) |
| Balance at end of period | $5,080 | $5,517 |

## 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 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 March 31: | | | PENSION BENEFITS | | P |
|---|---|---|---|---|---|
| | FOREIGN PLANS | | U.S. PLANS | | |
| | 2005 | 2004 | 2005 | 2004 | 2 |
| Service cost | $ 66 | $ 62 | $ 88 | $ 84 | $ |
| Interest cost | 159 | 141 | 137 | 131 | |
| Expected return on plan assets | - | - | (164) | (144) | |
| Other amortization and deferral | 11 | 4 | 57 | 60 | |
| Net Periodic Benefit cost | $ 236 | $ 207 | $ 118 | $ 131 | $ |

As of March 31, 2005, no contributions have been made, but the Company anticipates contributions to the plans of $670,000 for 2005.

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. 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 table above 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 consolidated financial statements.

## Note O - Short-Term Investments

Short-term investments are classified as available-for-sale securities and include tax advantaged debt securities with original maturities ranging from four to 38 years. These debt securities are callable at par value (cost) based on seven to 35 days notification to the bondholders. The Company has the option to either sell or put these securities every seven to 35 days and these securities will normally be held for less than one year. The securities are carried on the balance sheet at fair market value, which is equivalent to cost. Current period adjustments to the carrying value of available-for-sale securities would be included in accumulated other comprehensive income within stockholder's equity. Because of the nature of all these investments, cost does not differ from fair market value, so there are no such adjustments to the carrying value.

## Note P - Exit Costs for Wuppertal, Germany Facility

In February 2004, the Company announced the closing of its Wuppertal, Germany manufacturing facility in an effort to further consolidate its European manufacturing operations and strengthen its market position by concentrating its product, logistics, and engineering capacity. The exit activities were completed by December 31, 2004, with the exception of some minor severance which could be

paid in 2005. The following table describes the 2004 activity and the exit liability as of December 31, 2004 (in thousands):

| Exit Costs: | Beginning Balance<br>at Jan. 1, 2004 | Accruals | Expenditures |
|---|---|---|---|
| Severance | - | $1,642 | $(1,622) |
| Contract termination | - | 8 | (8) |
| Total exit costs | - | $1,650 | $(1,630) |

In addition to the $1,650,000 exit charge noted above, the Company has recorded $1,186,000 of additional charges in the twelve months ended December 31, 2004 which include costs to coordinate the facility shutdown ($488,000), fixed asset disposal and other charges to write down assets to net realizable value ($455,000) and training & other costs related to the transfer of production from the Wuppertal facility ($243,000). The carrying value of assets held for sale related to the Wuppertal facility is not significant.

Approximately $2.7 million of the costs associated with this exit activity were recorded in selling, general and administrative (SG&A) expenses of the Pump and Compressor Segment for the twelve months ended December 31, 2004, while $.1 million of expense related to loss on asset disposal was recorded in Other Income (Expense) for the twelve months ended December 31, 2004. The first quarter of 2004 included expenses of $.8 million, which were recorded in SG&A expenses.

The following table describes the 2005 activity and the exit liability as of March 31, 2005 (in thousands):

| Exit Costs: | Beginning Balance at Jan. 1, 2005 | Accruals | Expenditures |
|---|---|---|---|
| Severance | $20 | - | $ (4) |
| Contract termination | - | - | - |
| Total exit costs | $20 | - | $ (4) |

No additional exit cost charges or other shutdown related expenses are expected related to the Wuppertal facility.

## Note Q - Recent Accounting Pronouncements

In December 2004, FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) (FASB 123R), Share-Based Payment. FASB 123R will require the Company to expense share-based payments, including employee stock options, based on their fair value. The Company is required to adopt the provisions of FASB 123R effective as of the beginning of its first quarter in 2006; however, earlier adoption in 2005 is allowed. FASB 123R provides alternative methods of adoption which include prospective application and a modified retroactive application. The Company adopted the fair-value method of accounting for share-based payments effective January 1, 2003 using the prospective method described in FASB Statement No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure. Currently, the Company uses the Black-Scholes-Merton formula to estimate the value of stock options granted to employees and expects to continue to use this acceptable option valuation model upon the required adoption of Statement 123R in 2006. Because Statement 123R must be applied not only to new awards, but to previously granted awards that are not fully vested on the effective date, and because the Company adopted Statement 123 using the prospective transition method (which applied only to awards granted, modified or settled after the adoption date), compensation cost for some previously granted awards that were not recognized under Statement 123 will be recognized under Statement 123R. However, had we adopted Statement 123R in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net income and earnings per share noted above. Statement 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the Company cannot estimate what those

amounts will be in the future (because they depend on, among other things, when those employees exercise stock options), the amount of operating cash flows recognized in the three months ended March 31 for such excess tax deductions were $127,000, and $328,000, in 2004 and 2003, respectively.

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

### OVERVIEW

The Company operates in the Pump and Compressor Segment. The Pump and Compressor Segment designs, manufactures, markets, sells and services pump and compressor products through 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. On January 10, 2005, the Company acquired certain assets of the side channel blower business of Ruey Chaang Electric Co., Ltd of Taipei, Taiwan for approximately $12.0 million. This acquisition will enhance the Company's Asian presence and provide further opportunities for growth through our global distribution network. The Pump and Compressor Segment supplies products to original equipment manufacturers (OEMs) in such markets as medical equipment, environmental, automotive, printing, packaging and many others. An important market for the Company is medical equipment, which includes compressors used in oxygen concentrators, nebulizers, aspirators, and other devices.

As previously announced, sales to the OEM oxygen concentrator market were reduced in 2004 by $6.8 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 2004. Net sales were $2.9 million lower in the first quarter of 2005 versus the first quarter of 2004, as a result of this customer loss. Even with the loss of these sales, the Company believes it has the leading share in the oxygen concentrator market worldwide. Pricing in this market has continued to decline due to competition and threat of lower cost foreign manufacturers.

In order to reduce our cost structure and remain price competitive, the Company constructed a manufacturing facility in China during late 2004, which should be in production in the first half of 2005. The Company incurred no restructuring or exit costs in 2004 at existing facilities in connection with this production transfer and have no plans for any of these costs in 2005. We also had no asset impairment charges or reduction in expected service lives of assets at existing facilities related to this production transfer in 2004 and expect none in 2005. During 2003, we closed our manufacturing facility in Fleurier, Switzerland, and relocated this production to other facilities. In 2003, we also built and opened a new facility in Memmingen, Germany and relocated our operations from an older leased facility late in 2003. 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 generated approximately $.8 million of one-time costs in the first quarter of 2004 and a total of $2.8 million for the full year for 2004. Production from the Wuppertal facility was transferred to the new Memmingen facility. We believe these steps were necessary to better position the Company for future growth opportunities and cost reductions.

We have received certain commodity cost increases, which have impacted our costs, although we attempt to offset these with price increases and ongoing cost reduction programs. The Company is also experiencing increased costs related to requirements of Section 404 of the Sarbanes-Oxley Act. During the second, third and fourth quarters of 2004, the Company recorded approximately $1.5 million in the aggregate of pre-tax charges related to internal control documentation and testing for Sarbanes-Oxley compliance. We expect to have continued Sarbanes-Oxley compliance related costs in 2005 and have recorded $.4 million of expense during the first quarter of 2005.

Until July 31, 2004, the Company also operated in the Lighting Segment through its 32% interest in 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. Effective with the close of business on July 31, 2004, the Company sold its 32% interest in GTG to The Genlyte Group Incorporated for approximately $401 million, which generated an $84.1 million net after-tax gain.

On March 9, 2005, we announced that we have entered into an Agreement and Plan of Merger ("Merger Agreement") with Gardner Denver, Inc. Under the terms of the Merger Agreement, Gardner Denver will pay $40.00 per share in cash for all of the issued and outstanding shares of common stock of Thomas. The transaction is conditioned on obtaining requisite approval from the shareholders of Thomas, necessary regulatory approvals and other customary closing conditions. Early termination of the Hart-Scott-Rodino Act waiting period was granted on April 14, 2005 and the transaction was cleared by the Norwegian competition authorities earlier this month. The transaction is still under review by the German antitrust authorities. Upon closing of the acquisition, Thomas will become a subsidiary of Gardner Denver and will no longer be a publicly traded company. The parties expect to close the transaction during 2005.

## 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 conformity with United States generally accepted accounting principles. 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, pensions and other postretirement benefits, income taxes, 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.

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 changes to results, which could occur if different assumptions or conditions were to prevail.

Allowance for Doubtful Accounts Receivable: The Company maintains allowances for doubtful accounts for uncollectible invoices resulting from the customer's inability or refusal to pay. Management's estimated allowances are established based on an aging of accounts receivable and applying percentages based on historical experience to aging categories. In addition, where the Company is aware of a customer's inability to pay, it specifically reserves for the potential bad debt to reduce the receivable to the amount it reasonably believes will be collected. If the financial conditions of Thomas' customers deteriorates, resulting in an impairment of their ability to make payments, additional allowances would be required.

Reserve for Slow Moving and Obsolete Inventory: The Company records inventory at the lower of cost or market. The Company estimates and reserves for excess quantities of slow moving or obsolete inventory. These reserves are primarily based upon management's assessment of the salability of the inventory, historical usage of raw materials and historical demand for finished goods, and estimated future usage and demand. An improper assessment of salability or improper estimate of future usage or demand, or significant changes in usage or demand could result in significant changes in the reserves and a positive or negative impact on the Company's results of operations in the period the change occurs.

Revenue Recognition: Revenue from product sales is recognized upon title transfer, which occurs upon shipment, based on our customary terms of sale, which are FOB shipping point. We do have exceptions to this general policy which are described as follows:

1) Revenues from service and repair activities are less than 10% of our total sales. Some of these service and repair revenues do not involve a shipment of product, but instead, relate to the performance of a service or repair. Billings for these activities are not made until the service activity has occurred. There are other instances where we offer customers an annual service contract, which we invoice in twelve monthly billings.

2) There are instances where we have consignment inventory arrangements and in these instances, revenue is not recorded upon shipment to our customer. Revenue is only recorded when our customer ships the inventory to their customer or uses it for other purposes. These consignment inventory arrangements are insignificant.

3) There are instances where our terms of sale are FOB destination. We record accounting entries at the end of reporting periods, to make sure these revenues are deferred to the subsequent period. These instances are insignificant.

Credit is extended based on local business customs and practices, and collateral is not required. We estimate and record provisions for warranties in the period the related products are sold. The warranty liabilities are established based upon management's assessment of the various product warranty periods, historical data and trends of warranty claims paid, and any current information regarding specific warranty issues. 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.

Impairment of Goodwill: Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), was issued in July 2001 and became effective for the Company on January 1, 2002. Goodwill is now subject to an assessment for impairment on a reporting unit basis by applying a fair-value-based test annually, and more frequently if circumstances indicate a possible impairment. If a reporting unit's carrying value exceeds its fair value, and the reporting unit's carrying value of its goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The evaluation of goodwill for impairment requires management to use significant estimates and assumptions including, but not limited to, projecting future revenue, operating results, and cash flow of each of the Company's reporting units. Although management believes the estimates and assumptions used in the evaluation of goodwill are reasonable, differences between actual and projected revenue, operating results, and cash flow could cause some of the Company's goodwill to be deemed impaired. If this were to occur, the Company would be required to write down the goodwill, which could have a material negative impact on the Company's results of operations and financial condition.

Long-Lived Assets: The Company evaluates the recoverability of the carrying amount on long-lived assets (including property, plant and equipment and intangible assets with determinable lives) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. We evaluate events or changes in circumstances based on a number of factors including operating results, business plans and forecasts, general and industry trends and economic projections and anticipated cash flows. An impairment is assessed when the undiscounted expected future cash flows derived from an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset exceeds its fair value and are recognized in earnings. To the extent actual cash flows differ from these estimated amounts, results could be adversely affected.

Retirement Plans and Post-Retirement Benefit Plans: Assets and liabilities of the Company's defined benefit plans are determined on an actuarial basis and are affected by the estimated market value of plan assets, estimates of the expected return on plan assets, and discount rates. Actual changes in the fair market value of plan assets and differences between the actual return on plan assets and the expected return on plan assets as well as changes in the discount rate, will affect the amount of pension expense recognized, impacting the Company's results of operations. The liability for post-retirement medical and life insurance benefits is also determined on an actuarial basis and is affected by assumptions including the discount rate and expected trends in health care costs. Changes in the discount rate and difference between actual and expected health care costs will affect the recorded amount of post-retirement benefits expense, impacting the Company's consolidated results of operations.

Self-Insurance Medical Claims: The Company is self-insured for the medical benefit plans covering approximately 75% of its U.S. employees. The Company estimates its liability for claims incurred by applying a lag factor to the Company's historical claims and administrative cost experience. The validity of the lag factor is evaluated periodically and revised if necessary. Although management believes the current estimated liabilities for medical claims are reasonable, changes in the lag in reporting claims, changes in claims experience, unusually large claims, and other factors could materially affect the recorded liabilities and expense, impacting the Company's consolidated financial condition and results of operations.

Income Taxes: Significant management judgment is required in developing the Company's income tax provision, including the determination of deferred tax assets and liabilities and any valuation allowances that might be required against deferred tax assets. The Company operates in multiple taxing jurisdictions and is subject to audit in those jurisdictions. Because of the complex issues involved, any assessments can take an extended period of time to be resolved. In management's opinion, adequate income tax provisions have been made and adequate tax reserves exist to cover probable risks. However, results of Internal Revenue Service or other jurisdictional audits, closing of past years' tax returns no longer subject to audit, and future tax law changes could have a material impact on the Company's future tax liabilities and provisions, impacting the Company's consolidated financial condition and results of operations.

Contingencies and Litigation: As discussed in "Note D - Contingencies" in the notes to condensed consolidated financial statements, the Company is a party to legal proceedings and claims, as well as environmental rules and regulations. 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 these matters is uncertain. Were an unfavorable outcome to occur, the impact could be material to the Company.

RESULTS OF OPERATIONS

The Company's net income was $7.4 million in the first quarter of 2005, compared to $10.7 million in the same period in 2004. The 2004 first quarter included after-tax income from the GTG joint venture interest, while the 2005 first quarter net income included no GTG earnings, since the joint venture interest was sold effective July 31, 2004.

PUMP AND COMPRESSOR SEGMENT

Net sales for the Pump and Compressor Segment increased .4% to $110.0 million in the first quarter of 2005, compared to $109.5 million in the 2004 first quarter. The 2005 first quarter net sales included an estimated $3.9 million related to the effects of exchange rate fluctuations and approximately $1.6 million related to the Ruey Chaang acquisition. Excluding these items, 2005 net sales were down $5.0 million from 2004 first quarter levels. Approximately $2.9 million of the $5.0 million shortfall relates to lower oxygen concentrator sales from one

customer lost to a competitor beginning late in the second quarter of 2004. The North American operations net sales were down $2.8 million, or 6.7%, from last year's first quarter levels, due primarily to the oxygen concentrator customer mentioned above. The European operations had a $1.1 million, or 1.9% net sales increase for the 2005 first quarter compared to 2004. The European operations 2005 net sales included approximately $3.5 million related to exchange rate fluctuations. Excluding the exchange rate impact, the European operations had a $2.4 million net sales decrease in the first quarter of 2005 versus 2004, which was primarily due to lower sales in the environmental ($.7 million) and industrial ($.8 million) markets. Asia Pacific reported a $2.2 million, or 22.5% increase in net sales compared to the first quarter of 2004. This increase was primarily related to the Ruey Chaang acquisition ($1.6 million) and an estimated $.4 million related to exchange rate fluctuation.

Gross profit for the Pump and Compressor Segment in the first quarter of 2005 was $39.7 million, or 36.1% of net sales, compared to $38.4 million, or 35.0% of net sales in the first quarter of 2004. The improvement in gross margin percentage is primarily due to sales mix, as well as factory rationalization projects initiated prior to 2005 and ongoing cost reductions programs.

The Pump and Compressor Segment's selling, general and administrative (SG&A) expenses were $27.4 million, or 25.0% of net sales, in the first quarter of 2005, compared to $26.7 million, or 24.4% of net sales for the same period in 2004. The 2005 SG&A expenses include patent litigation expenses of $.6 million, China manufacturing facility start up costs of $.3 million, and additional engineering expenses of $.3 million due to ongoing projects. The 2004 SG&A expenses include Wuppertal shutdown expenses of $.8 million.

Pump and Compressor Segment operating income for the first quarter of 2005 was $12.2 million, or 11.1% of net sales, compared to $11.6 million, or 10.6% of net sales in the first quarter of 2004. The increase in operating income is primarily related to improvements in gross profit margins noted in an earlier paragraph. The North American operations reported a decrease in operating income by 19.5% from 2004 levels. This decrease was primarily related to the loss of an oxygen concentrator customer and the $.6 million of patent litigation costs. The European operations posted a 49.4% increase in operating income over the comparable 2004 period. This increase was primarily due to favorable sales mix, as well as cost reduction programs and the 2004 Wuppertal shutdown expense of $.8 million included in the results for the first quarter of 2004. Asia Pacific reported a 17.7% decrease in operating income from 2004 levels, due primarily to the China start up expenses of $.3 million recorded in the first quarter of 2005.

## LIGHTING SEGMENT

The Genlyte Group Incorporated (Genlyte) and Thomas formed the Genlyte Thomas Group LLC (GTG) on August 30, 1998. Effective with the close of business on July 31, 2004, Thomas sold its 32% interest in GTG to Genlyte for approximately $400.9 million. Thomas' investment in GTG was accounted for using the equity method of accounting. The Lighting Segment's operating income for the first quarter of 2004 includes the Company's 32% interest in GTG, as well as expenses related to Thomas stock options issued to GTG employees. The Lighting Segment operating income for the first quarter of 2004 was $7.4 million, compared to no operating income in the first quarter of 2005, due to the sale of GTG on July 31, 2004.

## CORPORATE

As disclosed in "Note G - Segment Disclosures" in the notes to condensed consolidated financial statements, consolidated operating income includes corporate expenses. Corporate expenses were $3.2 million for the first quarter of 2005, compared to $2.3 million for the comparable period in 2004. The increase in the 2005 first quarter relates to additional expenses of $1.6 million for legal and professional fees related to the proposed Gardner Denver transaction, which were partially offset by a favorable adjustment of $.7 million due to a change in the Kentucky license tax regulations.

ITEM 2. Management's Discussion and Analysis - Continued

Interest expense for the three months ended March 31, 2005 was $.1 million compared to $1.0 million for 2004. The reduction in 2005 was primarily related to the pay down of long-term debt that occurred with the application of the proceeds from the July 31, 2004 sale of GTG.

Interest income for the first quarter of 2005 was $1.3 million, compared to $.1 million for the 2004 first quarter. The increase in 2005 was due to the investment of the net amount received on August 2, 2004 from the sale of GTG. The net amount represents proceeds received less long-term and short-term debt pay offs, as well as associated income tax and transaction cost payments. The net amount was invested in available-for-sale securities, which included tax advantaged debt securities.

Other income (expense) for the three months ended March 31, 2005 was income of $.6 million, compared to income of $.5 million in the comparable 2004 period. The amounts were primarily related to foreign currency transaction gains.

Income tax provisions were $3.4 million for the first quarter of 2005 and $5.7 million for the comparable period in 2004. The effective income tax rate was 31.1% in 2005, compared to 35.0% for 2004. The decrease in the effective tax rates was primarily related to the impact of interest income from tax advantaged debt securities, which are tax exempt for federal purposes and in certain states.

LIQUIDITY AND SOURCES OF CAPITAL

Cash flows provided by operations in the quarter ended March 31, 2005 were $6.7 million compared to cash flows provided by operations of $5.5 million in the 2004 three month period. The increase in 2005 primarily relates to better working capital management of inventory.

Cash used in investing activities was $95.6 million for the first three months of 2005 compared to cash used in investing activities of $3.7 million in the comparable 2004 period. The 2005 amount includes capital expenditures of $4.2 million, the net $82.9 million purchase of short-term investments, and $8.5 million paid by the Company for the Ruey Chaang acquisition. The 2004 amount includes capital expenditures of $3.7 million.

Financing activities used cash of $1.9 million in the first three months of 2005 and provided cash of $5.4 million in the first three months of 2004. The increase in 2005 of cash used in investing activities relates primarily to additional net long-term debt proceeds of $5.8 million in 2004.

Dividends paid in the first quarter of 2005 and 2004 were $1.7 million and $1.6 million, respectively.

As of March 31, 2005, the Company had standby letters of credit totaling $3,080,000 with expiration dates during 2005. 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 three months of 2005 or in 2004. Under the December 1999 repurchase plan, the Company has purchased, on a cumulative basis through March 31, 2005, 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 its current cash position.

Working capital decreased from $355.8 million at December 31, 2004, to $347.6 million at March 31, 2005, primarily due to an increase of approximately $7.5 million of accruals which relate to the additional payments due for the January 2005 Ruey Chaang acquisition of $3.6 million and the July 2003

Aldax acquisition of $1.1 million, as well as higher legal fees for the proposed Gardner Denver transaction.

| (Dollars in thousands) | March 31,<br>2005 | December 31,<br>2004 |
|---|---|---|
| Working capital | $ 347,586 | $ 355,779 |
| Current ratio | 6.56 | 7.20 |
| Long-term debt, less current portion | $ 6,913 | $ 7,751 |
| Long-term debt to total capital | 1.3% | 1.4% |

As of March 31, 2005, the Company had $216.6 million of short-term investments on the balance sheet. Short-term investments are classified as available-for-sale securities and include tax advantaged debt securities with original maturities ranging from four to 38 years. These debt securities are callable at par value (cost) based on seven to 35 days notification to the bondholders. The Company has the option to either sell or put these securities every seven to 35 days and these securities will normally be held for less than one year. The securities are carried on the balance sheet at fair market value, which is equivalent to cost. Current period adjustments to the carrying value of available-for-sale securities would be included in accumulated other comprehensive income within stockholder's equity. Because of the nature of all these investments, cost does not differ from fair market value, so there are no such adjustments to the carrying value.

The Company has no loan agreements that include restrictions on working capital, operating leases, tangible net worth, and the payment of cash dividends and stock distributions.

As of March 31, 2005, the Company had no line of credit facilities with its banks. As of March 31, 2005, the Company's long-term debt consisted of only capitalized lease obligations. As of March 31, 2005 and 2004, 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.

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, 2004.

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 has short-term investments, including cash equivalents, of $242.7 million as of March 31, 2005, that bear interest at variable rates. A 100 basis point movement in the interest rate would result in an approximate $2,427,000 annualized effect on interest income and cash flows.

The Company has significant operations consisting of sales and manufacturing activities in foreign countries. As a result, the Company's consolidated 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. The Company's objective is to reduce earnings and cash flow volatility associated with foreign exchange rate changes 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 March 31, 2005, the Company held forward contracts expiring through March 2006 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 March 31, 2005, the foreign currency forward contracts had a notional amount of Euro 6,000,000 and a fair value of approximately $101,050. The fair value of the foreign currency forward contracts, which represents an asset, is included in other current assets. The amount of pre-tax net gain deferred through other comprehensive income as of March 31, 2005 was approximately $53,000. There was $128,000 of gain recognized in the three months ended March 31, 2005. A 100 basis point movement in foreign currency rates on the Company's open foreign exchange contracts at March 31, 2005 would not materially affect the Company's consolidated financial statements.

## ITEM 4. Controls and Procedures

### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Commission Act of 1934, as amended) as of the end of the period covered by this report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of the evaluation date, the Company disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure and that the information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

## ITEM 4. Controls and Procedures - Continued

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

## ITEM 6. Exhibits

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.

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:  May 9, 2005