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HUFFY CORP
Form 10-Q
May 01, 2001

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For Quarter Ended March 31, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-5325

Huffy Corporation

(Exact name of registrant as specified in its charter)

Ohio

31-0326270

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

225 Byers Road, Miamisburg, Ohio 45342

(Address of principal executive offices) (Zip Code)

(937) 866-6251

(Registrant's telephone number, including area code)

No Change

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 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 No

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Earnings from discontinued operations, net of income tax expense of \$508		-
Extraordinary gain (loss) from early extinguishment of debt, net of income tax benefit of \$519		-
Net earnings (loss)	\$	99
<hr style="border-top: 1px dashed black;"/>		
Earnings per common share:		
Basic:		
Weighted average number of common shares		10,231,55
<hr style="border-top: 1px dashed black;"/>		
Earnings (loss) from continuing operations	\$	0.1
Earnings from discontinued operations		-
Extraordinary gain from early extinguishment of debt		-
Net earnings (loss) per common share	\$	0.1
<hr style="border-top: 1px dashed black;"/>		
Diluted:		
Weighted average number of common shares		10,368,84
<hr style="border-top: 1px dashed black;"/>		
Earnings (loss) from continuing operations	\$	0.1
Earnings from discontinued operations		-
Extraordinary gain from early extinguishment of debt		-
Net earnings (loss) per common share	\$	0.1
<hr style="border-top: 1px dashed black;"/>		

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HUFFY CORPORATION CONSOLIDATED BALANCE SHEETS (Dollar Amounts In Thousands)

	March 31, 2001 (Unaudited)	December 31, 2000
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ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,679	\$ 4,334
Accounts and notes receivable, net	53,716	79,811
Inventories	41,278	43,324
Prepaid expenses and federal income taxes	29,124	28,344
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Total current assets	143,797	155,813
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Property, plant and equipment, at cost	43,772	43,421
Less: Accumulated depreciation and amortization	31,864	30,741
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Net property, plant and equipment	11,908	12,680

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Excess of cost over net assets acquired, net	8,583	8,764
Other assets	3,317	3,236
	-----	-----
	\$ 167,605	\$ 180,493
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ --	\$ 17,656
Current portion of long-term obligations	--	--
Accounts payable	37,858	28,015
Accrued expenses and other current liabilities	38,776	43,999
	-----	-----
Total current liabilities	76,634	89,670
	-----	-----
Long-term obligations less current portion	--	--
Other long-term liabilities	16,830	17,692
	-----	-----
Total liabilities	93,464	107,362
	-----	-----
Shareholders' equity:		
Common stock	16,706	16,704
Additional paid-in capital	66,218	66,204
Retained earnings	84,551	83,557
Accumulative comprehensive income	(2,676)	(2,676)
Less: cost of treasury shares	90,658	90,658
	-----	-----
Total shareholders' equity	74,141	73,131
	-----	-----
	\$ 167,605	\$ 180,493
	=====	=====

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HUFFY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollar Amounts in Thousands)
(Unaudited)

Three Mo

March 31, 2001

CASH FLOWS FROM OPERATING ACTIVITIES:

Net earnings (loss) from continuing operations	\$ 994
Adjustments to reconcile net earnings (loss) to net cash used	

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in operating activities:	
Depreciation and amortization	1,306
Extraordinary charge for early extinguishment of debt	--
Deferred federal income tax expense (benefit)	--
Changes in assets and liabilities:	
Accounts and notes receivable, net	26,095
Inventories	2,046
Prepaid expenses and federal income taxes	(780)
Other assets	(81)
Accounts payable	9,843
Accrued expenses and other current liabilities	(5,333)
Other long-term liabilities	(752)
Other	--

Net cash provided by (used in) continuing operating activities	33,338
Discontinued operations:	
Earnings from discontinued operations	--
Non-cash items from discontinued operation	--
Cash used in discontinued operations	--

Net cash used in discontinued operating activities	--
Net cash provided by (used in) operating activities	33,338
=====	
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital expenditures	(353)
Acquisition of businesses	--
Proceeds from sale of property, plant and equipment	--

Net cash provided by (used in) investing activities	(353)
=====	
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net increase (decrease) in short-term borrowings	(17,656)
Reduction of long-term debt	--
Issuance of long-term debt	--
Issuance of common shares	16
Issuance (purchase) of treasury shares	--
Dividends paid	--

Net cash provided by (used in) financing activities	(17,640)
=====	
Net change in cash and cash equivalents	15,345
Cash and cash equivalents:	
Beginning of the year	4,334

End of the year	\$ 19,679
=====	

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Dollar Amounts in Thousands)

Note 1: Footnote disclosure, which would substantially duplicate the disclosure contained in the Annual Report to Shareholders for the year

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ended December 31, 2000, has not been included. The unaudited interim consolidated financial statements reflect all adjustments, which, in the opinion of management, are necessary to a fair statement of the results for the periods presented and to present fairly the consolidated financial position of Huffey Corporation as of March 31, 2001. All such adjustments are of a normal recurring nature.

Note 3: Inventories of Huffey Bicycle Company and Huffey Sports Company are at cost (not in excess of market) determined by the FIFO method. The components of inventories are as follows:

	March 31, 2001	December 31, 2000
	-----	-----
Finished Goods	\$ 36,247	\$ 39,284
Work-in-Progress	147	147
Raw Materials & Supplies	4,884	3,893
	-----	-----
	\$ 41,278	\$ 43,324
	=====	=====

Note 4: During the fourth quarter of 1999, the Company closed its remaining domestic bicycle manufacturing facilities in Farmington, Missouri and Southaven, Mississippi and reconfigured its bicycle operations. During the first quarter of 2000, the Company increased imports from a global network of sourcing partners to offset this loss of production capacity. Closing the plants eliminated the costs required to operate the facilities and completed Huffey Bicycle Company's transformation from a single brand manufacturer and marketer of bicycles, to a multi-brand design, marketing and distribution company. During the first quarter of 2000, reconfiguration charges included severance and related benefits (\$633); and facility shutdown costs and related gains (\$1,085).

Note 5: The Company classifies its operations into a single integrated business segment.

Note 6: The Company adopted SFAS 133 as of January 1, 2001, which did not have a material impact on the Company's financial position or results of operations. The Company does not actively use derivative financial instruments of any significance.

Note 7: The components of comprehensive income are immaterial and are therefore not disclosed.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001
 COMPARED TO THE
 THREE MONTHS ENDED APRIL 1, 2000
 (Dollar Amounts in Thousands, Except Per Share Data)

NET EARNINGS

For the first quarter of 2001, Huffey Corporation ("Huffey" or "Company") had net

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earnings from continuing operations of \$994, or \$.10 per common share versus a loss of \$1,121 or \$0.11 for the same period last year. Earnings for the first quarter of 2000 include a pretax charge of \$1,718, or approximately \$0.11 per common share for the reconfiguration of the bicycle business and a pretax charge of \$854, or approximately \$0.05 per common share for refinancing expenses. The first quarter 2000 net earnings from discontinued operations were \$829, or \$0.08 per common share while the extraordinary loss related to early debt extinguishment was \$848, or \$0.08 per common share.

NET SALES

Consolidated net sales for the quarter ended March 31, 2001 were \$81,243, a decrease of 18.8% over sales of \$100,068 for the same quarter in 2000. This sales decrease was the result of a weakened economy and significant inventory reduction programs at the retail level. In addition, continued softness in the sporting goods industry negatively impacted sales of the company's basketball business.

GROSS PROFIT

Gross profit for the quarter ended March 31, 2001 was \$11,635, or 14.3% of net sales compared to \$14,762, or 14.8% of net sales for the quarter ended April 1, 2000. Strong cost reduction and cost containment programs throughout all Huffy companies and improved field efficiency in the assembly service business were offset by unfavorable product mix shifts toward opening price point bicycles at Huffy Bicycle Company and volume-driven margin declines at Huffy Sports Company.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were \$10,043 for the first quarter of 2001, compared to \$12,895 for the same period in 2000. As a percent of net sales, selling, general and administrative expenses (SG&A) for the quarter ended March 31, 2001 were 0.5 percentage points lower than the same period in the prior year, 12.4% versus 12.9%, respectively. Steps taken in 2000 to align expenses with the reconfigured structure at Huffy Bicycle Company and the corporate offices resulted in the lower operating cost base.

NET INTEREST EXPENSE

Interest costs for the first quarter of 2001 dropped to \$406 from \$1,969 for the same period last year. Proceeds from the sale of Washington Inventory Service, in the fourth quarter of 2000, were used to significantly reduce debt levels. During the first quarter of 2001, cash flow from operations were sufficient to repay all outstanding debt, and to finish the quarter with a positive cash balance of \$19,679. In addition, the amended loan facility, put in place in January 2001, reduced incremental borrowing rates.

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SALE OF WASHINGTON INVENTORY SERVICE

On November 3, 2000, the Company sold its Washington Inventory Service subsidiary to WIS Acquisition Corp., a subsidiary of WIS Holdings Corp., pursuant to a previously announced Agreement and Plan of Reorganization dated September 20, 2000, for \$84,750 cash, subject to certain post-closing adjustments. The results for Washington Inventory Service have been classified as discontinued operations in the Consolidated Statement of Earnings. The Company applied the proceeds from the sale, net of expenses, to repayment of all of its senior notes and senior subordinated notes and a portion of its revolving credit facility.

LIQUIDITY AND CAPITAL RESOURCES

On January 31, 2001, the Company entered into an Amended and Restated Loan and Security Agreement. The \$75 million revolving credit facility is secured by all

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assets of the Company and its affiliates and will expire on December 31, 2002, with a 12-month renewal option.

As of March 31, 2001, the Company had \$63,860 available on its revolving credit facility and had no outstanding balance. The Company expects existing cash, cash flow from operations, and its revolving credit facility will be sufficient to finance seasonal working capital needs and capital expenditures in the coming year.

ENVIRONMENTAL

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued when it is possible that these costs will be incurred and can be reasonably estimated.

The Company, along with others, has been designated as a potentially responsible party (PRP) by the U.S. Environmental Protection Agency (the "EPA") with respect to claims involving the discharge of hazardous substances into the environment in the Baldwin Park operable unit of the San Gabriel Valley Superfund site ("Superfund"). Currently, the Company, along with other PRPs, the Main San Gabriel Basin Watermaster, and numerous local water districts are working with the EPA on a mutually satisfactory remedial plan. In developing its estimate of environmental remediation costs, the Company considers, among other things, currently available technological solutions, alternative cleanup methods and risk-based assessments of the contamination and, as applicable, an estimation of its proportionate share of remediation costs. The Company may also make use of external consultants and consider, when available, estimates by other PRPs and governmental agencies and information regarding the financial viability of other PRPs. Based upon information currently available, the Company believes it is unlikely that it will incur substantial previously unanticipated costs as a result of failure by other PRPs to satisfy their responsibilities for remediation costs.

The Company has recorded environmental accruals, based upon the information available, that are adequate to satisfy known remediation requirements. The total accrual for estimated environmental remediation costs related to the Superfund site and other potential environmental liabilities was approximately \$8,050 at March 31, 2001. This accrual has not been discounted, and management expects that the majority of expenditures relating to costs currently accrued will be made over the next year. As a result of factors such as the continuing evolution of environmental laws and regulatory requirements, the availability and application of

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technology, the identification of presently unknown remediation sites, and the allocation of costs among potentially responsible parties, estimated costs for future environmental compliance and remediation are necessarily imprecise and it is not possible to fully predict the amount or timing of future environmental remediation costs which may subsequently be determined.

Based upon information presently available, such future costs are not expected to have a material adverse effect on the Company's financial condition, liquidity, or its ongoing results of operations. However, such costs could be material to results of operations in a future period.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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The Company along with numerous California water companies and other potentially responsible parties ("PRPs") for the Baldwin Park Operable Unit of the San Gabriel Valley Superfund (see Note 10 to the Company's financial statements in Exhibit 13 of the Company's report on form 10K, dated March 6, 2001) have been named in twelve civil lawsuits which allege claims related to the contaminated groundwater in the Azusa, California area (collectively, the "San Gabriel Cases").

As of January 2001, the cases have been stayed for a variety of reasons, including a number of demurrers and writs taken in the Appellate Division, relating primarily to the California Public Utilities Commission ("PUC") investigation described below. The resulting Appellate Division decisions are currently under review by the California Supreme Court, and thus a stay is still technically in place over all of the aforementioned cases. The court had also ordered that a stay of certain of the cases would remain in place until such time as a coordination judge was formally assigned to those cases. The Coordination Judge assignment took place in January 2001, and thus, the explicit stay was lifted. However, the cases remain inactive as the California Supreme Court continues its consideration of the demurrers and writs.

On March 12, 1998, the PUC commenced an investigation in response to the allegations in the toxic tort actions that "drinking water delivered by the water utilities caused death and personal injury to customers." The PUC's inquiry addressed two broad issues central to these allegations: 1) "whether current water quality regulation adequately protects the public health;" and 2) "whether respondent utilities are (and for the past 25 years have been) complying with existing drinking water regulation." On November 2, 2000, the PUC issued its Final Opinion and Order Resolving Substantive Water Quality Issues. Significantly, the Order finds, in pertinent part, that: 1) "existing maximum contaminant level ("MCLs") and action level ("ALs") established by the DHS are adequate to protect the public health;" 2) "there is a significant margin of safety when MCLs are calculated so that the detection of carcinogenic contaminants above MCLs that were reported in this investigation are unlikely to pose a health risk;" 3) based upon its comprehensive review of 25 years of utility compliance records, that for all periods when MCLs and ALs for specific chemicals were in effect, the PUC regulated water companies complied with DHS testing requirements and advisories, and the water served by the water utilities was not harmful or dangerous to health; and 4) with regard to the period before the adoption by DHS of MCLs and ALs, a further limited investigation by the PUC Water Division will be conducted.

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The toxic tort cases are in their initial stages. Thus, it is impossible to currently predict the outcome of any of the actions. Based upon information presently available, such future costs are not expected to have a material adverse effect on the Company's financial condition, liquidity, or its ongoing results of operations. However, such costs could be material to results of operations in a future period.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Shareholders of the Company was held April 26, 2001. At such meeting, the Shareholders of the Company elected as Directors Don R. Graber, Linda B. Keene and Thomas C. Sullivan, each for a three-year term expiring in 2004. Shares were voted as follows: FOR: Don R. Graber (9,215,779), Linda B. Keene (9,214,951), and Thomas C. Sullivan (9,069,350); WITHHELD (including broker non-votes): Don R. Graber (159,594), Linda B. Keene (160,422), and Thomas C. Sullivan (306,023).

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In addition, the Shareholders also ratified the appointment of KPMG LLP as the Company's independent public accountants for calendar year 2001. In accordance with such ratification, 9,230,687 shares were voted for ratification, 122,946 shares cast against, and 21,740 shares cast to abstain (including broker non-votes).

The Shareholders voted to approve an amendment to the 1998 Key Employee Stock Plan, the 1998 Director Stock Option Plan and the 1998 Restricted Share Plan increasing the number of shares available for the grant options thereunder. Shares were voted as follows: For approval: 7,384,435; Against approval: 1,923,470; and Abstain 67,468.

The Shareholders also voted on one shareholder proposal. The Shareholders voted against the shareholder proposal which requested the Company to adopt a policy of confidential voting at all meetings of the shareholders. Shares were voted as follows: For the proposal: 2,509,094; Against the proposal: 3,300,318; Abstain 114,538; and Non-Vote: 3,451,423.

ITEM 5: OTHER INFORMATION

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

- a. Exhibits - No Exhibits, as shown in the "Index of Exhibits", attached hereto as page 12, are applicable to be filed as a part of this Report.
- b. The Company filed two reports on Form 8-K, dated January 17, 2001, and January 18, 2001, with the Securities and Exchange Commission regarding the Chief Executive Officer's speech to the Cleveland Society Security Analysts on January 17, 2001.

Please see the Company's meaningful cautionary statements regarding forward looking statements contained in the Company's report on Form 10-K filed with the Securities and Exchange Commission on March 6, 2001 which is hereby incorporated herein by reference.

SIGNATURES

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.

HUFFY CORPORATION, Registrant

April 27, 2001

/s/ Timothy G. Howard

Date

Timothy G. Howard
Vice President - Corporate Controller
(Principal Accounting Officer)

INDEX OF EXHIBITS

Exhibit
No.

Item

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(2)	Not applicable
(3)	Not applicable
(4)	Not applicable
(10)	Not applicable
(11)	Not applicable
(15)	Not applicable
(18)	Not applicable
(19)	Not applicable
(22)	Not applicable
(23)	Not applicable
(24)	Not applicable
(99)	Not applicable