HUFFY CORP
Form 10-Q
May 07, 2002

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For Quarter Ended March 30, 2002

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 X No ___

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes _____ No ______

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Outstanding Shares: 10,398,172 as of April 25, 2002

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS COMPANY FOR WHICH REPORT IS FILED:

HUFFY CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS
(Dollar Amounts in Thousands, Except Per Share Data)
(unaudited)

	Three Months Ended	
	March 30, 2002	March 31, 2001
Net sales	$ 70,385	$ 81,243
Cost of sales	58,384	69,608
Gross profit	12,001	11,635
Selling, general and administrative expenses	10,528	10,043
Operating income	1,473	1,592
Other expense (income)		
Interest expense	349	568
Interest income	(47)	(162)
Other	204)	(417)
Earnings before income taxes	967	1,603
Income tax expense	343	609
Net earnings	$ 624	$ 994
Earnings per common share:		
Basic:		
Weighted average number of common shares	10,389,422	10,231,558

Net earnings per common share	$ 0.06	$ 0.10
Diluted:		
Weighted average number of common shares	10,617,935	10,368,848
Net earnings per common share	$ 0.06	$ 0.10

See accompanying notes to consolidated financial statements.

HUFFY CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollar Amounts In Thousands)

	March 30, 2002 (Unaudited)	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,907	$ 26,541
Accounts and notes receivable, net	55,834	48,934
Inventories	16,394	12,483
Prepaid expenses and federal income taxes	20,132	17,803
Total current assets	106,267	105,761
Property, plant and equipment, at cost	39,998	39,320
Less: Accumulated depreciation and amortization	30,903	30,053
Net property, plant and equipment	9,095	9,267
Excess of cost over net assets acquired, net	13,127	8,038
Other assets	21,782	22,419
	$ 150,271	$ 145,485
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ --	$ --
Current portion of long-term obligations	--	--

Accounts payable	34,512	31,161
Accrued expenses and other current liabilities	30,657	30,224
Total current liabilities	65,169	61,385
Long-term obligations less current portion	--	--
Other long-term liabilities	18,687	18,498
Total liabilities	83,856	79,883
Shareholders' equity:		
Common stock	16,936	16,931
Additional paid-in capital	67,256	67,226
Retained earnings	75,770	75,147
Accumulative comprehensive income	(3,266)	(3,421)
Less: cost of treasury shares	90,281	90,281
Total shareholders' equity	66,415	65,602
	$ 150,271	$ 145,485

See accompanying notes to consolidated financial statements.

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

	Thr
	March 30,
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net earnings from continuing operations	$ 62
Adjustments to reconcile net earnings to net cash used in operating activities:	
Depreciation and amortization	87
Deferred federal income tax benefit	(10
Changes in assets and liabilities:	
Accounts and notes receivable, net	(5,82
Inventories	(3,91
Prepaid expenses and federal income taxes	(2,32
Other assets	74

Accounts payable	3,23
Accrued expenses and other current liabilities	(79
Other long-term liabilities	34
Other	-
Net cash provided by (used in) operating activities	(7,14
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital expenditures	(62
Acquisition of businesses, net of cash acquired	(4,90
Net cash used in investing activities	(5,52
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net decrease in short-term borrowings	-
Issuance of long-term debt	-
Issuance of common shares	3
Net cash provided by (used in) financing activities	3
Net change in cash and cash equivalents	(12,63
Cash and cash equivalents:	
Beginning of the period	26,54
End of the period	$ 13,90

See accompanying notes to consolidated financial statements

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 ended December 31, 2001, 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 Huffy Corporation as of March 30, 2002. All such adjustments are of a normal recurring nature.

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

	March 30, 2002	December 2001
Finished Goods	$14,493	$10

Work-in-Progress	105	
Raw Materials & Supplies	1,796	1
	$16,394	$12

Note 4: On March 27, 2002, Huffy Service First acquired the stock of McCalla Company and its subsidiaries Creative Retail Services and Creative Retail Services Canada ("McCalla") for $5,400, less $500 net cash received, subject to certain post closing adjustments. Of the total purchase price, $5,089 was recorded as intangible goodwill and covenant not to compete as of March 30, 2002. The McCalla companies provide merchandising services, including cycle and periodic resets, stocking and sales training services for a number of well-known manufacturers serving the Home Center channel, including, among others Philips Lighting, Duracell, and The Stanley Works. The estimated opening balance sheet of McCalla is included in the March 30, 2002 consolidated balance sheet.

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

Note 6: The Company adopted the provisions of Statement of Financial Accounting Standards No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets, as of January 1, 2002. Statement 141 addresses financial accounting and reporting for business combinations requiring the use of the purchase method of accounting and reporting for goodwill and other intangible assets requiring that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 also requires intangible assets with estimate useful lives be amortized over their respective useful life to their estimated residual values, and reviewed for impairment.

As of March 30, 2002, the Company had $13,127 of goodwill and other intangibles, including $5,089 from the acquisition of McCalla on March 27, 2002. The McCalla acquisition-related intangibles include non-compete agreement and goodwill. The non-compete agreement is the only intangible subject to amortization under Statement 142.

In the first quarter of 2001, $181 ($112 after-tax), or $0.01 per common share, of goodwill amortization was included in selling, general and administrative expenses. First quarter 2001 net earnings without goodwill amortization were $1,106, or $0.11 per common share. The Company charged selling, general and administrative expense for $726 ($477 after tax), or $0.05 per common share, for the amortization of goodwill for the year ended December 31, 2001. The full year 2001 net loss without goodwill amortization was $7,933, or $0.77 per common share. No goodwill amortization was incurred during the first quarter of 2002. The Company tested each reporting unit's unamortized goodwill for impairment and found the assets unimpaired as of the date of adoption. In accordance with Statement No. 142, the Company will test each reporting unit's goodwill as of end of the calendar year.

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

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

THREE MONTHS ENDED MARCH 30, 2002
COMPARED TO THE
THREE MONTHS ENDED MARCH 31, 2001
(Dollar Amounts in Thousands, Except Per Share Data)

For the first quarter of 2002, Huffy Corporation ("Huffy" or "Company") had net earnings of $624, or $.06 per common share compared to net earnings of $994, or $0.10 per common share, for the same period last year.

Consolidated net sales for the quarter ended March 30, 2002 were $70,385, a decrease of 13.4% over sales of $81,243 for the same quarter in 2001. This sales decrease was primarily the result of Kmart's first quarter Chapter 11 filing, which interrupted shipments of product, and unfavorably impacted consumer sales. In addition, during the first quarter the Company experienced a mix shift to more opening price point bicycles. Sales of basketball backboards and lighted balls rose 36% over 2001 levels, continuing the strong trend begun in the second half of 2001. Sales of retail services were up 5% over the prior year, despite weakness in merchandising revenue directly attributable to slower Kmart sales.

Gross profit for the quarter ended March 30, 2002 was $12,001, or 17.1% of net sales compared to $11,635, or 14.3% of net sales for the quarter ended March 31, 2001. Aggressive foreign sourcing programs, cost containment programs throughout all Huffy companies and improved manufacturing volumes in the basketball product line were offset by unfavorable product mix shifts toward lower margin opening price point bicycles and higher field labor costs in the assembly service business.

Selling, general and administrative expenses were $10,528 for the first quarter of 2002, compared to $10,043 for the same period last year. As a percent of net sales, selling, general and administrative expenses (SG&A) for the quarter ended March 30, 2002 were 15.0% versus 12.4% in 2001, as a result of lower sales volume. Pension expenses are up in 2002 as a result of low interest rates and weak stock market performance during 2001. In addition, the Company has invested more aggressively in advertising in 2002.

Other income and expense in 2001 included favorable adjustments related to the final payoff of the revolver and adjustments related to the settlement of liabilities assumed in the sales of Washington Inventory Service and True Temper Hardware.

Interest costs for the first quarter of 2002 dropped to $302 from $406 for the same period last year. The Company has been debt free, with cash invested since the first quarter of 2001. 2002 interest expense is primarily comprised of amortization of financing costs, letter of credit, and non-usage revolver fees.

On March 27, 2002, the Huffy Service First acquired the stock of McCalla Company and its subsidiaries

Creative Retail Services and Creative Retail Services Canada. ("McCalla") for approximately $5,400 less $500 net cash received, subject to certain post closing adjustments. Of the total purchase price, $5,089 is recorded as intangible goodwill and covenant not to compete as of March 30, 2002. The McCalla companies provide merchandising services, including cycle and periodic resets, stocking and sales training services for a number of well-known manufacturers serving the Home Center channel, including, among others, Philips Lighting, Duracell, and The Stanley Works. The estimated opening balance sheet of McCalla is included in the March 30, 2002 consolidated balance sheet.

The Company's $75,000 revolving credit facility is secured by all assets of the Company and its affiliates and will expire on December 31, 2002, with a 12-month renewal option. As of March 30, 2002, the Company had $31,221 available on its revolving credit facility and had no outstanding balance.

The first quarter of 2001 benefited from the liquidation of $26,095 of receivables, which resulted from the strong fourth quarter 2000 Huffy Micro(TM) scooter sales. During the first quarter of 2002, receivables increased $5,824, principally as a result of the Kmart bankruptcy filing. As of March 30, 2002, the Company has $7,830 of pre-bankruptcy receivables from Kmart. The Company believes it is adequately reserved for the collectibility of its receivables. Kmart is the Company's largest customer comprising 38% of consolidated net sales in 2001.

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 throughout the coming year.

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 probable 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. The Company, along with other PRPs, the Main San Gabriel Basin Watermaster (Watermaster), the San Gabriel Water Quality Authority (WQA), and numerous local water districts (Water Districts), have worked with the EPA on a mutually satisfactory remedial plan, with the end result being a joint water supply/clean up Project Agreement which settles four different lawsuits filed by the WQA and the Water Districts. The Project Agreement was signed on March 28, 2002 and is expected to be approved by the court and become effective in mid-May 2002. 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 $6,699 at March 30, 2002. 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 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.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 annual report regarding the Superfund in which a tentative remediation settlement has been reached) have been named in fourteen civil lawsuits which allege claims related to the contaminated groundwater in the Azusa, California area (collectively, the "San Gabriel Cases").

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 were reviewed by the California Supreme Court, which ruled in February 2002. The cases have been reactivated as a result of the California Supreme Court's, decision, with the trial level Coordination Judge holding a Status Conference on all of the cases on March 14, 2002. The Coordination Judge has asked the parties to brief the status of the case following the California Supreme Court's ruling, and has scheduled a hearing on those briefs for May 23, 2002. Thereafter, it is anticipated that the Coordination Judge will set a Case Management Order, calling for the commencement of formal discovery and providing for an opportunity for the mediation of disputes.

The Company, along with the other PRPs for the Baldwin Park Operable Unit of the San Gabriel Valley Superfund Site (the "BPOU"), has also been named in four civil lawsuits filed by water purveyors. The water purveyor lawsuits allege CERCLA, property damage, nuisance, trespass and other claims related to the contaminated groundwater in the BPOU (collectively, the "Water Entity Cases"). The Company was named as a direct defendant by the water purveyor in two of these cases, and was added as a third party defendant in the two others by Aerojet General Corporation, which, in those cases, was the only PRP sued by the water purveyors. As noted above, each of the Water Entity Cases are being settled through the entry of the Project Agreement. Thus, it is anticipated that the Water Entity Cases, which are in their initial stages, will be dismissed within the next thirty to sixty days.

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.

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. SUBMISSON OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Shareholders of the Company was held April 25, 2002. At such meeting, the Shareholders of the Company elected as a Director, James F. Robeson, for a two-year term expiring in 2004. Shares were voted as follows: For: 8,356,882; Withheld (including broker non-votes): 1,067,069.

The Shareholders voted to approve an amendment to the 1998 Director Stock Option Plan to provide for restrictive stock awards in lieu of options. Shares were voted as follows: For approval: 5,977,860; against approval: 3,404,911; and abstain 41,180.

In addition, the Shareholders also ratified the appointment of KPMG LLP as the Company's independent public accountants for calendar year 2002. In accordance with such ratification, 9,220,111 shares were voted for ratification, 169,442 shares cast against, and 34,398 shares cast to abstain (including broker non-votes).

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 13, are applicable to be filed as a part of this Report.

b. The Company filed a report on Form 8-K dated April 25, 2002 with the Securities and Exchange Commission regarding remarks delivered at the Annual Meeting of Shareholders held on April 25, 2002.

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 February 21, 2002 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

May 1, 2002	/s/ Timothy G.. Howard
Date	Timothy G. Howard Vice President - Corporate Controller (Principal Accounting Officer)

INDEX OF EXHIBITS

Exhibit No.	Item
(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