

Edgar Filing: HUFFY CORP - Form 10-Q

HUFFY CORP
Form 10-Q
August 13, 2001

1

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 June 30, 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 X No

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

Edgar Filing: HUFFY CORP - Form 10-Q

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: 10,294,725 as of August 13, 2001
----- -----

2

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		
	June 30, 2001	July 1, 2000	
Net sales	\$ 86,864	\$ 122,029	\$
Cost of sales	74,787	104,965	
Gross profit	12,077	17,064	
Selling, general and administrative expenses	11,089	11,601	
Plant closure and manufacturing reconfiguration	-	1,610	
Operating income	988	3,853	
Other expense (income)			
Interest expense	348	2,614	
Interest income	(262)	(76)	
Other	(337)	(124)	
Earnings (loss) before income taxes	1,239	1,439	
Income tax expense	471	803	

Edgar Filing: HUFFY CORP - Form 10-Q

Earnings (loss) from continuing operations	768	636	

Discontinued operations:			
Earnings from discontinued operations, net of income tax expense of \$1,962 and \$2,470	-	3,875	
Extraordinary loss from early extinguishment of debt, net of income tax benefit of \$519	-	-	

Net earnings	\$ 768	\$ 4,511	
=====			
Earnings per common share:			
Basic:			
Weighted average number of common shares	10,255,057	10,171,570	10,
=====			
Earnings (loss) from continuing operations	\$ 0.07	\$ 0.06	
Earnings from discontinued operations	-	0.38	
Extraordinary loss from early extinguishment of debt	-	-	

Net earnings per common share	\$0.07	\$0.44	
=====			
Diluted:			
Weighted average number of common shares	10,502,865	10,265,031	10,
=====			
Earnings (loss) from continuing operations	\$ 0.07	\$ 0.06	
Earnings from discontinued operations	-	0.38	
Extraordinary loss from early extinguishment of debt	-	-	

Net earnings (loss) per common share	\$ 0.07	\$ 0.44	
=====			

3

HUFFY CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollar Amounts In Thousands)

	June 30, 2001 (Unaudited)

ASSETS	

Current assets:	
Cash and cash equivalents	\$ 16,948
Accounts and notes receivable, net	47,273
Inventories	35,654

Edgar Filing: HUFFY CORP - Form 10-Q

Prepaid expenses and federal income taxes	27,607

Total current assets	127,482

Property, plant and equipment, at cost	44,716
Less: Accumulated depreciation and amortization	32,870

Net property, plant and equipment	11,846
Excess of cost over net assets acquired, net	8,401
Other assets	4,798

	\$ 152,527
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	

Current liabilities:	
Notes payable	\$ -
Current installments of long-term obligations	-
Accounts payable	27,408
Accrued expenses and other current liabilities	33,127

Total current liabilities	60,535

Long-term obligations, less current installments	-
Other long-term liabilities	17,142

Total liabilities	77,677

Shareholders' equity:	
Common stock	16,721
Additional paid-in capital	66,072
Retained earnings	84,661
Accumulative comprehensive income	(2,347)
Less: cost of treasury shares	90,257

Total shareholders' equity	74,850

	\$ 152,527
	=====

Edgar Filing: HUFFY CORP - Form 10-Q

	Six ----- June 30, 200 -----
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net earnings (loss) from continuing operations	\$ 1,762
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization	2,600
Gain on sale of property, plant and equipment	-
Extraordinary charge for early extinguishment of debt	-
Deferred federal income tax expense	991
Changes in assets and liabilities:	
Accounts and notes receivable, net	32,538
Inventories	7,670
Prepaid expenses and federal income taxes	(254)
Other assets	(1,563)
Accounts payable	(607)
Accrued expenses and other current liabilities	(10,872)
Other long-term liabilities	(879)
Other	-

Net cash provided by (used in) continuing operating activities	31,386
Discontinued operations:	
Earnings from discontinued operations	-
Items not affecting cash, net	-
Cash used in discontinued operations	-

Net cash used in discontinued operating activities	-

Net cash provided by (used in) operating activities	31,386
=====	
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital expenditures	(1,402)
Acquisition of businesses	-
Proceeds from sale of property, plant and equipment	-

Net cash provided by (used in) investing activities	(1,402)
=====	
CASH FLOWS FROM FINANCING ACTIVITIES:	

Edgar Filing: HUFFY CORP - Form 10-Q

Net increase (decrease) in short-term borrowings	(17,656)
Reduction of long-term debt	-
Issuance of long-term debt	-
Issuance of common shares	286
Dividends paid	-

Net cash provided by (used in) financing activities	(17,370)
=====	
Net change in cash and cash equivalents	12,614
Cash and cash equivalents:	
Beginning of the year	4,334

End of the six month period	\$ 16,948
=====	

5

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, 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 Hufffy Corporation as of June 30, 2001. All such adjustments are of a normal recurring nature.

Note 2: On July 16, 2001, the company executed a definitive agreement to purchase the trademarks and selected cycling assets of Schwinn/GT Corp. Under the terms of the agreement, Hufffy will pay an amount estimated to be in excess of \$60.0 million for the brands and trademarks of Schwinn/GT and for the inventory, accounts receivable and certain other assets of the cycling business.

Schwinn/GT has commenced proceedings under Chapter 11 of the U.S. Bankruptcy Code. In accordance with Section 363 of the Bankruptcy Code, other companies will have an opportunity to submit bids through a court supervised competitive bidding process.

On August 3, 2001, the United States Bankruptcy Court for the District of Colorado issued an order accepting Hufffy Corporation's contract with Schwinn/GT as the baseline bid for certain cycling assets of Schwinn/GT Corp. and approving the bidding protections and breakup fee requested by Hufffy Corporation. The accelerated waiting period under the Hart-Scott-Rodino Act expired on August 2, 2001 without comment, allowing a sale to Hufffy Corporation to proceed without further Federal Trade Commission or Department of Justice action or approval.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, Business

Edgar Filing: HUFFY CORP - Form 10-Q

Combinations, and 142, Goodwill and Other Intangible Assets. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over the respective estimable useful life to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. As the potential acquisition of the assets of Schwinn/GT Corp. is in the early stages, the impact of SFAS No. 141 and 142 on the consolidated financial statements is not yet determinable.

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:

	June 30, 2001	December 31, 2000
	-----	-----
Finished Goods	\$30,234	\$39,284
Work-in-Progress	148	147
Raw Materials & Supplies	5,272	3,893
	-----	-----
	\$35,654	\$43,324
	=====	=====

6

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 Huffy Bicycle Company's transformation from a single brand manufacturer and marketer of bicycles, to a multi-brand design, marketing and distribution company. During the second quarter of 2000, reconfiguration charges included severance and related benefits (\$239); and facility shutdown and related costs (\$1,371). During the first half of 2000, reconfiguration charges included severance and related benefits (\$872); and facility shutdown and related costs (\$2,456).

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's use of derivative financial instruments is de minimis.

Note 7: The components of comprehensive income are immaterial and are

Edgar Filing: HUFFY CORP - Form 10-Q

therefore not disclosed.

7

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

THREE AND SIX MONTHS ENDED JUNE 30, 2001
COMPARED TO THE
THREE AND SIX MONTHS ENDED JULY 1, 2000
(Dollar Amounts in Thousands, Except Per Share Data)

NET EARNINGS

For the second quarter of 2001, Huffy Corporation ("Huffy" or "Company") had net earnings from continuing operations of \$768, or \$0.07 per common share, versus \$636 or \$0.06 for the same period last year. Earnings for the second quarter of 2000 include a pretax charge of \$1,610, or approximately \$0.10 per common share, for the reconfiguration of the bicycle business. The second quarter 2000 net earnings from discontinued operations were \$3,875, or \$0.38 per common share.

For the six months ended June 30, 2001, net earnings from continuing operations were \$1,762, or \$0.17 per common share, compared to a loss of \$485, or \$0.05 per common share, in the first half of 2000. The first half of 2000 included a pretax charge of \$3,328, or \$0.21 per common share, for charges related to the bicycle reconfiguration and a pretax charge of \$541, or \$0.03 per common share for refinancing charges. An extraordinary loss of \$848, or \$0.08 per common share, related to early debt extinguishments, was also recorded in the first six months of 2000.

NET SALES

Consolidated net sales for the quarter ended June 30, 2001 were \$86,864, a decrease of 28.8% over sales of \$122,029 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. Although sales at the Huffy Bicycle Company and Huffy Service First were below the prior year, the Huffy Sports Company experienced improved sales during the second quarter of 2001 with sales of 17.7% over the same period last year.

For the six months ended June 30, 2001, consolidated net sales were \$168,107, a decrease of 24.3% from \$222,097 in the same period last year. Continuing weakness in the overall economy and retail environment coupled with unfavorable product mix shifts toward lower priced bicycles, and decreased demand for scooters hampered sales in first half of 2001. Lower bicycle sales also created weaker demand for assembly services during the first half of 2001.

GROSS PROFIT

Gross profit for the quarter ended June 30, 2001 was \$12,077, or 13.9% of net sales, compared to \$17,064, or 14.0% of net sales, for the quarter ended July 1,

Edgar Filing: HUFFY CORP - Form 10-Q

2000. Huffy Sports Company provided a strong margin contribution during the second quarter. That contribution, along with aggressive cost control throughout the Company offset weaker margins at the Bicycle and Service companies.

8

For the first six months of 2001, gross profit was \$23,712, or 14.1% of net sales, compared to \$31,826, or 14.3% of net sales, last year. Although year to date margins were unfavorably impacted by product mix and volume, they remained nearly flat with last year due to ongoing cost reduction efforts and aggressive foreign sourcing programs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were \$11,089 for the second quarter of 2001, compared to \$11,601 for the same period in 2000. This result was driven by lower volume related selling expenses and strong cost controls implemented during the second half of 2000 and 2001.

Selling, general and administrative expenses for the first half of 2001 were \$21,132 versus \$24,496 in the first six months of 2000. These lower current year expenses are reflective of steps taken in 2000 to properly align SG&A expense with the revised operating structure.

NET INTEREST EXPENSE

Interest costs for the second quarter of 2001 dropped to \$86 from \$2,538 for the same period last year. The Company has been in an investing position since the first quarter and 2001 interest costs represent the amortization of financing costs, letter of credit and non-usage revolver charges.

During the first half of 2001, cash flow from operations were sufficient to repay all outstanding debt, and to generate a positive cash balance of \$16,948 on June 30, 2001. In addition, the amended loan facility, put in place in January 2001, reduced incremental borrowing rates.

SCHWINN/GT CORP. ACQUISITION

On July 16, 2001, the company executed a definitive agreement to purchase the trademarks and selected cycling assets of Schwinn/GT Corp. Under the terms of the agreement, Huffy will pay an amount estimated to be in excess of \$60.0 million for the brands and trademarks of Schwinn/GT and for the inventory, accounts receivable and certain other assets of the cycling business.

Schwinn/GT has commenced proceedings under Chapter 11 of the U.S. Bankruptcy Code. In accordance with Section 363 of the Bankruptcy Code, other companies will have an opportunity to submit bids through a court supervised competitive bidding process.

On August 3, 2001, the United States Bankruptcy Court for the District of Colorado issued an order accepting Huffy Corporation's contract with Schwinn/GT as the baseline bid for certain cycling assets of Schwinn/GT Corp. and approving the bidding protections and breakup fee requested by Huffy Corporation. The accelerated waiting period under the Hart-Scott-Rodino Act expired on August 2, 2001 without comment, allowing a sale to Huffy Corporation to proceed without further Federal Trade Commission or Department of Justice action or approval.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, and 142,

Edgar Filing: HUFFY CORP - Form 10-Q

Goodwill and Other Intangible Assets. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with SFAS No. 142. SFAS No. 142 also

9

requires that intangible assets with estimable useful lives be amortized over the respective estimable useful life to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. As the potential acquisition of the assets of Schwinn/GT Corp. is in the early stages, the impact of SFAS No. 141 and 142 on the consolidated financial statements is not yet determinable.

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

As of June 30, 2001, the Company had \$52,471 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

Edgar Filing: HUFFY CORP - Form 10-Q

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 \$7,865 at June

10

30, 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 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.

IMPACT ON RECENTLY ISSUED ACCOUNTING STANDARDS

In July, 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Tangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that all purchase price allocable to an assembled workforce may not be accounted for separately. Statement 142 will require 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 that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with FAS Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of.

The Company is required to adopt the provisions of Statement 141 immediately, except with regard to business combinations initiated prior to July 1, 2001, and Statement 142 effective January 1, 2001. Furthermore, goodwill and intangible assets determined to have an indefinite useful life acquired in a purchase business combination completed after June 30, 2001, but before Statement 142 is adopted in full, will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-Statement 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized and tested for

Edgar Filing: HUFFY CORP - Form 10-Q

impairment in accordance with the appropriate pre-Statement 142 accounting requirements prior to the adoption of Statement 142.

Statement 141 will require upon adoption of Statement 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Upon adoption of Statement 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim

11
period.

In connection with Statement 142's transitional goodwill impairment evaluation, the Statement will require the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with Statement 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of earnings.

As of the date of adoption, the Company expects to have unamortized goodwill in the amount of \$8,038, which will be subject to the transition provisions of Statements 141 and 142. Amortization expenses related to goodwill was \$726 and \$362 for the year ended December 31, 2000 and the six months ended June 30, 2001, respectively. Because of the extensive effort needed to comply with adopting Statement 141 and 142, it is not practicable to reasonably estimate the impact of adopting these Statements on the Company's financial statements at the date of this report, including whether it will be required to recognize any transitional impairment losses as the cumulative effect of a change in accounting principle.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Edgar Filing: HUFFY CORP - Form 10-Q

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 thirteen 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.

12

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 5: OTHER INFORMATION

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

- a. Exhibits - The exhibits, as shown in the "Index of Exhibits" attached hereto, are to be filed as a part of this report
- b. The Company filed three reports on Form 8-K dated July 2, 2001, July 16, 2001, and July 17, 2001 with the Securities and Exchange Commission regarding a work stoppage at its Huffly Sports, Sussex, WI facility; the

Edgar Filing: HUFFY CORP - Form 10-Q

offer to purchase the Schwinn/GT assets; and earnings for the second quarter, 2001, respectively.

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.

13

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

August 13, 2001	/s/ Timothy G. Howard
-----	-----
Date	Timothy G. Howard Vice President - Corporate Controller (Principal Accounting Officer)

14

INDEX OF EXHIBITS

Exhibit No.	Item
-----	-----
(2)	Incorporated by reference to Form 8-K, dated July 16, 2001
(3)	Not applicable
(4)	Not applicable
(10)	Not applicable
(11)	Not applicable
(15)	Not applicable
(18)	Not applicable

Edgar Filing: HUFFY CORP - Form 10-Q

(19)	Not applicable
(22)	Not applicable
(23)	Not applicable
(24)	Not applicable
(99)	Not applicable