HUTTIG BUILDING PRODUCTS INC
Form 10-Q
April 22, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

Commission file number 1-14982

HUTTIG BUILDING PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**43-0334550**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

555 Maryville University Drive	
Suite 400	
St. Louis, Missouri	**63141**
(Address of principal executive offices)	**(Zip code)**

(314) 216-2600

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer , accelerated filler and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares of Common Stock outstanding on March 31, 2015 was 24,868,951 shares.

Table of Contents

Table of Contents

PART 1 FINANCIAL INFORMATION

ITEM 1-FINANCIAL STATEMENTS

HUTTIG BUILDING PRODUCTS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(In Millions, Except Per Share Data)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Net sales	$ 147.4	$ 135.3
Cost of sales	118.9	108.8
Gross margin	28.5	26.5
Operating expenses	27.9	26.7
Operating income (loss)	0.6	(0.2)
Interest expense, net	0.5	0.6
Income (loss) from continuing operations before income taxes	0.1	(0.8)
Provision for income taxes		
Income (loss) from continuing operations	0.1	(0.8)
Loss from discontinued operations, net of taxes	(0.1)	(3.2)
Net income (loss)	$ 0.0	$ (4.0)
Net income (loss) from continuing operations per share - basic and diluted	$ 0.00	$ (0.03)
Net income (loss) from discontinued operations per share - basic and diluted	$ 0.00	$ (0.14)
Net income (loss) per share - basic and diluted	$ 0.00	$ (0.17)
Weighted average shares outstanding:		
Basic shares outstanding	23.9	23.3
Diluted shares outstanding	23.9	23.3

See notes to condensed consolidated financial statements

Table of Contents

HUTTIG BUILDING PRODUCTS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(In Millions)

	March 31, 2015	December 31, 2014	March 31, 2014
ASSETS			
CURRENT ASSETS:			
Cash and equivalents	$ 0.7	$ 0.5	$ 2.4
Trade accounts receivable, net	67.7	48.9	60.2
Inventories	81.7	67.4	75.1
Other current assets	6.7	7.8	6.1
Total current assets	156.8	124.6	143.8
PROPERTY, PLANT AND EQUIPMENT:			
Land	4.3	4.3	4.3
Buildings and improvements	25.5	25.4	24.2
Machinery and equipment	36.0	36.0	34.6
Gross property, plant and equipment	65.8	65.7	63.1
Less accumulated depreciation	49.4	48.8	46.8
Property, plant and equipment, net	16.4	16.9	16.3
OTHER ASSETS:			
Goodwill	6.3	6.3	6.3
Other	2.0	2.2	1.8
Deferred income taxes	8.0	8.0	7.9
Total other assets	16.3	16.5	16.0
TOTAL ASSETS	$ 189.5	$ 158.0	$ 176.1

See notes to condensed consolidated financial statements

Table of Contents

HUTTIG BUILDING PRODUCTS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(In Millions, Except Share Data)

	March 31, 2015	December 31, 2014	March 31, 2014
LIABILITIES AND SHAREHOLDERS EQUITY			
CURRENT LIABILITIES:			
Current maturities of long-term debt	$ 1.1	$ 1.3	$ 0.8
Trade accounts payable	60.3	39.4	52.6
Deferred income taxes	8.0	8.0	7.9
Accrued compensation	3.7	4.0	4.0
Other accrued liabilities	10.2	13.4	10.2
Total current liabilities	83.3	66.1	75.5
NON-CURRENT LIABILITIES:			
Long-term debt, less current maturities	76.9	62.4	77.9
Other non-current liabilities	3.7	3.8	4.3
Total non-current liabilities	80.6	66.2	82.2
SHAREHOLDERS EQUITY:			
Preferred shares; $.01 par (5,000,000 shares authorized)			
Common shares; $.01 par (50,000,000 shares authorized: 24,868,951; 24,556,536; and 24,578,066 shares issued at March 31, 2015, December 31, 2014 and March 31, 2014, respectively)	0.2	0.2	0.2
Additional paid-in capital	40.3	40.4	39.3
Accumulated deficit	(14.9)	(14.9)	(21.1)
Total shareholders equity	25.6	25.7	18.4
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 189.5	$ 158.0	$ 176.1

See notes to condensed consolidated financial statements

Table of Contents

HUTTIG BUILDING PRODUCTS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(In Millions)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Cash Flows From Operating Activities:		
Net income (loss)	$	$ (4.0)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Net loss from discontinued operations	0.1	3.2
Depreciation and amortization	0.7	0.8
Non-cash interest expense	0.1	0.1
Stock-based compensation	0.4	0.3
Changes in operating assets and liabilities:		
Trade accounts receivable	(18.8)	(15.9)
Inventories	(14.3)	(8.4)
Trade accounts payable	20.9	11.8
Other	(2.4)	(1.6)
Total cash used in operating activities	(13.3)	(13.7)
Cash Flows From Investing Activities:		
Capital expenditures	(0.2)	(0.3)
Total cash used in investing activities	(0.2)	(0.3)
Cash Flows From Financing Activities:		
Borrowings of debt, net	14.3	16.6
Repurchase shares of common stock	(0.6)	(0.8)
Total cash provided by financing activities	13.7	15.8
Net increase in cash and equivalents	0.2	1.8
Cash and equivalents, beginning of period	0.5	0.6
Cash and equivalents, end of period	$ 0.7	$ 2.4
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 0.4	$ 0.6
Income taxes paid	0.1	

See notes to condensed consolidated financial statements

Table of Contents

HUTTIG BUILDING PRODUCTS, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BASIS OF PRESENTATION

The unaudited interim condensed consolidated financial statements of Huttig Building Products, Inc. and Subsidiary (the Company or Huttig) were prepared in accordance with U.S. generally accepted accounting principles (GAAP) and reflect all adjustments (including normal recurring accruals) which, in the opinion of management, are considered necessary for the fair presentation of the results for the periods presented. These statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014.

The condensed consolidated results of operations and resulting cash flows for the interim periods presented are not necessarily indicative of the results that might be expected for the full year. Due to the seasonal nature of Huttig s business, operating profitability is usually lower in the Company s first and fourth quarters than in the second and third quarters.

2. COMPREHENSIVE INCOME

Comprehensive income refers to net income adjusted by gains and losses that in conformity with GAAP are excluded from net income. Other comprehensive items are amounts that are included in shareholders equity in the condensed consolidated balance sheets. The Company has no comprehensive income (loss) items and therefore the comprehensive net income (loss) is equal to net income (loss) for all periods presented.

3. DEBT

Debt consisted of the following (in millions):

	March 31, 2015	December 31, 2014	March 31, 2014
Revolving credit facility	$ 75.5	$ 60.8	$ 76.9
Other obligations	2.5	2.9	1.8
Total debt	78.0	63.7	78.7
Less current portion	1.1	1.3	0.8
Long-term debt	$ 76.9	$ 62.4	$ 77.9

Credit Agreement The Company has a $160.0 million asset-based senior secured revolving credit facility (credit facility). Borrowing availability under the credit facility is based on eligible accounts receivable, inventory and real estate. The real estate component of the borrowing base amortizes monthly over 12.5 years on a straight-line basis. Borrowings under the credit facility are collateralized by substantially all of the Company s assets and the Company s subject to certain operating limitations applicable to a loan of this type, which, among other things, place limitations on indebtedness, liens, investments, mergers and acquisitions, dispositions of assets, cash dividends and transactions with affiliates. The entire unpaid balance under the credit facility is due and payable on May 28, 2019.

At March 31, 2015, under the credit facility, the Company had revolving credit borrowings of $75.5 million outstanding at a weighted average interest rate of 2.08% per annum, letters of credit outstanding totaling $3.0 million, primarily for health and workers compensation insurance and $59.9 million of additional committed borrowing capacity. The Company pays an unused commitment fee of 0.25% per annum. In addition, the Company had $2.5 million of capital lease and other obligations outstanding at March 31, 2015.

The sole financial covenant in the credit facility is the fixed charge coverage ratio (FCCR) of 1.05:1.00 which must be tested by the Company if the excess borrowing availability falls below a range of $12.5 million to $20.0 million, depending on the Company s borrowing base, and must also be tested on a pro forma basis prior to consummation of certain significant business transactions outside the Company s ordinary course of business, as defined in the credit agreement.

Table of Contents

The Company believes that cash generated from its operations and funds available under the credit facility will provide sufficient funds to meet the operating needs of the Company for at least the next twelve months. However, if the Company s availability falls below the required threshold and the Company does not meet the minimum FCCR, its lenders would have the right to terminate the loan commitments and accelerate the repayment of the entire amount outstanding under the credit facility. The lenders could also foreclose on the Company s assets that secure the credit facility. In that event, the Company would be forced to seek alternative sources of financing, which may not be available on terms acceptable to it, or at all.

4. CONTINGENCIES

The Company carries insurance policies on insurable risks with coverage and other terms that it believes to be appropriate. The Company generally has self-insured retention limits and has obtained fully insured layers of coverage above such self-insured retention limits. Accruals for self-insurance losses are made based on claims experience. Liabilities for existing and unreported claims are accrued for when it is probable that future costs will be incurred and can be reasonably estimated.

As described in Note 7 Commitments and Contingencies to the Company s audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014, Huttig was previously identified as a potentially responsible party in connection with the cleanup of contamination at a formerly owned property in Montana. The following information supplements and updates the Company s prior disclosure. On February 18, 2015, the Montana Department of Environmental Quality (the DEQ) issued an amendment to the unilateral administrative order of the DEQ outlining the final remediation of the property in its Record of Decision (the ROD). Under the ROD, the DEQ estimated the remediation costs of the property to be $8.3 million. Based on the Company s review of the ROD, including discussions with third-party specialists, the Company has accrued $3.7 million at March 31, 2015 and March 31, 2014 with respect to the contingent liability. The Company believes this accrual represents a reasonable estimate of its expected remaining costs of remediation in light of current facts and circumstances. The Company intends to prepare a work plan for the implementation of the ROD to be submitted to the DEQ by May 11, 2015. The Company considered in its estimate, among other things, discussions with the DEQ, including the utilization of alternative remediation methods. Potential indemnification or other claims we may be able to assert against third parties and possible insurance coverage have also been considered but any potential recoveries have not been recognized at this time. The ultimate amount of remediation expenditures is difficult to reliably estimate because a work plan for the final remediation has not yet been developed or approved. As such, there is some uncertainty regarding the implementation of the final remediation. Since the top end of the range of our potential remediation costs for the property is unknown, our actual remediation expenses ultimately incurred could exceed our accrual by a material amount which could have a material adverse effect on our future liquidity, financial condition or operating results in any period in which any such additional expenses are recognized.

The Company has filed a declaratory action against certain liability insurers seeking, inter alia, defense and indemnification for the costs of implementing the final remediation activities associated with the Montana property. This case currently is pending in the United States District Court for the Eastern District of Missouri. No trial date is set.

In addition, some of the Company s current and former distribution centers are located in areas of current or former industrial activity where environmental contamination may have occurred, and for which the Company, among others, could be held responsible. The Company currently believes that there are no material environmental liabilities at any of its distribution center locations.

The Company accrues expenses for contingencies when it is probable that an asset has been impaired or a liability has been incurred and management can reasonably estimate the expense. Contingencies for which the Company has made accruals include environmental, product liability and other legal matters. It is possible, however, that actual expenses could exceed our accrual by a material amount which could have a material adverse effect on Huttig s future liquidity, financial condition or operating results in the period in which any such additional expenses are incurred.

5. EARNINGS PER SHARE

The Company calculates its basic income per share by dividing net income allocated to common shares outstanding by the weighted average number of common shares outstanding. Holders of unvested shares of restricted stock participate in dividends on the same basis as common shares. As a result, these share-based awards meet the definition of participating securities and the Company applies the two-class method to compute earnings per share. The two-class method is an earnings allocation formula that treats participating securities as having rights to earnings that would otherwise have been available to common stockholders. In periods in which the Company has net losses, the losses are not allocated to participating securities because the participating security holders are not obligated to share in such losses. The following table presents the number of participating securities and earnings allocated to those securities (in millions).

	Three Months Ended March 31, 2015	2014
Earnings allocated to participating shareholders	$	$
Number of participating securities	1.1	1.4

The diluted earnings per share calculations include the effect of the assumed exercise using the treasury stock method for both stock options and unvested restricted stock units, except when the effect would be anti-dilutive. The following table presents the number of common shares used in the calculation of net income (loss) per share from continuing operations (in millions).

	Three Months Ended March 31, 2015	2014
Weighted-average number of common shares-basic	23.9	23.3
Dilutive potential common shares		
Weighted-average number of common shares-dilutive	23.9	23.3

The calculation of diluted earnings (loss) per common share for the periods ended March 31, 2015 and March 31, 2014 excludes the impact of antidilutive stock options and restricted stock units. The Company has 0.1 million stock options outstanding at March 31, 2015 which were all antidilutive.

6. INCOME TAXES

Huttig recognized no income tax expense or benefit in the three-month periods ended March 31, 2015 and March 31, 2014. At March 31, 2015, the Company had gross deferred tax assets of $38.5 million and a valuation allowance of $29.6 million netting to deferred tax assets of $8.9 million. The Company had deferred tax liabilities of $8.9 million at March 31, 2015. After classifying $0.9 million of short-term deferred tax assets against short-term deferred tax liabilities, the Company had current net deferred tax liabilities of $8.0 million, as well as long-term deferred tax assets of $8.0 million at March 31, 2015. The Company expects its deferred tax liabilities to be settled with utilization of its deferred tax assets. The deferred tax liabilities enable the Company to partially utilize the deferred tax assets at March 31, 2015, and the balance of the deferred tax assets are covered by the Company s valuation allowance. The Company is not relying on future pre-tax income at March 31, 2015 to support the utilization of the deferred tax assets.

7. STOCK-BASED EMPLOYEE COMPENSATION

The Company recognized $0.4 million and $0.3 million in non-cash stock-based compensation expense in each of the three-month periods ended March 31, 2015 and March 31, 2014, respectively. During the first three months of 2015, the Company granted an aggregate of 500,468 shares of restricted stock at a fair market value of $3.19 per share under its 2005 Executive Incentive Compensation Plan. The restricted shares vest in three equal installments on the first, second and third anniversaries of the grant date. The unearned compensation expense is being amortized into expense on a straight-line basis over the requisite service period for the entire award. As of March 31, 2015 and 2014, the total compensation expense not yet recognized related to all outstanding restricted stock/unit awards was $2.9 million and $2.7 million, respectively.

9

Table of Contents

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

Overview

Huttig is a distributor of a broad array of building material products used principally in new residential construction, home improvement, and remodeling and repair projects. We distribute our products through 27 distribution centers serving 41 states and sell primarily to building materials dealers, national buying groups, home centers and industrial users, including makers of manufactured homes.

The following table sets forth our sales by product classification as a percentage of total sales:

	Three Months Ended March 31,	
	2015	2014
Millwork(1)	48%	50%
Building Products(2)	40%	38%
Wood Products(3)	12%	12%
Total Net Product Sales	100%	100%