

Edgar Filing: BUTLER MANUFACTURING CO - Form 10-Q

BUTLER MANUFACTURING CO
Form 10-Q
November 14, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13
or 15(d) of the
Securities Exchange Act of 1934

Commission File No. 001-12335

FOR THE QUARTER ENDED SEPTEMBER 30, 2001

BUTLER MANUFACTURING COMPANY

Incorporated in State of Delaware

BMA Tower - Penn Valley Park
Post Office Box 419917
Kansas City, Missouri 64141-0917

Phone: (816) 968-3000

I.R.S. Employer Identification Number: 44-0188420

Shares of common stock outstanding at
SEPTEMBER 30, 2001: 6,289,783

The name, address and fiscal year of the Registrant have not changed
since the last report.

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,
and (2) has been subject to such filing requirements for the past 90 days.

INDEX

Page Number

PART I. - FINANCIAL INFORMATION

ITEM 1. Financial Statements

(1) Consolidated Financial Statements (unaudited):

Edgar Filing: BUTLER MANUFACTURING CO - Form 10-Q

| | |
|--|----|
| Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2001 and 2000. | 3 |
| Consolidated Statements of Comprehensive Income for the Nine Months Ended September 30, 2001 and 2000. | 4 |
| Consolidated Balance Sheets as of September 30, 2001 and December 31, 2000. | 5 |
| Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2001 and 2000. | 6 |
| (2) Notes to Consolidated Financial Statements | 7 |
| ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 10 |
| ITEM 3. Quantitative and Qualitative Disclosure About Market Risk. | 12 |
| PART II. - OTHER INFORMATION | |
| ITEM 6. Exhibits and Reports on Form 8-K | 12 |
| Signatures | 13 |
| Exhibits Index | |

Page 2

BUTLER MANUFACTURING COMPANY AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Nine Months Ended September 30, 2001 and 2000

(unaudited)

(\$000's omitted, except for per share data)

| | THREE MONTHS ENDED SEPTEMBER 30, | | NINE MONTHS ENDED SEPTEMBER 30, | |
|---|-------------------------------------|-----------|------------------------------------|-----------|
| | 2001 | 2000 | 2001 | 2000 |
| Net sales | \$249,676 | \$249,671 | \$658,207 | \$712,896 |
| Cost of sales | 208,770 | 202,440 | 558,878 | 588,794 |
| Gross profit | 40,906 | 47,231 | 99,329 | 124,102 |
| Selling, general and administrative expenses | 30,302 | 30,974 | 85,620 | 90,953 |
| Restructuring credit | -- | -- | -- | (441) |

Edgar Filing: BUTLER MANUFACTURING CO - Form 10-Q

| | | | | |
|---|-----------|-----------|-----------|-----------|
| Operating income | 10,604 | 16,257 | 13,709 | 33,590 |
| Other income (expense) net | 861 | (491) | 1,567 | (862) |
| Earnings before interest and taxes | 11,465 | 15,766 | 15,276 | 32,728 |
| Interest expense | 1,949 | 1,406 | 5,022 | 4,078 |
| Pretax earnings | 9,516 | 14,360 | 10,254 | 28,650 |
| Income tax expense | 3,588 | 4,929 | 3,704 | 10,361 |
| Net earnings | \$ 5,928 | \$ 9,431 | \$ 6,550 | \$ 18,289 |
| Basic earnings per common share | \$0.94 | \$1.47 | \$1.04 | \$2.78 |
| Diluted earnings per common share | \$0.94 | \$1.47 | \$1.04 | \$2.77 |
| Basic weighted average number of shares | 6,290,196 | 6,394,939 | 6,282,147 | 6,582,966 |
| Diluted weighted average number of shares | 6,293,169 | 6,404,625 | 6,285,761 | 6,593,839 |

See Accompanying Notes to Consolidated Financial Statements.

Page 3

BUTLER MANUFACTURING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Nine Months Ended September 30, 2001 and 2000

(unaudited)
(\$000's omitted)

| | NINE MONTHS ENDED SEPTEMBER 30, | |
|--|------------------------------------|----------|
| | 2001 | 2000 |
| Net earnings | \$6,550 | \$18,289 |
| Other comprehensive income (loss): | | |
| Foreign currency translation and other comprehensive loss adjustments | (532) | (726) |
| Comprehensive income | \$6,018 | \$17,563 |

Edgar Filing: BUTLER MANUFACTURING CO - Form 10-Q

See Accompanying Notes to Consolidated Financial Statements.

Page 4

BUTLER MANUFACTURING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2001 and December 31, 2000

(unaudited)
(\$000's omitted)

| | 2001 | 2000 |
|--|------------|------------|
| | ----- | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 51,645 | \$ 16,855 |
| Receivables, net | 146,951 | 138,347 |
| Inventories: | | |
| Raw materials | 20,839 | 22,059 |
| Work in process | 13,941 | 10,685 |
| Finished goods | 33,628 | 38,686 |
| Lifo reserve | (10,163) | (9,926) |
| | ----- | ----- |
| Total inventory | 58,245 | 61,504 |
| Real estate developments in progress | 29,430 | 52,623 |
| Net deferred tax assets | 10,587 | 10,586 |
| Other current assets | 9,203 | 11,855 |
| | ----- | ----- |
| Total current assets | 306,061 | 291,770 |
| Investments and other assets | 41,733 | 35,000 |
| Assets held for sale | 3,684 | 3,832 |
| Property, plant and equipment, at cost | 288,702 | 274,432 |
| Less accumulated depreciation | (157,207) | (157,036) |
| | ----- | ----- |
| Net property, plant and equipment | 131,495 | 117,396 |
| | ----- | ----- |
| | \$ 482,973 | \$ 447,998 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Notes payable | \$ 1,889 | \$ 35,155 |
| Current maturities of long-term debt | 5,581 | 5,563 |
| Accounts payable | 83,284 | 86,232 |
| Dividends payable | 1,132 | 1,064 |
| Accrued liabilities | 92,557 | 77,434 |
| Taxes on income | 11,826 | 7,461 |
| | ----- | ----- |
| Total current liabilities | 196,269 | 212,909 |
| Net deferred tax liabilities | 1,409 | 1,409 |

Edgar Filing: BUTLER MANUFACTURING CO - Form 10-Q

| | | |
|--|------------|------------|
| Other noncurrent liabilities | 12,854 | 14,666 |
| Long-term debt, less current maturities | 103,327 | 53,298 |
| Shareholders' equity: | | |
| Common stock, no par value, authorized 20,000,000 Shares, issued 9,088,200 shares, at stated value | 12,623 | 12,623 |
| Cumulative foreign currency translation and other comprehensive loss adjustments | (2,009) | (1,477) |
| Retained earnings | 223,256 | 220,113 |
| | ----- | ----- |
| | 233,870 | 231,259 |
| Less cost of common stock in treasury, 2,798,417 shares in 2001 and 2,832,338 shares in 2000 | 64,756 | 65,543 |
| | ----- | ----- |
| Total shareholders' equity | 169,114 | 165,716 |
| | ----- | ----- |
| | \$ 482,973 | \$ 447,998 |
| | ===== | ===== |

See Accompanying Notes to Consolidated Financial Statements

Page 5

BUTLER MANUFACTURING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Month Ended September 30, 2001 and 2000

(unaudited)
(\$000's omitted)

| | 2001 | 2000 |
|--|----------|-----------|
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net earnings | \$ 6,550 | \$ 18,289 |
| Adjustments to reconcile net earnings to net cash provided (used) in operating activities: | | |
| Depreciation and amortization | 12,775 | 11,277 |
| Restructuring charge | -- | (441) |
| Equity earnings on joint ventures | (360) | (121) |
| Change in asset and liabilities | | |
| Receivables | (8,604) | (33,305) |
| Inventories | 3,259 | 4,396 |
| Real estate developments in progress | 23,193 | (27,198) |
| Other current assets | 2,652 | 5,972 |
| Current liabilities excluding short-term debt | 16,539 | 10,542 |
| Net change in other noncurrent assets | (5,846) | 1,587 |
| Net change in other noncurrent liabilities | (1,951) | 2,225 |
| | ----- | ----- |
| Net cash provided (used) in operating activities | 48,207 | (6,777) |
| Cash flows from investing activities: | | |

Edgar Filing: BUTLER MANUFACTURING CO - Form 10-Q

| | | |
|---|-----------|-----------|
| Capital expenditures | (26,681) | (24,560) |
| Software development costs for internal use | (3,745) | (1,466) |
| Proceeds from the sale of property, plant, & equipment | 3,025 | 525 |
| Assets held for sale | 148 | (1,358) |
| | ----- | ----- |
| Net cash (used) by investing activities | (27,253) | (26,859) |
| Cash flows from financing activities: | | |
| Payment of dividends | (3,200) | (3,191) |
| Proceeds from issuance of long-term debt | 50,661 | 1,650 |
| Repayment of long-term debt | (632) | (257) |
| Net increase (decrease) in short-term debt | (33,248) | 11,164 |
| Sale and issuance of treasury stock | 871 | 616 |
| Purchase of treasury stock | (84) | (11,644) |
| | ----- | ----- |
| Net cash provided (used) by financing activities | 14,368 | (1,662) |
| Effect of exchange rate and comprehensive income changes on cash | (532) | (726) |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | 34,790 | (36,024) |
| Cash and cash equivalents at beginning of year | 16,855 | 52,951 |
| | ----- | ----- |
| Cash and cash equivalents at September 30 | \$ 51,645 | \$ 16,927 |
| | ===== | ===== |

See Accompanying Notes to Consolidated Financial Statements.

Page 6

BUTLER MANUFACTURING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the accounting policies described in the consolidated financial statements and related notes included in Butler Manufacturing Company's 2000 Form 10-K. It is suggested that those consolidated statements be read in conjunction with this report. The year-end financial statements presented were derived from the company's audited financial statements. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments necessary for a fair presentation of the financial position of Butler Manufacturing Company and the results of its operations.

NOTE 2 - NEW ACCOUNTING PRONOUNCEMENT

In July 2001, the Financial Accounting Standards Board (SFAS), issued Statement No. 141, "Business Combinations, and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all future acquisitions after June 30, 2001, to be accounted for under the purchase method of accounting. In addition, it further clarifies the criteria for recognition of intangible assets separately from goodwill. SFAS No. 142 provides guidance on the accounting and reporting for goodwill and intangible assets. Goodwill will no longer be amortized over its estimated useful life, but will be assessed annually for impairment using a fair value based test.

Edgar Filing: BUTLER MANUFACTURING CO - Form 10-Q

The company will adopt these new standards on January 1, 2002. At the end of the third quarter the company had goodwill of \$6.0 million and approximately \$.1 million of goodwill amortization on a quarterly basis which will no longer be recorded at January 1, 2002. The company is evaluating the application of these pronouncements and has not yet determined the impact of the adoption on the financial statements.

NOTE 3 - BUSINESS SEGMENTS

The company groups its operations into five business segments: North American Building Systems, International Building Systems, Architectural Products, Construction Services, and Real Estate.

The North American Building Systems segment includes the North American metal buildings and the wood buildings businesses. These business units supply steel and wood frame pre-engineered building systems for a wide variety of commercial, community, industrial, and agricultural applications.

The International Buildings Systems segment includes the company's Asian and European metal buildings businesses. These businesses supply pre-engineered metal buildings for commercial, community, industrial, and agricultural applications primarily for the Chinese and European markets.

The Architectural Products segment includes the operations of the Vistawall Group. The group's businesses design, manufacture, and market architectural aluminum systems for nonresidential construction, including curtain wall, storefront systems, windows, doors, skylights, and roof accessories.

The Construction Services segment provides comprehensive design and construction planning, execution, and management services for major purchasers of construction. Projects are usually executed in conjunction with the dealer representatives of other Butler divisions.

The Real Estate segment provides real estate build-to-suit-to-lease development services in cooperation with Butler dealers.

The accounting policies for the segments are the same as those described in the summary of significant accounting policies as included in the company's 2000 form 10-K. Butler Manufacturing Company's reportable segments are strategic business units that offer products and services for different markets. They are managed separately because each business requires different technology and expertise.

The Other classification represents unallocated corporate expenses and unallocated assets, including corporate offices, deferred taxes, pension accounts, interest expense, and intersegment eliminations.

Page 7

| NET SALES (\$000's omitted) | THREE MONTHS ENDED SEPTEMBER 30, | | NINE MONTHS ENDED SEPTEMBER 30, | |
|---------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
| | 2001 | 2000 | 2001 | 2000 |
| North American Building Systems | \$123,461 | \$145,245 | \$325,237 | \$394,887 |
| International Building Systems | 21,748 | 27,797 | 56,879 | 61,329 |

Edgar Filing: BUTLER MANUFACTURING CO - Form 10-Q

| | | | | |
|------------------------|-----------|-----------|-----------|-----------|
| Architectural Products | 61,443 | 56,969 | 177,442 | 166,663 |
| Construction Services | 35,300 | 31,825 | 86,688 | 108,359 |
| Real Estate | 15,888 | 316 | 31,841 | 7,682 |
| Other | (8,164) | (12,481) | (19,880) | (26,024) |
| | ----- | ----- | ----- | ----- |
| | \$249,676 | \$249,671 | \$658,207 | \$712,896 |
| | ===== | ===== | ===== | ===== |

Net sales represent revenues from sales to affiliated and unaffiliated customers before elimination of intersegment sales, which is included in Other.

Intersegment eliminations are primarily sales between North American Building Systems and Architectural Products segments to the International Building Systems and Construction Services segments.

| PRETAX EARNINGS (LOSSES) (\$000's omitted) | THREE MONTHS ENDED SEPTEMBER 30, | | NINE MONTHS ENDED SEPTEMBER 30, | |
|---|-------------------------------------|----------|------------------------------------|-----------|
| | 2001 | 2000 | 2001 | 2000 |
| ----- | ----- | ----- | ----- | ----- |
| North American Building Systems | \$ 6,001 | \$11,217 | \$ 5,247 | \$ 22,745 |
| International Building Systems | 506 | 2,232 | 102 | 2,579 |
| Architectural Products | 4,481 | 4,600 | 11,926 | 13,186 |
| Construction Services | 758 | 598 | 1,490 | 1,888 |
| Real Estate | 2,881 | 714 | 5,436 | 1,904 |
| Other | (5,111) | (5,001) | (13,947) | (13,652) |
| | ----- | ----- | ----- | ----- |
| | \$ 9,516 | \$14,360 | \$ 10,254 | \$ 28,650 |
| | ===== | ===== | ===== | ===== |

| TOTAL ASSETS (\$000's omitted) | SEPTEMBER 30, 2001 | DECEMBER 31, 2000 |
|-----------------------------------|-----------------------|----------------------|
| ----- | ----- | ----- |
| North American Building Systems | \$142,337 | \$156,002 |
| International Building Systems | 72,184 | 62,563 |
| Architectural Products | 125,790 | 108,688 |
| Construction Services | 30,596 | 31,231 |
| Real Estate | 33,304 | 55,331 |
| Other | 78,762 | 34,183 |
| | ----- | ----- |
| | \$482,973 | \$447,998 |
| | ===== | ===== |

Total assets represent assets used by each business segment. Other represents cash and cash equivalents, assets held for sale, corporate equipment, and miscellaneous other assets which are not related to a specific business segment. In prior periods the North American Building Systems and International Building Systems segments were reported as a single segment. Because of reorganization and management changes, two segments were formed.

NOTE 4 - RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

Edgar Filing: BUTLER MANUFACTURING CO - Form 10-Q

In December 1998, the company's board of directors approved a restructuring of the South American and European metal buildings businesses. As a result, the company recorded a \$7.1 million pretax charge in connection with the restructuring. In addition, the company recorded a \$6.5 million pretax charge for the impairment of certain assets. The actions leading to the restructuring charge were the closing of manufacturing operations in Brazil and repositioning of European operations. Estimates of realizable asset sales values were obtained from outside appraisals and the company's experience in selling redundant assets.

During the first quarter of 1999, the company recorded an additional \$1.5 million restructuring charge for currency translation losses on its remaining Brazilian net asset exposure.

Page 8

At the end of the first quarter 2000, \$.9 million of the restructuring accrual remained. Final activities related to restructuring were completed in the second quarter 2000, resulting in a \$.4 million reversal of the remaining accrual.

NOTE 5 - CHANGE IN ACCOUNTING FOR PENSION COSTS

Effective January 2001, the company changed its method for the recognition of asset gains and losses considered in the calculation of the annual net pension expense for its base retirement pension plan under SFAS 87, "Employers' Accounting for Pensions." The company has changed from the market-value method of asset valuation to a market-related value method. Under the previous accounting method all gains and losses, subject to a 10 percent corridor, were recognized and amortized in determining the net periodic pension costs. The new method recognizes and amortizes 20 percent of the cumulative asset gains or losses in determining net periodic pension costs. The new method is commonly used by the manufacturing sector and is preferable because it more accurately matches expense to accounting periods for which benefits are earned. The new method also improves year-to-year comparability of net periodic pension costs.

Adoption of this change reduced income from operations and net income for the three months and nine months ending September 30, 2000 by \$.2 million and \$.5 million, respectively. The earnings per share impact for the three months and nine months ended September 30, 2001 was \$.03 and \$.08 per share, respectively.

The company also changed, effective April 1, 2001, the period used to amortize prior service costs associated with retroactive amendments of benefits for its hourly pension plans. Previously, the effect of these amendments was amortized over the average future working lifetime of those expected to receive benefits. The new period used for amortization of prior service costs attributed to the amendments is the number of years in which the benefit is earned. The effect of this change was to increase net periodic pension costs and decrease operating income by \$.2 million for the three months ended September 30, 2001 and \$.4 million for the nine months ended September 30, 2001

NOTE 6 - INDEBTEDNESS

The company entered into a new \$50 million bank credit facility and issued \$50 million of senior unsecured notes pursuant to a note agreement at the end of June, allowing domestic bank borrowings to be reduced to zero.

The new credit agreement was entered into with the Bank of America, N.A. as administrative lender and certain other lenders. Interest on advances under the new credit facility are based on either (a) the higher of the federal funds rate plus .50% or the Administrative Lender's prime rate, which is payable quarterly, or (b) LIBOR, which is payable at the end of periods ranging from one to six months. The new credit agreement provides for a commitment fee on unused

Edgar Filing: BUTLER MANUFACTURING CO - Form 10-Q

advances ranging from .20% to .30%. Commitments under the new credit facility expire on June 30, 2004, at which time any outstanding advances are payable. The agreement contains certain operating covenants, including restrictions on liens, investments, acquisitions, asset sales and mergers. The agreement also requires the company to maintain a capitalization ratio, as defined, of .5 to 1, a fixed charge coverage ratio, as defined, of 1.7 to 1, and a leverage ratio, as defined of 3.25 to 1 through June 30, 2002 and 3.0 to 1 thereafter.

The senior notes bear interest, payable semi-annually on June 30 and December 30, at the rate of 7.91% per annum. Principal of the Senior Notes is payable in annual installments of \$4.55 million on December 30th of each year, commencing December 30, 2006, with the final installment due on December 30, 2016. The Note Agreement contains certain operating covenants, including restrictions on liens, additional indebtedness and asset sales, and requires the company to maintain adjusted consolidated net worth, as defined, of \$125 million plus the cumulative sum of 50% of consolidated net income for each fiscal quarter after March 31, 2001 and a fixed charge coverage ratio, as defined, of 1.5 to 1.0.

Page 9

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

RESULTS OF OPERATIONS

Net sales were \$250 million for the third quarter 2001 and for the same period a year ago. Lower North American and International Building Systems segment sales were offset by increased sales in the Architectural Products, Construction Services and Real Estate segments. Sales in the North American Building Systems segment declined 15%, due to lower non-residential building sale caused by a slowing U.S. economy and greater uncertainty brought on by the September 11 terrorist attacks. The International Building Systems segment reported lower activity in both Europe and China during the third quarter. Sales for this segment declined 22% compared with the third quarter 2000. The Architectural Products and Construction Services segment sales increased 8% and 11% respectively for the third quarter, while the Real Estate segment, whose project development sales are less predictable, reported a \$16 million increase in third quarter sales compared with the prior year.

For the Nine months ended September 30, 2001 net sales were \$658 million compared with \$713 million a year ago, a decrease of 8%. Declining sales in the North American and International Building Systems and Construction Services segments were the primary contributors to the decline in sales, offset somewhat by improved sales in the Architectural Products, Real Estate and International Building Systems segments. Both domestic and international nonresidential construction market opportunities declined in the third quarter as the global economy began to slow.

Selling, general, and administrative expenses of \$ 30 million for the third quarter 2001 were slightly lower than a year ago. For the nine months ending September 30, 2001 selling, general, and administrative expenses declined 6% compared with the prior year as expenses are brought more in line with lower sales levels.

Pretax earnings for the quarter ended September 30, 2001 were \$9.5 million compared with \$14.4 million, a year ago. For the nine months ended September 30, 2001, pretax earnings were \$10.2 million versus \$28.7 million in 2000. The sluggish U.S. economy, and slowing China and European markets, has resulted in fewer nonresidential construction opportunities, and more competitive pricing.

LIQUIDITY AND CAPITAL RESOURCES

Since December 2000, cash and cash equivalents increased \$34.8 million due to

Edgar Filing: BUTLER MANUFACTURING CO - Form 10-Q

improved cash flow provided from operating and financing activities offset by the use of cash from investing activities. The sale of real estate development projects and the increase in long term debt related to the \$50 million bank credit facility were major sources of cash, while higher receivables was a major use of cash. Increased Architectural Products segment sales, and slower receivable collections due to a slow-down in the domestic and foreign nonresidential construction markets contributed to the increase in receivables. Cash from operations also improved due to an increase in current liabilities and accruals, including warranty claims and project backcharge accruals in China Steel buildings business. Cash decreased in 2001 compared with 2000 due to the collection of a \$5.8 million noncurrent tax loss carryback for the 1999 sale of its United Kingdom metal buildings business. Increased spending for capital expenditures and software development projects, the payment of dividends were major uses of cash for the nine month period ending September 30, 2001.

The company entered into a new \$50 million bank credit facility and signed a new \$50 million private placement agreement at the end of June allowing domestic bank borrowings to be reduced to zero. The company's foreign operations maintain separate lines of credit with local banks of approximately \$7 million, with \$2 million utilized at current exchange rates at September 30, 2001. For the nine months ended September 30, 2001, domestic short-term borrowings averaged \$27 million for 272 days compared to \$12 million for 199 days in 2000. Management believes the company's operating cash flow, along with the bank credit lines, are sufficient to meet future liquidity requirements.

Capital expenditures were \$27 million for the first nine months of 2001 compared to \$24 million for the same period in 2000. Total capital expenditures for 2001 are expected to be \$48 million. It is estimated approximately \$26 million will be used to construct the company's new headquarters building. Other expenditures include costs to complete the installation of process lines in the new Vistawall extrusion plant in Tennessee and expansion of the Shanghai, China office and warehouse facilities.

Cash paid for taxes were minimal in the third quarter 2001 due to tax refunds received for settlement of prior years, while interest payments totaled \$1.2 million for the same period. This compared with tax and interest payments of \$4.0 million and \$1.4 million for the same period a year ago. Year to date net tax refunds as of September 30, 2001

Page 10

totaled \$1.3 million and interest paid totaled \$4.2 million. This compares with net tax refunds of \$.5 million and interest paid of \$3.7 million the same nine month period a year ago.

During the third quarter of 2001, treasury stock purchases were minimal compared with the prior year, and dividends paid totaled \$1 million. Total backlog at September 30, 2001 of \$333 million was equal with the backlog of a year ago. Higher margin product backlog was approximately 5% lower, while construction backlog increased 20% as compared to the same period a year ago.

In September the company's Board of Directors voted to increase its quarterly dividend by 5.9% to \$.18 per share. The dividend was payable on October 12, 2001 to shareholders of record on September 28, 2001.

MARKET PRICE RISK

The company's principal exposure to market risk is from changes in commodity prices, interest rates, and currency exchange rates. To limit exposure and to manage volatility related to these risks, the company enters into select commodity and currency hedging transactions, as well as forward purchasing arrangements. The company does not use financial instruments for trading

Edgar Filing: BUTLER MANUFACTURING CO - Form 10-Q

purposes.

Commodity Price Exposure: The company's primary commodities are steel, aluminum, and wood. Steel is the company's largest purchased commodity. Although steel prices are relatively stable the company enters into forward steel purchase arrangements in its metal buildings business for periods of less than one years duration to protect against potential price increases. To the extent there are increases in the company's steel costs, they are generally recaptured in the company's product sales prices. During periods of falling prices the company reserves the right to purchase steel from other competitive suppliers.

The company's wood frame building business enters into forward purchase arrangements for commercial grade lumber for periods of less than one year's duration. Lumber costs are generally more volatile than steel costs. To offset increases in lumber costs, the company adjusts product prices accordingly.

Aluminum hedge contracts of less than one year duration are purchased to hedge the engineered products backlog of the Vistawall group against potential losses caused by increases in aluminum costs. This product line is sensitive to material cost movements due to the longer lead times from project quoting to manufacture. Gains or losses recorded on hedge contracts are offset against the actual aluminum costs charged to cost of sales when contracts are settled. For both the three months and nines ending September 30, 2001 the company recognized net losses of \$.2 million. The unrealized loss resulting from a change in fair value of aluminum contracts are recorded in comprehensive income and totaled \$.2 million at September 30, 2001. As of September 30, 2001, the potential change in fair value of open aluminum hedge contracts, assuming a 10% change in the underlying commodity price was, \$.4 million.

Interest Rates: The majority of the company's long-term debt carries a fixed interest rate, therefore the company's interest expense is relatively stable and not influenced by changes in market interest rates. However, interest rate changes impacts the fair market value of such debt. As of September 30, 2001, the company had \$103 million in fixed rate debt outstanding. Holding other variables constant, including levels of indebtedness, a one percentage point increase in interest rates would decrease the fair market value of the fixed rate debt by \$1.5 million.

Foreign Currency Fluctuation: The majority of the company's business is transacted in U.S. dollars, therefore limiting the company's exposure to foreign currency fluctuations. Where the company has foreign-based operations, the local currency has been adopted as the functional currency. As such, the company has both transaction and translation foreign exchange exposure in those operations. Due to relative cost and limited availability, the company does not hedge its foreign net asset exposure. The company does hedge short-term foreign currency transaction exposures related to sales activity in Canada. Forward Canadian dollar sale contracts of less than one year duration are purchased to cover the exposure. Gains and losses recorded on Canadian currency hedge contracts are recorded against Canadian receivable balances. The unrealized gain recorded in comprehensive income for Canadian currency hedges totaled \$.1 million at September 30, 2001. As of September 30, 2001, the potential change in fair value of open Canadian currency hedge contracts, assuming a 10% change in the underlying commodity price, was \$.3 million.

FORWARD LOOKING INFORMATION

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which may include statements

Edgar Filing: BUTLER MANUFACTURING CO - Form 10-Q

concerning projection of revenues, income or loss, capital expenditures, capital structure, or other financial items, statements regarding the plans and objectives of management for future operations, statements of future economic performance, statements of the assumptions underlying or relating to any of the forgoing statements, and other statements which are other than statements of historical fact. These statements appear in a number of places in this report and include statements regarding the intent, belief, or current expectations of the company and its management with respect to (i) the cost and timing of the completion of new or expanded facilities, (ii) the company's competitive position, (iii) the supply and price of materials used by the company, (iv) the demand and price for the company's products and services, or (v) other trends affecting the company's financial condition or results of operations, including changes in manufacturing capacity utilization and corporate cash flow in both domestic and international markets. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially as a result of these various factors.

For additional comments, refer to the October 15, 2001 letter to shareholders, which is attached as exhibit 19.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There are no material changes to the disclosure made in the Annual Report on Form 10-K for the year ended December 31, 2000 regarding this matter. See discussion about market risk under Item 2. Management Discussion and Analysis on page 11 above.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

(19) October 15, 2001 Letter to Shareholders.

(b) Reports on Form 8-K

The company has not filed any reports on Form 8-K during the quarter ended September 30, 2001.

Page 12

SIGNATURES

Pursuant to the requirement 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.

BUTLER MANUFACTURING COMPANY

Edgar Filing: BUTLER MANUFACTURING CO - Form 10-Q

November 14, 2001

Date

/s/ Larry C. Miller

Larry C. Miller
Vice President - Finance,
and Chief Financial Officer

November 14, 2001

Date

/s/ John W. Huey

John W. Huey
Vice President, General Counsel
and Secretary

Page 13

EXHIBIT INDEX

| Exhibit Number ----- | Description ----- |
|----------------------------|---|
| 19 | October 15, 2001 Letter to Shareholders |

Page 14