

February 27, 2002

Huffy Corporation

NYSE: HUF - \$6.25

www.huffy.com

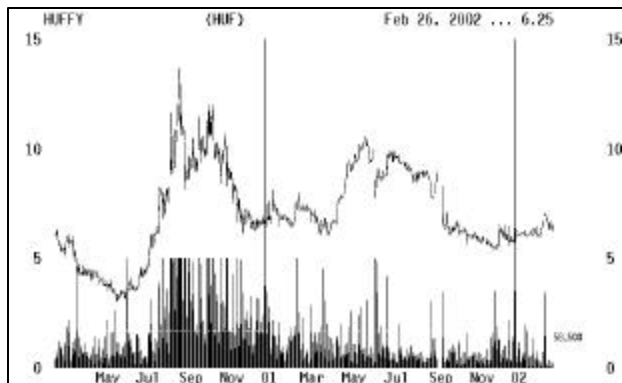
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4Q and Fiscal 2001

Strength in 4Q01 Bodes Well for 2002

Current Data		EPS		P/E
Fiscal Year End	Dec	2001 (pre FAS 142)	\$ (0.82)	-7.7
Current Price	\$ 6.25	2002E	\$ 0.42	14.9
52-Week Range	11-5	2003E	\$ 0.53	11.7
Shares Out (Mill)	10.3	Valuation		Current
Ave Volume LTM	30,975	P/E (Next FY)	14.87	NM-NM
Market Cap. (Mill)	\$ 64.38	P/B	0.99	1.2-0.9
LTD/Total Capital	0.0%	Price/Sales	0.19	0.22-0.19
Institutional Holdings	42.0%	Operating Data		4Q01
Insider Holdings	9.3%	Sales Growth	-40.2%	-32.2%
Book Value	\$ 6.32	Operating Margin	-7.9%	-2.3%
10Yr Bond	4.92%	Net Inc. Growth	217.3%	-178.8%

Source: Baseline except for EPS estimates, researchstock.com



Source: Baseline

Key Investment Points

- 12-18 month target price remains \$8.80.
- Solid financial condition: \$25 million in cash and no debt.
- Operating margins expected to improve as the result of cost reduction programs implemented in 2001.
- Sales growth may be restrained by K-Mart bankruptcy.

Company Description

Huffy Corporation ("HUF") designs and manufactures sport products and provides services for retailers. The Company's Consumer Products segment makes bicycles, basketball backboards, backboard support systems, goals and related products through its wholly-owned subsidiaries: Huffy Bicycle Company and Huffy Sports Company. The Company's Huffy Service First unit provides retailers with in-store and in-home assembly and repair and in-store display services for a variety of products.

The Bottom Line

For HUF, 2001 was the worst of times, but the Company ended the year in the best financial shape it has seen in a long time. During the year, HUF not only had a difficult comparison with scooter-boosted 2000, but it also had to deal with a recession, 9/11 and the bankruptcy of its largest customer (K-Mart). Yet despite a terrible year, HUF emerged with \$26.5 million in cash on its balance sheet (\$2.58 per share), no debt, indications of improved bike sales, and a new contract with Lowes that is expected to generate \$10 million in sales in 2002. And operating margins are expected to improve in 2002 as the result of the drive to reduce annual operating expenses by \$10 million.

4Q01 Operating Results

While core bike sales (ex-scooters) improved in 4Q01, they were lower than we expected and caused EPS to miss our forecast by \$0.02. Bike sales (excluding scooters) increased 11.7% as the result of Micro(TM)Monkey bikes and pogo sticks. Basketball and Huffy Service First ("HSF") units also posted sales gains of 33.8% and 10.6%, respectively, versus 4Q00.

HUF reported a net loss per share of \$0.71 versus our forecast of a loss per share of \$0.69. In 4Q00, HUF posted EPS from operations of \$0.57, excluding \$1.97 per share from the sale of WIS. Here is the comparison of EPS for the fourth quarter:

	4Q00	4Q01
Core Operations	\$0.57	(\$0.17)
Restructuring		(0.24)
K-Mart		(0.30)
Sale of WIS	<u>1.97</u>	<u>0.00</u>
Reported EPS	\$2.54	(\$0.71)

Operating margins were a negative 8.0% versus 8.0% in 4Q01 largely due to the \$7.0 million in charges taken during the quarter (\$2.7 million for K-Mart and \$4.3 million for inventory and other restructuring charges). However, excluding these charges, operating income would have been \$236,000 and would have posted a loss per share of \$0.02. Table 1 compares the quarterly results.

Table 1: Quarter Comparison			
(\$ Million, except per share)	4Q00	4Q01	Change
Revenues	142.21	85.09	-40%
Cost of Goods Sold	114.53	76.53	-33%
Gross Profit	27.68	8.56	-69%
SG&A	16.73	15.33	-8%
Plant Reconfig	-0.80	0.00	-100%
Operating Income	11.74	-6.76	-158%
Interest Expense/ (Inc.)	1.21	0.37	-69%
Other Expenses/ (Inc.)	0.11	0.19	64%
PreTax Income	10.42	-11.03	-206%
Income Taxes (benefit)	4.14	-3.66	-188%
Net Income-Cont. Ops	6.28	-7.37	-217%
Discont. Ops.	20.09	0.00	-100%
Net Income	26.37	-7.37	-128%
EPS-Diluted	\$ 0.50	\$ (0.71)	-242%
From Cont. ops.	\$ 0.61	\$ (0.19)	-131%
Diluted Shares	10.400	10.383	0%
Effective Tax Rate	40%	33%	
Margin Analysis			
Gross	19.5%	10.1%	-48%
EBITDA	8.8%	-6.3%	-171%
Operating	8.3%	-7.9%	-196%
Net-Continuing operations	4.4%	-8.7%	-296%

Fiscal 2001 Results

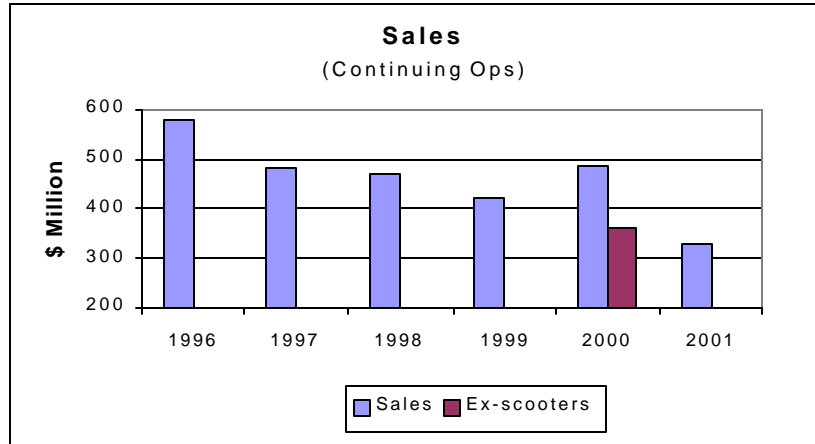
HUF posted a loss of \$0.82 for 2001 versus EPS of \$3.39 in 2000. However, to get a feel for core earnings, you need to dissect the results as follows:

	2000	2001
Core EPS	\$0.67	(\$0.28)
Scooter (est.)	0.27	
Restructuring		(0.24)
K-Mart		(0.30)
Gain/Sale WIS	<u>2.45</u>	
Total	\$3.39	(\$0.87)

(We estimated scooter EPS by applying the 2.2% net margin in 2000 to the \$128 million in scooter sales and dividing by the average diluted shares.)

Even after adjusting for scooter sales in 2000, the recession and 9/11 combined to make 2001 results fall below 2000's levels. Sales for 2001 were \$85.1 million, down 40.2% versus \$488.1 million in 2000. Even after adjusting for \$128 million in scooter sales, 2001 revenues declined 8.1%. Figure 1 illustrates the long-term sales trend and highlights 2000 sales with and without scooters.

Figure 1

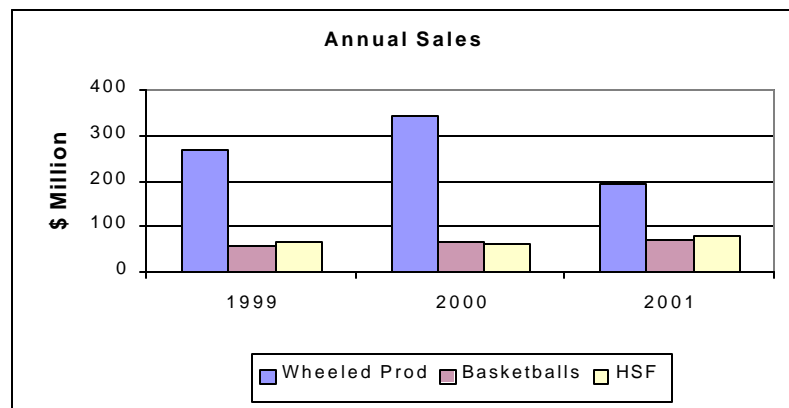


When reviewing long term operating results, it is important to remember that HUF has been restructuring itself since 1997, becoming more of a sporting goods designer and distributor rather than a domestic manufacturer of bicycles. (For more information on HUF's restructuring, see our initial report dated March 30, 2001.) As shown in Table 2, the net result of HUF's buying and selling was to focus on bicycle design and distribution.

	1996	1997	1998	1999	2000
Divestitures		Gerry Baby Gerry Wood		True Temper Hdwre.	Washington Inv. Serv
Acquisitions	Rebike	Royce Union		Am. Sports Design.	
Restructuring				Closed 3 US Plants	Closed Mex. Source/ (Now 100% Asian Sourced)

However, HUF has also sought to diversify its revenues by leveraging its expertise in distribution logistics by developing a line of basketball and other ball-related sporting goods and its network of assembly and repair personnel (HSF). Figure 2 illustrates the relative size and trends of the three operating units.

Figure 2



While scooter sales and a weak 2001 resulted in a wide swing in profitability, there has been a general improvement in operating margins (Figure 5). The main reasons for this trend are that the gross margin has improved as HUF shifted manufacturing to Asia (Figure 3) and as SG&A expenses have been reduced over time (Figure 4).

Figure 3

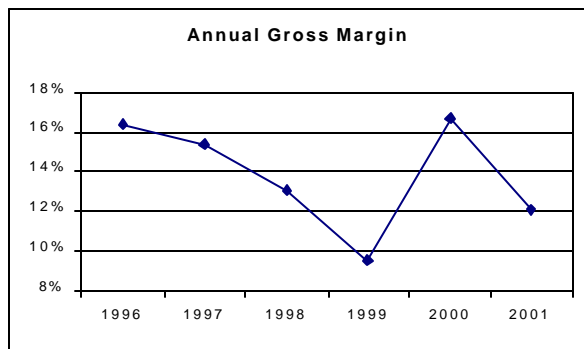


Figure 4

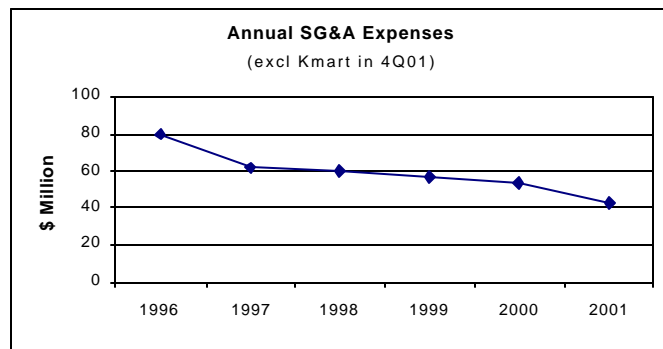
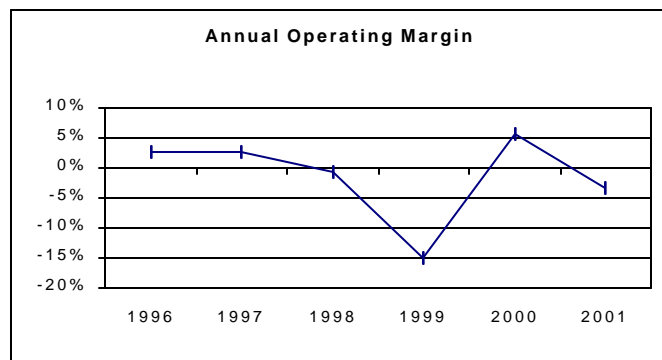


Figure 5



Financial Condition

HUF's financial condition remains very strong with no debt and \$26.5 million in cash (\$2.58 per share) at yearend 2001. Except for 2000, when scooter sales bloated accounts receivable at yearend, operating cash flow per share exceeded reported EPS since 1998 (see Figure 6) as HUF has steadily improved receivables and inventory turns (see Figure 7). However, it should be noted that the K-Mart write off exaggerated the improvement in asset utilization in 2001.

Figure 6

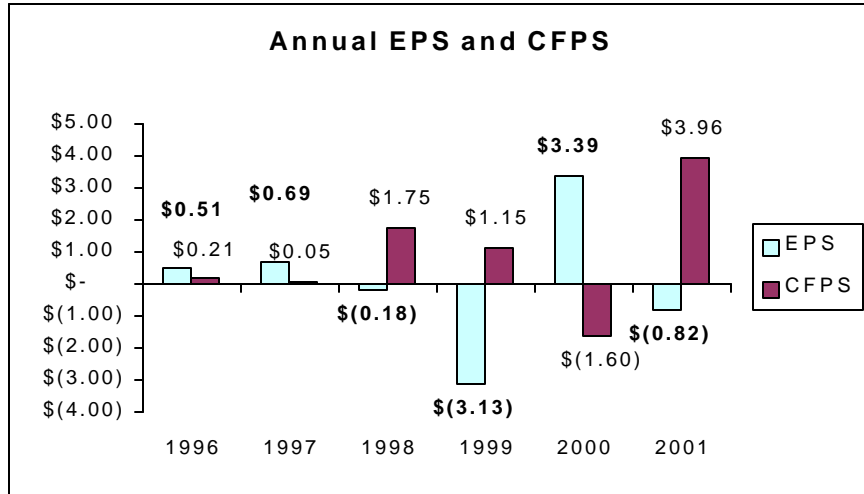
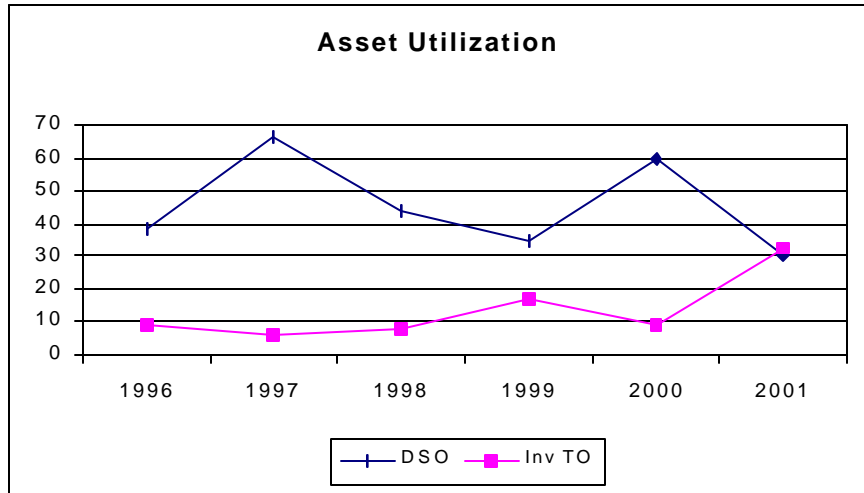


Figure 7



Peer Group Comparison

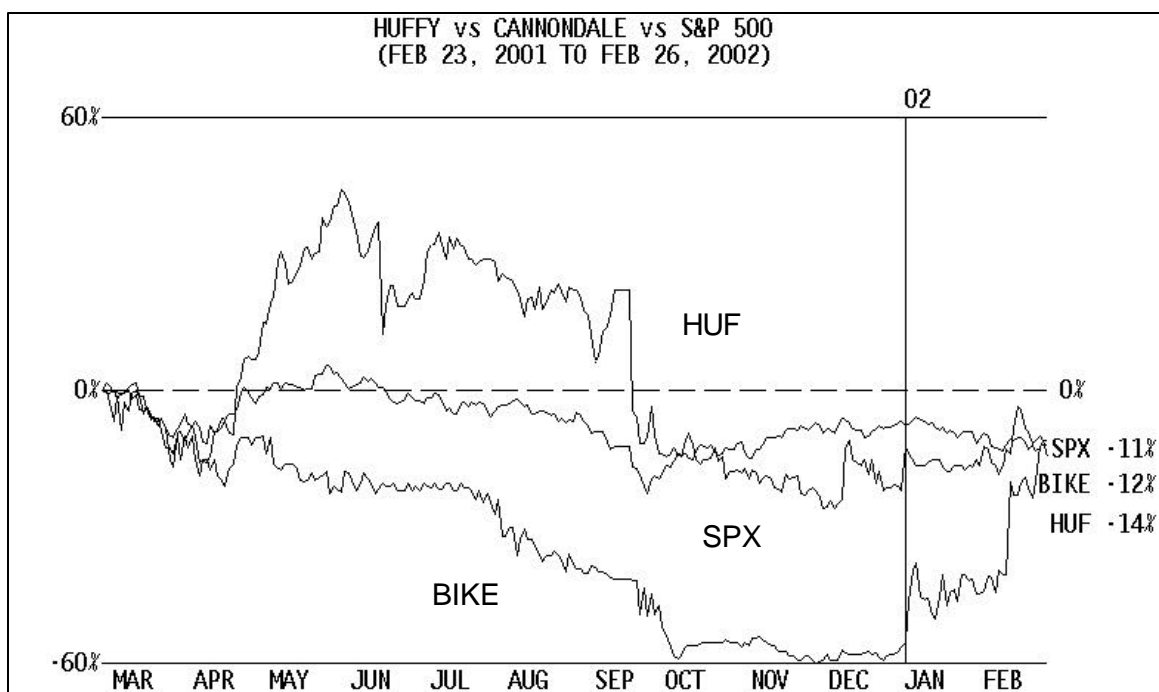
As shown in Table 3, the operating issues discussed above resulted in HUF under performing the peer group. Net Income growth in the direct peer group (leisure time companies with sales averaging \$500 million) was boosted by the performance of; Shufflemaster (SHFL up 24%), Direct Focus (DFXI up 18%), International Speedway (ISCA up 17%), Speedway Motorsports (TRK up 14%), and Harley Davidson (HDI up 13%).

	Sales		Margins			EPS	% Change
	\$	Growth	Gross	EBIDTA	Net		
HUF	\$560	-42%	13%	0.7%	-2.5%	\$ (0.27)	-117.0%
BIKE	\$147	-5%	28%	0.3%	-10.7%	\$ (1.78)	-197.0%
Sector Ave.*	\$507	1%	39%	14.9%	-30.8%	\$ 0.54	-30.5%
Sales>\$500MM	\$1,478	0%	32%	12.3%	3.4%	\$ 1.13	2.0%

* Average of the 35 leisure time stocks in the Baseline database.
Source: Baseline

HUF shares outperformed both the S&P 500 and its closest publicly traded peer, Cannondale (BIKE). As shown in Figure 8, HUF shares were relatively strong until October when concerns about post-9/11 consumer buying and the recession caused the stock to decline.

Figure 8



Outlook

While we continue to expect HUF to post above market average EPS grow in 2002, there is one major variable, how much will K-Mart's bankruptcy curtail its purchases from HUF? K-Mart was HUF's largest single customer, accounting for 38% of sales in 2001. In the worst case scenario, K-Mart would close its doors and HUF's sales could decline 38%. In the "best" case scenario, K-Mart is able to keep the blue light on, sales could still be lower than in 2001 for any number of reasons. In any event, we think this will only increase the pressure on price points. Consequently, we have reduced our core growth rate forecast to 1.5% over 2001 core levels. We continue to forecast \$10 million in sales from the Lowe's contract, which we expect occur mostly in 2Q02 and 3Q02.

The adoption of FAS 142 will boost HUF's EPS in 2002. FAS 142 eliminates the amortization of goodwill, which in HUF's case was \$726,000 (or about \$0.05 per share after taxes) in 2001. If companies do not restate historical EPS to reflect the change (which is not required under the new rule), it will artificially increase EPS growth in 2002. While institutional investors will likely not be "fooled" by the change, it is not clear how the market will react. In our model, we have noted both pre- and post-FAS 142 EPS.

We also reduced our SG&A expense forecast to reflect an assumed savings of about \$10 million from 2000 levels. Table 5 contains annual historical and our forecast for 2002 and 2003 while Table 6 conations our quarterly estimates for 2002.

Table 5: Operating Forecast							
(\$ Million, except per share)	1997	1998	1999	2000	2001	2002	2002
Revenues	481.5	584.2	422.9	488.2	331.1	343.9	357.7
Cost of Goods Sold	407.5	392.2	386.1	406.8	291.2	293.3	305.1
Gross Profit	74.0	76.2	36.7	81.3	40.0	50.6	52.6
SG&A	61.8	59.7	56.2	53.8	47.6	42.6	43.5
Plant Reconfig	0.0	21.3	38.6	0.7	3.7	0.0	0.0
Operating Income	12.2	-4.9	-58.0	26.9	-11.4	8.0	9.0
Int Expense-Net (Inc)	0.5	2.5	1.8	8.4	1.1	0.9	0.0
Other Expenses/(inc.)	1.4	0.0	0.3	1.3	0.3	0.1	0.1
PreTax Income	10.3	-7.4	-60.1	17.1	-12.8	7.0	8.9
Income Taxes	2.7	-2.9	-20.8	6.4	-4.4	2.7	3.4
Discont. Ops	1.4	2.3	6.1	24.3	0.0	0.0	0.0
K mart					0		
Net Income	9.0	-2.2	-33.3	35.0	-8.4	4.4	5.5
EPS-Diluted (as reported)	\$ 0.69	\$ (0.18)	\$ (3.13)	\$ 3.39	\$ (0.82)	\$ 0.42	\$ 0.53
- FAS 142 equivalent				\$ 3.43	\$ (0.77)	\$ 0.42	\$ 0.53
Diluted Shares	13.1	12.3	10.6	10.3	10.3	10.4	10.4
Effective Tax Rate	26%	39%	35%	38%	34%	38%	38%
Boldface data are forecasts.							
Growth Rates							
Sales	-16.9%	21.3%	-27.6%	15.4%	-32.2%	3.9%	4.0%
Net Income	9.6%	-124.2%	-1437.6%	205.1%	-124.0%	-151.9%	27.0%
EPS- FAS 142 equivalent					-122.4%	154.6%	27.0%
Margin Analysis							
Gross	15.4%	13.0%	8.7%	16.7%	12.1%	14.7%	14.7%
Operating	2.5%	-0.8%	-13.7%	5.5%	-3.4%	2.3%	2.5%
Net	1.9%	-0.4%	-7.9%	7.2%	-2.5%	1.3%	1.6%

Table 6: Quarterly Operating Forecast								
(\$ Million, except per share)	1Q01	2Q01	3Q01	4Q01	1Q02	2Q02	3Q02	4Q02
Revenues	81.24	86.86	77.95	85.09	81.29	92.67	83.61	86.36
Cost of Goods Sold	69.61	74.79	70.27	76.53	69.73	78.59	70.89	74.09
Gross Profit	11.64	12.08	7.68	8.56	11.56	14.08	12.72	12.27
SG&A	10.04	11.09	11.15	15.33	10.80	10.80	10.50	10.50
Plant Reconfig	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Income	1.59	0.99	-3.47	-6.76	0.76	3.28	2.22	1.77
Interest Expense/ (Inc.)	0.41	0.09	0.27	0.37	0.23	0.23	0.23	0.23
Other Expenses/ (Inc.)	-0.42	-0.34	0.87	0.19	0.03	0.03	0.03	0.03
PreTax Income	1.60	1.24	-4.61	-11.03	0.51	3.03	1.97	1.52
Income Taxes	0.61	0.47	-1.81	-3.66	0.19	1.15	0.75	0.58
Net Income-Cont. Ops	0.99	0.77	-2.80	-7.37	0.32	1.88	1.22	0.94
Discont. Ops.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Income	0.99	0.77	-2.80	-7.37	0.32	1.88	1.22	0.94
EPS-Diluted	\$ 0.10	\$ 0.07	\$ (0.27)	\$ (0.71)	\$ 0.03	\$ 0.18	\$ 0.12	\$ 0.09
FAS 142 equivalent	\$ 0.11	\$ 0.09	\$ (0.25)	\$ (0.69)	\$ 0.03	\$ 0.18	\$ 0.12	\$ 0.09
Diluted Shares	10.369	10.503	10.323	10.383	10.383	10.383	10.383	10.383
Effective Tax Rate	38%	38%	39%	33%	38%	38%	38%	38%
Boldfaced data are estimates.								
Growth Rates								
Sales					0.1%	6.7%	7.3%	1.5%
Operating Income					-52.1%	232.1%	-164.0%	126.2%
Net Income					32.0%	244.7%	-43.7%	112.8%
EPS (FAS 142)					-73.0%	100.2%	146.4%	113.1%
Margin Analysis								
Gross	14.3%	13.9%	9.8%	10.1%	14.2%	15.2%	15.2%	14.2%
EBITDAR	2.0%	1.1%	-4.5%	-7.9%	0.9%	3.5%	2.7%	2.1%
Operating	2.0%	1.1%	-4.5%	-7.9%	0.9%	3.5%	2.7%	2.1%
Net	1.2%	0.9%	-3.6%	-8.7%	0.4%	2.0%	1.5%	1.1%

Valuation

We are maintaining our 12-18 month target price of \$8.80 based upon our 2003 forecast and what we feel are reasonable multiples. Our methodology is shown in Table 7.

Table 7: Target Price Calculations						
		Multiples			2003	Target
		LTM	Current*	Forecast	Estimate	Range
Price/Book		Range				
	High	2.3	1.0	2.5	\$ 7.32	\$ 18.31
	Low	0.8		0.9		\$ 6.59
Price/Sales	High	0.24	0.20	0.30	\$ 33.12	\$ 9.94
	Low	0.13		0.16		\$ 5.30
P/E*	High	12.5	14.9	15.0	\$ 0.53	\$ 8.01
	Low	5.0		2.0		\$ 1.07
* Current P/E is based on 2002 EPS forecast						
		Average	High	\$ 12.09		
			Low	\$ 4.32		
		Average	\$ 8.20			

Risk Considerations

In addition to normal investment risk, investors need to consider the following when evaluating an investment in the shares of this stock:

The shares are thinly traded and could experience significant volatility.

The Company is not widely followed by Wall Street analysts. As a consequence, any improvement in operations may not be reflected in the share price as quickly as it might if the Company was widely followed.

The EPA issue is a wild card. While the company has reserved an amount it deems adequate (\$6.93 million), it is possible that the Company could have a higher liability for any one of a number of reasons. In the 10-K for 2001, HUF indicates that it expects to start dispersing payments during 2002. The potential liability is discussed in detail in the notes to the financial statements in the SEC filings (10-Qs and 10-Ks).

This report contains "forward looking" statements within the meaning of U.S. federal securities laws. Forward-looking statements regarding the Company's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence upon third party vendors; and other risks discussed in the Company's periodic report filings, including interim reports, with the Securities and Exchange Commission. By making these forward looking statements, researchstock.com, Inc. undertakes no obligation to update these statements for revisions or changes after the date of this report.

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