

HUTTIG BUILDING PRODUCTS INC  
Form 10-K  
February 26, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2015

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 1-14982

HUTTIG BUILDING PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation  
or organization)

43-0334550  
(I.R.S.  
Employer

Identification  
No.)

555 Maryville University Drive

Suite 400

St. Louis, Missouri 63141

(Address of principal executive offices, including zip code)

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(314) 216-2600

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Exchange on which Registered
Common, par value \$0.01 per share	The NASDAQ Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 at least the past 90 days.  
Yes  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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  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

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of the last business day of the quarter ended June 30, 2015 was approximately \$70 million. For purposes of this calculation only, the registrant has excluded stock beneficially owned by the registrants' directors and officers. By doing so, the registrant does not admit that such persons are affiliates within the meaning of Rule 405 under the Securities Act of 1933 or for any other purposes.

The number of shares of Common Stock outstanding on February 12, 2016 was 25,079,226 shares.

DOCUMENTS INCORPORATED HEREIN BY REFERENCE.

Parts of the registrant's definitive proxy statement for the 2016 Annual Meeting of Shareholders are incorporated by reference in Part III of this Annual Report on Form 10-K.

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PART I

ITEM 1—BUSINESS

General

Huttig Building Products, Inc., a Delaware corporation incorporated in 1913, was founded in 1885 and is a leading domestic distributor of millwork, building materials and wood products used principally in new residential construction and in home improvement, remodeling and repair work. We purchase from leading manufacturers and distribute our products through 26 wholesale distribution centers serving 41 states. Our distribution centers sell principally to building materials dealers, national buying groups, home centers and industrial users, including makers of manufactured homes. For the year ended December 31, 2015, we generated net sales of \$659.6 million.

We conduct our business through a two-step distribution model. This means we resell the products we purchase from manufacturers to our customers, who then sell the products to the final end users, who are typically professional builders and independent contractors engaged in residential construction and remodeling projects, or consumers engaged in do-it-yourself remodeling projects.

Our products fall into three categories: (i) millwork, which includes doors, windows, moulding, stair parts and columns, (ii) general building products, which include composite decking, connectors, fasteners, housewrap, roofing products and insulation, and (iii) wood products, which include engineered wood products, such as floor systems, as well as wood panels and lumber.

Doors and engineered wood products often require an intermediate value added service between the time the product leaves the manufacturer and before it is delivered to the final customer. We perform such services, on behalf of our customers, which include pre-hanging exterior and interior door units, prefinishing exterior door units and cutting engineered wood products from standard lengths to job-specific requirements. In addition, with respect to the majority of our products, we have the capability to buy in bulk and disaggregate these large shipments to meet individual customer stocking requirements. For some products, we carry a depth and breadth of products that our customers cannot reasonably stock themselves. Our customers benefit from our business capabilities because they do not need to invest capital in door hanging facilities or cutting equipment, nor do they need to incur the costs associated with maintaining large inventories of products. Our size, broad geographic presence, extensive fleet and logistical capabilities enable us to purchase products in large volumes at favorable prices, stock a wide range of products for rapid delivery and manage inventory in a reliable, efficient manner.

We serve our customers, whether they are a local dealer or a national account, through our 26 wholesale distribution centers. Our broad geographic footprint enables us to work with our customers and suppliers to ensure that local inventory levels, merchandising, purchasing and pricing are tailored to the requirements of each market. Each distribution center also has access to our single-platform nationwide inventory management system. This provides the local manager with real-time inventory availability and pricing information. We support our distribution centers with credit and financial management, training and marketing programs and human resources expertise. We believe that these distribution capabilities and efficiencies offer us a competitive advantage as compared to those of many local and regional competitors.

In this Annual Report on Form 10-K (this “Annual Report”), when we refer to “Huttig,” the “Company,” “we” or “us,” we mean Huttig Building Products, Inc. and its subsidiary and predecessors unless the context indicates otherwise.

### Industry Characteristics and Trends

The residential building materials distribution industry is characterized by its substantial size, its highly fragmented ownership structure and an increasingly competitive environment. The industry can be broken into two categories: (i) new construction and (ii) home repair and remodeling.

Residential construction activity in both categories is closely linked to a variety of factors directly affected by general economic conditions, including employment levels, job and household formation, interest rates, housing prices, tax policy, availability of mortgage financing, prices of commodity wood and steel products, immigration patterns, regional demographics and consumer confidence. We monitor a broad set of macroeconomic and regional indicators, including new housing starts and permit issuances, as indicators of our potential future sales volume.

-2-

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New housing activity in the United States has shown modest improvement each year since 2009, the trough period of the recent housing downturn. However, 2015 activity was still below the historical average of total housing starts from 1959 to 2015 of approximately 1.4 million starts based on statistics tracked by the U.S. Census Bureau (“Historical Average”). Total new housing starts in the United States were approximately 1.1 million, 1.0 million and 0.9 million in 2015, 2014 and 2013, respectively. Single family starts were 0.7 million, 0.6 million and 0.6 million in 2015, 2014 and 2013, respectively, based on data from the U.S. Census Bureau. According to the U.S. Census Bureau, total spending on new single family residential construction was \$219 billion, \$194 billion and \$171 billion in 2015, 2014 and 2013, respectively.

We service large local, regional and national independent building products dealers, specialty dealers, and home centers who in turn sell to contractors, professional builders, and consumers. These large local, regional and national building products dealers, often referred to as “pro dealers,” continue to distribute a significant portion of the residential building materials sold in the United States. These pro dealers operate in an increasingly competitive environment. Consolidation among building products manufacturers favors distributors that can buy in bulk and break down large production runs to specific local requirements. In addition, increasing scale and sophistication among professional builders and contractors places a premium on pro dealers that can make a wide variety of building products readily available at competitive prices. In response to the increasingly competitive environment for building products, many pro dealers have either consolidated or formed buying groups in order to increase their purchasing power and/or service levels.

We service the national home centers through special order programs of branded products in both millwork and building products. These programs continue to grow each year, as manufacturers develop special order programs through these retailers and utilize our value added service model and broad distribution network to support these programs locally.

We believe the evolving characteristics of the residential building materials distribution industry, particularly the consolidation trend, favor companies like us that operate nationally and have significant infrastructure in place to accommodate the needs of customers across geographic regions. We believe we are the only national distributor of millwork products. Our wide geographic presence, size, purchasing power, material handling efficiencies and investment in millwork services, position us well to serve the needs of the consolidating pro dealer community.

## Products

Our goal is to offer products that allow us to provide value to our customers, either by performing incremental services on the products before delivering them to customers, buying products in bulk and disaggregating them for individual customers or carrying a depth and breadth of products that customers cannot reasonably stock themselves at each location. Our products can be classified into three main categories:

- Millwork, including exterior and interior doors, pre-hung door units, windows, patio doors, mouldings, frames, stair parts and columns. Key brands in this product category include Therma-Tru, Masonite, Woodgrain Doors, HB&G, Simpson Door, Windsor Windows, and Rogue Valley Door;
- General building products, such as roofing, siding, insulation, flashing, housewrap, connectors and fasteners, decking, railings, drywall, kitchen cabinets and other miscellaneous building products. Key brands in this product category include Louisiana Pacific, Simpson Strong-Tie, Timbertech, AZEK, BP Roofing, Grace, Fiberon, RDI, Owens Corning, Typar, Atlas Roofing, Alpha Protech, and Maibec; and
- Wood products, including engineered wood products, such as floor systems, and other wood products, such as lumber and wood panels. Within the wood products category, engineered wood continues to be a focus product for us. The engineered wood product line offers us the ability to provide our customers with value-added services, such as floor system take-offs, cut-to-length packages and just-in-time, cross-dock delivery capabilities.

The following table sets forth information regarding the percentage of our net sales represented by our principal product categories sold during each of the prior three years. While the table below generally indicates the mix of our

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sales by product category, changes in the prices of commodity wood products and in unit volumes sold could affect our product mix on a year-to-year basis.

	2015	2014	2013
Millwork	49 %	49 %	50 %
Building Products	40 %	39 %	38 %
Wood Products	11 %	12 %	12 %

-3-

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## Customers

During 2015, we served approximately 3,700 customers, with one customer - Lumbermen's Merchandising Corporation ("LMC") - accounting for 13% of our sales in 2015 and 12% in each of 2014 and 2013. LMC is a buying group representing multiple building material dealers. Building materials pro dealers represent our single largest customer group. Our top 10 customers accounted for approximately 40% of our total sales in 2015.

Within the pro dealer category, a large percentage of our sales are to national accounts, including buying groups. These are large pro dealers, or groups of pro dealers, that generally operate in more than one state or region. We also sell to short line specialty dealers that focus on specific segments of the building industry, national retail home centers, and manufactured housing. We believe that our size, which lets us purchase in bulk, achieve operating efficiencies, operate on a national scale and offer competitive pricing, makes us well suited to service the various segments of the dealer community. Our sales to national accounts, including buying groups, were 43% of our total sales in 2015 and 42% in each of 2014 and 2013.

## Organization

Huttig operates on a nationwide basis. Customer sales are conducted through 26 distribution centers serving 41 states. Administrative and executive management functions are centralized at our headquarters office located in St. Louis, Missouri. We believe that this structure permits us to be closer to our customers and serve them better, while being able to take advantage of certain efficiencies of scale that come from our size.

Headquarter functions include those activities that can be shared across our full distribution platform. These include financial management, information technology, human resources, legal, internal audit and investor relations along with small corporate operations, marketing and product management groups.

Operating responsibility resides with each distribution center's general manager. The general manager assumes responsibility for daily operations, including sales, purchasing, personnel and logistics. Each distribution center generally maintains its own sales, warehouse and logistic personnel supported by a small administrative team.

## Sales

Sales responsibility principally lies with general managers at our distribution centers. The sales function is generally divided into two channels: outside sales and inside sales. Our outside field representatives make on-site calls to local and regional customers. Our inside sales people generally receive and enter orders from customers and support our outside sales function. In addition, we maintain a national account sales team to serve national customers. Our outside sales force is generally compensated by a base salary or draw plus commissions determined primarily on profit margin.

## Distribution Strategy and Operations

We conduct our business through a two-step distribution model. This means that we resell the products that we purchase from manufacturers to our customers, who then sell the products to the final end user. Our principal customer is the pro dealer. We also sell to the retail home centers and certain industrial users, such as makers of manufactured housing.

Despite our nationwide reach, the local distribution center is still a principal focus of our operations, and we tailor our business to meet local demand and customer needs. We customize product selection, inventory levels, service offerings and prices to meet local market requirements. We support this strategy through our single platform information technology system. This system provides each distribution center's general manager real-time access to pricing, inventory availability and margin analysis. This system provides product information both for that location



and across our entire network of distribution centers. More broadly, our sales force, in conjunction with our product management teams, works with our suppliers and customers to determine the appropriate mix, quantity and pricing of products suited to each local market.

We purchased products from more than 700 different suppliers in 2015. We generally negotiate with our major suppliers on a national basis to leverage our total volume purchasing power, which we believe provides us with an advantage over our locally based competitors. The majority of our purchases are made from suppliers that offer payment discounts and volume related incentive programs. Although we generally do not have exclusive distribution rights for our key products and we do not have long-term contracts with many of our suppliers, we believe our national footprint, buying power and distribution network make us an attractive distributor for many manufacturers. Moreover, we have long-standing relationships with many of our key suppliers.

-4-

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We regularly evaluate opportunities to introduce new products. This is primarily driven by customer demand or market requirements. We have found that customers generally welcome a greater breadth of product offering as it can improve their purchasing and operating efficiencies by providing for “one stop” shopping. Similarly, selectively broadening our product offering enables us to drive additional products through our distribution system, thereby increasing the efficiency of our operations by better utilizing our existing infrastructure.

We focus on selling respected, brand name products. We believe that brand awareness is an increasingly important factor in building products purchasing decisions. We generally benefit from the quality levels, marketing initiatives and product support provided by manufacturers of branded products. We also benefit from the positive attributes that customers typically equate with branded products.

### Competition

We compete with many local and regional building product distributors and, in certain markets and product categories, with national building product distributors. In certain markets, we also compete with national building materials suppliers with national distribution capabilities. We distribute products for some manufacturers that also engage in direct sales.

The principal factors on which we compete are pricing and availability of product, service and delivery capabilities, ability to assist with problem solving, customer relationships, geographic coverage and breadth of product offerings.

Our size and geographic coverage are advantageous in obtaining and retaining distribution rights for brand name products. Our size also permits us to attract experienced sales and service personnel and gives us the resources to provide company-wide sales, product and service training programs. By working closely with our customers and suppliers and utilizing our single information technology platform, we believe our branches are well positioned to maintain appropriate inventory levels and to deliver completed orders on time.

### Seasonality, Market Conditions and Working Capital

Various cyclical and seasonal factors, such as general economic conditions and weather, historically have caused our results of operations to fluctuate from period to period. Our size, extensive nationwide operating model, and the geographic diversity of our distribution centers to some extent mitigate our exposure to these cyclical and seasonal factors. These factors include levels of new construction, home improvement and remodeling activity, weather, interest rates and other local, regional and national economic conditions.

Our results of operations are affected by new housing activity in the United States. In 2015, total housing starts increased 11%, to 1.1 million, but were still below the Historical Average of approximately 1.4 million. Based on the current level of housing activity and industry forecasts, we expect new housing activity could continue to increase into 2016, though still remain below the Historical Average.

We anticipate that fluctuations from period to period will continue in the future. Our results in the first and fourth quarters are generally adversely affected by winter weather patterns in the Northeast, Midwest and Northwest, typically due to seasonal decreases in levels of construction activity in these areas. Because much of our overhead and expenses remain relatively fixed throughout the year, our operating profits also tend to be lower during the first and fourth quarters. In addition, other weather patterns, such as hurricane season in the Southeast region of the United States during the third and fourth quarters, can have an adverse impact on our results in a particular period.

We depend on cash flow from operating activities and funds available under our secured credit facility to finance seasonal working capital needs, capital expenditures and any acquisitions that we may undertake. We typically generate cash from working capital reductions in the fourth quarter of the year and build working capital during the first quarter in preparation for our second and third quarters. Our working capital requirements are generally greatest

in the second and third quarters, reflecting the seasonal nature of our business. The second and third quarters are also typically our strongest operating quarters, largely due to more favorable weather throughout many of our markets compared to the first and fourth quarters. We maintain significant inventories to meet the rapid delivery requirements of our customers and to enable us to obtain favorable pricing, delivery and service terms with our suppliers. At December 31, 2015 and 2014, inventories and accounts receivable in the aggregate constituted approximately 68% and 74% of our total assets, respectively. We closely monitor operating expenses and inventory levels during seasonally affected periods and, to the extent possible, manage variable operating costs to minimize the seasonal effects on our profitability.

-5-

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## Credit

Huttig's corporate management establishes an overall credit policy for sales to customers and then delegates responsibility for most credit decisions to regional credit personnel. Our credit policies, together with careful monitoring of customer balances, have resulted in bad debt expense of less than 0.1% in each of 2015, 2014, and 2013. Approximately 98% of our sales in 2015 were to customers to whom we had provided credit for those sales.

## Backlog

Our customers generally order products on an as-needed basis. As a result, a substantial portion of product shipments in a given fiscal quarter result from orders received in that same quarter. Consequently, order backlog represents only a very small percentage of the product sales that we anticipate in a given quarter and is not necessarily indicative of actual sales for any future period.

## Trade Names

Historically, Huttig has operated under various trade names in the markets we serve, retaining the names of acquired businesses for a period of time to preserve local identification. To capitalize on our national presence, all of our distribution centers operate under the primary trade name "Huttig Building Products." Huttig has no material patents, trademarks, licenses, franchises or concessions other than the Huttig Building Products® name and logo, which are registered trademarks.

## Environmental Matters

We are subject to federal, state and local environmental protection laws and regulations. We believe that we are in material compliance, or are taking action aimed at assuring material compliance, with applicable environmental protection laws and regulations. However, there can be no assurance that future environmental liabilities will not have a material adverse effect on our financial condition or results of operations.

We are engaged in legal proceedings relating to contamination at our formerly owned property in Montana. See Part I, Item 3—"Legal Proceedings."

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

## Employees

As of December 31, 2015, we employed approximately 1,000 people, of which approximately 14% were represented by eight unions. We have not experienced any significant strikes or other work interruptions in recent years and have maintained generally favorable relations with our employees. The Company has three union contracts covering approximately 8% of our employees which will require negotiation in 2016. See Part I, Item 1A—"Risk Factors."

## Available Information

We file with the U.S. Securities and Exchange Commission quarterly and annual reports on Forms 10-Q and 10-K, respectively, current reports on Form 8-K and proxy statements pursuant to the Securities Exchange Act of 1934, as amended (the "1934 Act"), in addition to other information as required. The public may read and copy our SEC filings at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549 and may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We file

this information with the SEC electronically, and the SEC maintains a website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

Our website address is <http://www.huttig.com>. The contents of our website are not part of this Annual Report. We make available, free of charge on or through the “Investors” section of our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the 1934 Act. This information is available on our website as soon as reasonably practicable after we electronically file it with, or furnish it to, the SEC. Reports of beneficial ownership filed pursuant to Section 16(a) of the 1934 Act are also available through our website.

## ITEM 1A—RISK FACTORS

In addition to the other information contained in this Annual Report, the following risk factors should be considered carefully in evaluating the Company's business. The Company's business, financial condition or results of operations could be materially adversely affected by any of these risks. Please note that additional risks not presently known to the Company or that the Company currently deems immaterial may also impair its business and operations.

Although the homebuilding industry is strengthening, any downturn of current construction levels could materially affect our business, liquidity and operating results.

Our sales and results of operations depend heavily on the strength of national and local new residential construction and home improvement and remodeling markets. The strength of these markets depends on new housing starts and residential renovation projects, which are a function of many factors beyond our control. Some of these factors include general economic conditions, employment levels, job and household formation, interest rates, housing prices, tax policy, availability of mortgage financing, prices of commodity wood and steel products, immigration patterns, regional demographics and consumer confidence.

New housing activity in the United States has shown modest improvement each year since 2009. However, 2015 activity was still well below the Historical Average of approximately 1.4 million starts. We expect the level of new housing activity in 2016 to continue to be below the Historical Average. A prolonged downturn in current construction levels or any significant downturn in the major markets we serve or in the economy in general could have a material adverse effect on our operating results, liquidity and financial condition, including but not limited to our ability to comply with the financial covenant under our credit facility and the valuation of our goodwill. Reduced levels of construction activity may result in continued intense price competition among building materials suppliers, which may adversely affect our gross margins. We cannot provide assurance that our responses to a downturn or the government's attempts to address the troubles in the economy will be successful.

The industry in which we compete is highly cyclical, and any cyclical market factors resulting in lower demand or increased supply could have a materially adverse impact on our financial results.

The building products distribution industry is subject to cyclical market pressures caused by a number of factors that are out of our control, such as general economic and political conditions, inventory levels of new and existing homes for sale, levels of new construction, home improvement and remodeling activity, interest rates and population growth. To the extent that cyclical market factors adversely impact overall demand for building products or the prices that we can charge for our products, our net sales and margins would likely decline in the same time frame as the cyclical downturn occurs. Because much of our overhead and expense is relatively fixed in nature, a decrease in sales and margin generally has a significant adverse impact on our results of operations. To the extent our customers experience downturns in their business, our ability to collect our receivables could be adversely affected. Finally, the unpredictable nature of the cyclical market factors that impact our industry make it difficult to forecast our operating results.

We face risks of incurring significant costs to comply with environmental regulations.

We are subject to federal, state and local environmental protection laws and regulations and may have to incur significant costs to comply with these laws and regulations in the future. We are required to remediate a property formerly owned by us in Montana pursuant to a unilateral administrative order issued by the Montana Department of Environmental Quality ("DEQ"). Although we believe we have accurately estimated the cost of implementing the remediation work at the site based on the information we have currently, we cannot provide assurance of the total cost of implementing the final remediation work at the site due to the currently unknown variables relating to the actual levels of contaminants and additional sampling and testing to ensure the remediation will achieve the projected outcome required by the DEQ. Our total cost of implementing the final remediation work at the site may exceed the

amounts we have accrued for the matter. In addition, some of our current and former distribution centers are located in areas of current or former industrial activity where environmental contamination may have occurred, and for which we, among others, could be held responsible. As a result, we may incur material environmental liabilities in the future with respect to our current or former distribution center locations.

-7-

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A number of our employees are unionized, and any work stoppages by our unionized employees may have a material adverse effect on our results of operations.

Approximately 14% of our employees were represented by labor unions as of December 31, 2015. As of December 31, 2015, we had eight collective bargaining agreements. The Company has three union contracts covering approximately 8% of our employees which will require negotiation in 2016. We may become subject to significant wage increases or additional work rules imposed by future agreements with labor unions representing our employees. Any such cost increases or new work rule implementation could increase our operating expenses to a material extent. In addition, although we have not experienced any strikes or other significant work interruptions in recent years and have maintained generally favorable relations with our employees, no assurance can be given that there will not be any work stoppages or other labor disturbances in the future, which could adversely impact our financial results.

If we are unable to meet the financial covenant under our credit facility, the lenders could elect to accelerate the repayment of the outstanding balance and, in that event, we would be forced to seek alternative sources of financing.

We are party to a \$160.0 million asset based senior secured revolving credit facility which contains a minimum fixed charge coverage ratio ("FCCR") that is tested if our excess borrowing availability, as defined in the facility, reaches an amount in the range of \$12.5 million to \$20.0 million depending on our borrowing base at the time of testing. For the year ended December 31, 2015, our FCCR exceeded our threshold of 1:05:1.0. However, if in the future we failed to meet the required FCCR and we were unable to maintain excess borrowing availability of more than the applicable amount in the range of \$12.5 million to \$20.0 million, our lenders would have the right to terminate the loan commitments and accelerate the repayment of the entire amount outstanding under the credit facility. Our lenders also could foreclose on our assets that secure our credit facility. In that event, we would be forced to seek alternative sources of financing, which may not be available on terms acceptable to us or at all.

Compliance with the restrictions and the financial covenant under our credit agreement may limit the amount available to us for borrowing under that facility and may limit management's discretion with respect to certain business matters.

The borrowings under our credit agreement are collateralized by substantially all of our assets, including accounts receivable, inventory and property and equipment. We are also subject to certain operating limitations commonly 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, stock repurchases and transactions with affiliates. A minimum FCCR must be tested on a pro forma basis prior to consummation of certain significant business transactions outside the Company's ordinary course of business. These restrictions may limit management's ability to operate our business in accordance with management's discretion, which could limit our ability to pursue certain strategic objectives.

A significant portion of our sales are concentrated with a relatively small number of customers. A loss of one or more of these customers would have material adverse effect on our operating results, cash flow and liquidity.

In 2015, our top ten customers represented 40% of our sales, with one customer accounting for 13% of our sales. This customer is a buying group for multiple building material dealers. Although we believe that our relationships with our customers are strong, the loss of one or more of these customers could have a material adverse effect on our operating results, cash flow and liquidity.

A significant portion of our sales are on credit to our customers. Material changes in their creditworthiness or our inability to forecast deterioration in their credit position could have a material adverse effect on our operating results, cash flow and liquidity.



The majority of our sales are on account where we provide credit to our customers. In 2015, bad debt expense to total net sales was less than 0.1%. Our customers are generally susceptible to the same economic business risks as we are. Furthermore, we may not necessarily be aware of any deterioration in their financial position. If our customers' financial positions become impaired, it could have a significant adverse impact on our bad debt exposure and could have a material adverse effect on our operating results, cash flow and liquidity.

Fluctuation in prices of commodity wood and steel products that we buy and then resell may have a significant impact on our results of operations.

Changes in wood and steel commodity prices between the time we buy these products and the time we resell them have occurred in the past, and we expect fluctuations to occur again in the future. Such changes can adversely affect the gross margins that we realize on the resale of the products. We may be unable to manage these fluctuations effectively or minimize any negative impact of these changes on our financial condition and results of operations.

-8-

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The termination of key supplier relationships may have an immediate material adverse effect on our financial condition and results of operations.

We distribute building materials that we purchase from a number of major suppliers. As is customary in our industry, most of our relationships with these suppliers are terminable without cause on short notice. More than half of our purchases are concentrated with ten suppliers. Although we believe that relationships with our existing suppliers are strong and that in most cases we would have access to similar products from competing suppliers, the termination of key supplier relationships or any other disruption in our sources of supply, particularly of our most commonly sold items, could have a material adverse effect on our financial condition and results of operations. Supply shortages resulting from unanticipated demand or production difficulties could occur from time to time and could also have a material adverse effect on our financial condition and results of operations.

The building materials distribution industry is fragmented and competitive, and we may not be able to compete successfully with some of our existing competitors or new entrants in the markets we serve.

The building materials distribution industry is fragmented and competitive. Our competition varies by product line, customer classification and geographic market. The principal competitive factors in our industry are:

- pricing and availability of product;
- service and delivery capabilities;
- ability to assist with problem-solving;
- customer relationships;
- geographic coverage; and
- breadth of product offerings.

Also, financial stability is important to manufacturers and customers in choosing distributors for their products.

We compete with many local, regional and, in some markets and product categories, national building materials distributors and dealers. In addition, some product manufacturers sell and distribute their products directly to our customers, and the volume of such direct sales could increase in the future. Manufacturers of products distributed by us may also enter into exclusive supplier arrangements with our competition. Further, home center retailers, which have historically concentrated their sales efforts on retail consumers and small contractors, may intensify their marketing efforts to larger contractors and homebuilders. Some of our competitors have greater financial and other resources and may be able to withstand sales or price decreases better than we can. We also expect to continue to face competition from new market entrants. We may be unable to continue to compete effectively with these existing or new competitors, which could have a material adverse effect on our financial condition and results of operations.

We have retained accident and claims risk under our insurance programs. Significant claims, and/or our ability to accurately estimate the liability for these claims could have a material adverse effect on our operating results.

We retain a portion of the accident and claims risk under vehicle liability, workers' compensation, medical and other insurance programs. We have multiple claims of various sizes and forecast the number of claims in determining the portion of accident risk we are willing to self-insure. We base loss accruals on our best estimate of the cost of resolution of these matters and adjust them periodically as circumstances change. Due to limitations inherent in the estimation process, our estimates may change. Changes in the actual number of large claims or changes in the estimates of these accruals may have a material adverse impact on our results of operations in any such period.

In addition, our insurance underwriters require collateral, generally in the form of letters of credit, which reduce our borrowing availability under our senior secured credit facility. Changes in the actual number of large claims could increase our collateral requirements and reduce our borrowing availability under our credit facility.

Federal and state transportation regulations, as well as increases in the cost of fuel, could impose substantial costs on us, which could adversely affect our results of operations.

We use our own fleet of approximately 150 tractors, 15 trucks and 300 trailers to service customers throughout the United States. The U.S. Department of Transportation (“DOT”), regulates our operations, and we are subject to safety requirements prescribed by the DOT. Vehicle dimensions and driver hours of service also are subject to both federal and state regulation. More restrictive limitations on vehicle weight and size, trailer length and configuration, or driver hours of service could increase our costs.

-9-

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In addition, distributors are inherently dependent upon energy to operate and, therefore, are impacted by changes in diesel fuel prices. While fuel costs have been declining over the last several months, fuel costs are largely unpredictable. Fuel costs have a significant impact on the Company's results of operations. Fuel availability, as well as pricing, is also impacted by political and economic factors. It is difficult to predict the future availability of fuel due to the following factors, among others: dependency on foreign imports of crude oil and the potential for hostilities or other conflicts in oil producing areas; limited refining capacity; and the possibility of changes in governmental policies on fuel production, transportation and marketing. Significant disruptions in the supply of fuel could have a negative impact on our operations and results of operations.

Our failure to attract and retain key personnel could have a material adverse effect on our future success.

Our future success depends, to a significant extent, upon the continued service of our executive officers and other key management and sales personnel and on our ability to continue to attract, retain and motivate qualified personnel. The loss of the services of one or more key employees or our failure to attract, retain and motivate qualified personnel could have a material adverse effect on our business.

Our unionized employees generally participate in certain multi-employer pension plans and funding requirements for these plans, particularly underfunded plans, may have a material adverse effect on our results of operations.

We participate in various multi-employer pension plans. Some of these multi-employer plans may be underfunded at any point in time. While the underfunded status may be cured in the normal course of plan management, a significant obligation may be created which could have a material adverse effect on our operations or could materially add to the cost of closing or consolidating operating locations.

We face the risks that product liability claims and other legal proceedings relating to the products we distribute may adversely affect our business and results of operations.

As is the case with other companies in our industry, even though our suppliers generally warrant the products we sell, we face the risk of product liability and other claims of the type that are typical to our industry in the event that the use of products that we have distributed causes other damages. Product liability claims in the future, regardless of their ultimate outcome and whether or not covered under our insurance policies or indemnified by our suppliers, could result in costly litigation and have a material adverse effect on our business and results of operations.

We may acquire other businesses, and, if we do, we may be unable to integrate them with our business, which may impair our financial performance.

If we find appropriate opportunities, we may acquire businesses that we believe provide strategic opportunities. If we acquire a business, the process of integration may produce unforeseen operating difficulties and expenditures and may absorb significant attention of our management that would otherwise be available for the ongoing development of our business. If we make future acquisitions, we may issue shares of stock that dilute the ownership interests of other stockholders, expend cash, incur debt, assume contingent liabilities or create additional expenses relating to amortizing intangible assets with estimated useful lives, any of which might harm our business, financial condition or results of operations.

Goodwill is a significant portion of our total assets and is tested for impairment at least annually, which could result in a material non-cash write-down of goodwill.

Goodwill is subject to impairment tests at least annually and between annual tests in certain circumstances. We have incurred non-cash impairment charges in certain prior years. At December 31, 2015, we reported goodwill of \$6.3 million. We may be required to incur additional non-cash impairment charges in the future that could have a material adverse effect on our operating results.

Our financial results reflect the seasonal nature of our operations.

Our first and fourth quarter revenues are typically adversely affected by winter construction cycles and weather patterns in colder climates as the level of activity in the new construction and home improvement markets decreases. Because much of our overhead and expense remains relatively fixed throughout the year, our operating profits also tend to be lower during the first and fourth quarters. In addition, other weather patterns, such as hurricane season in the Southeast region of the United States during the third and fourth quarters, can have an adverse impact on our profits in a particular period.

-10-

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We may be subject to information technology system failures, network disruptions, cybersecurity attacks and breaches in data security, which may materially adversely affect our financial condition, results of operations and business.

We depend on information technology, including our information technology system and third party telecommunications facilities, as an essential element to sustain our operations. Our system enables us to interface with our local distribution centers and customers, as well as to maintain and timely update financial and business records. A failure of the information technology systems used by us or third parties with which we interact could disrupt our operations by causing transaction errors, processing inefficiencies, delays or cancellation of customer orders, the loss of customers or impediments to the shipment of products. In particular a cybersecurity breach could result in the loss or unauthorized disclosure of our intellectual property, proprietary information and personal information of our customers and employees. An information technology failure could expose us to financial losses from the need to undertake remedial actions and loss of business or potential liability, all of which could have a material adverse effect on our financial condition, results of operations and business.

Our deferred tax assets could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code.

We have significant deferred tax assets related to federal and state net operating loss carryforwards (collectively, the “Deferred Tax Assets”). Under federal tax laws, we can carry forward and use our Deferred Tax Assets to reduce our future taxable income and tax liabilities until such Deferred Tax Assets expire in accordance with the Internal Revenue Code of 1986, as amended (the “Code”). Section 382 and Section 383 of the Code provide an annual limitation on our ability to utilize our Deferred Tax Assets, as well as certain built-in-losses, against future taxable income in the event of a change in ownership (as defined under the Code). We may experience a change in ownership in the future as a result of changes in our stock ownership that are beyond our control, and any such subsequent changes in ownership for purposes of the Code could further limit our ability to use our Deferred Tax Assets. Accordingly, any such occurrences could adversely impact our ability to offset future tax liabilities and, therefore, adversely affect our financial condition, results of operations and cash flow.

#### ITEM 1B—UNRESOLVED STAFF COMMENTS

None.

#### ITEM 2—PROPERTIES

Our corporate headquarters is located at 555 Maryville University Drive, Suite 400, St. Louis, Missouri 63141, in a leased facility. We own 13 of our 26 distribution centers and lease the balance. The owned distribution centers secure our credit facility. Warehouse space at distribution centers aggregated to approximately 3.1 million square feet as of December 31, 2015. Distribution centers range in size from 21,100 square feet to 260,000 square feet. The types of facilities at these centers vary by location, from traditional wholesale distribution warehouses to facilities with broad

product offerings and capabilities for a range of value added services such as pre-hung door operations. We believe that our locations are well maintained and adequate for their use.

### ITEM 3—LEGAL PROCEEDINGS

We are involved in various claims and litigation arising in the ordinary course of business. We believe that the disposition of these matters will not have a material adverse effect on our business or our financial condition.

We are subject to federal, state and local environmental protection laws and regulations. We believe that we are in material compliance, or are taking action aimed at assuring compliance, with applicable environmental protection laws and regulations. However, there can be no assurance that future environmental liabilities will not have a material adverse effect on our financial condition or results or operations.

#### Environmental Matters

On February 18, 2015, 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.

The Company submitted a comprehensive final remedial action work plan (the “RAWP”) in September 2015 that was approved by the DEQ. During the process of finalizing the RAWP in the third quarter of 2015 the Company considered a multitude of factors including, but not limited to, consultation with third party experts, the evaluation of remedial action alternatives, and discussions with DEQ. The culmination of the information, data, and risk analysis resulted in excluding certain potential cost savings remedial action

alternatives from the final RAWP that had been previously proposed for inclusion in the RAWP. Eliminating these potential cost savings remedial action alternatives from the final RAWP caused the Company to reassess the total estimated remediation costs of the project. The Company estimates the total remaining cost of implementing the RAWP to be \$8.0 million at December 31, 2015 with respect to the contingent liability. The Company is currently implementing the RAWP and has received approval for certain specific work plans required prior to commencing field work at the site. The Company anticipates field work will commence in the second quarter of 2016 subject to DEQ oversight and approval.

As of December 31, 2015, the Company believes the accrual represents a reasonable best estimate of the total remaining remediation costs, based on facts, circumstances, and information currently available to Huttig. However, there are currently unknown variables relating to the actual levels of contaminants and amounts of soil that will ultimately require treatment or removal and as part of the remediation process, additional soil and groundwater sampling, and bench and pilot testing is required to ensure the remediation will achieve the projected outcome required by the DEQ. 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 final amount of remediation costs and expenditures are difficult to estimate with certainty and as a result, the amount of actual costs and expenses ultimately incurred by Huttig with respect to this property could be lower than, or exceed the amount accrued as of December 31, 2015 by a material amount and could have a material adverse effect on our liquidity, financial condition or operating results of any fiscal quarter or year in which estimated costs or additional expenses are, or not incurred.

On June 29, 2015, certain private plaintiffs owning properties adjacent to the Montana site sued the Company, Crane Co., and other defendants in the Montana Fourth Judicial District Court seeking remediation of the property in excess of what is contemplated by the ROD and other damages. In October 2015, the lawsuit was amended to include additional plaintiffs and was formally served. Crane Co. asserted its right of indemnification under the Distribution Agreement between the Company and Crane Co. dated December 6, 1999. The Company is defending the lawsuit vigorously.

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 and defense and indemnification costs associated with the related lawsuit described above. This case currently is pending in the United States District Court for the Eastern District of Missouri. A trial date has been set for August 21, 2017. The parties are in discovery.

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, or could not exceed our accrual by a material amount which could have a material adverse effect on the Company's future liquidity, financial condition or operating results in the period in which any such additional expenses are incurred or recognized.

#### ITEM 4—MINE SAFETY DISCLOSURES



Not Applicable.

-12-

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## PART II

## ITEM 5—MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the NASDAQ Capital Market exchange under the symbol “HBP.” At February 12, 2016, there were approximately 1,700 holders of record of our common stock. The following table sets forth the range of high and low sale prices of our common stock:

	2015		2014	
	High	Low	High	Low
First Quarter	\$3.63	\$2.81	\$5.30	\$3.37
Second Quarter	4.12	2.85	5.45	4.08
Third Quarter	3.50	2.84	4.80	3.51
Fourth Quarter	3.92	3.06	3.71	2.70

In order to make cash generated available for use in operations, debt reduction, stock repurchases and potential acquisitions, we have not declared, nor do we anticipate at this time declaring or paying, any cash dividends on our common stock. Provisions of our credit facility contain various covenants, which, among other things, limit our ability to incur indebtedness, incur liens, make certain types of acquisitions, declare or pay dividends, repurchase shares or sell assets outside of the ordinary course of business. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”

See Part III, Item 12—“Security Ownership of Certain Beneficial Owners,” for information on securities authorized for issuance under equity compensation plans.

## Performance Graph

The following Performance Graph and related information shall not be deemed “soliciting material” or to be “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

The following table compares total shareholder returns for the Company over the past five years to the Standard and Poor’s 500 Stock Index and that of a peer group made up of other building material and industrial products distributors assuming a \$100 investment made on December 31, 2010. Each of the three measures of cumulative total return assumes reinvestment of dividends. The stock performance shown on the graph below is not necessarily indicative of future price performance.

	Huttig Building Products	S&P 500	Peer Group Index
12/10	\$ 100.00	\$100.00	\$100.00
12/11	\$ 54.74	\$102.11	\$78.89
12/12	\$ 168.42	\$118.45	\$148.83
12/13	\$ 406.32	\$156.81	\$220.19
12/14	\$ 352.63	\$178.28	\$228.28
12/15	\$ 400.00	\$180.74	\$313.06

(1)The peer group is comprised of the following companies: Universal Forest Products, Inc, Bluelinx Holdings, Inc., PGT, Inc., Patrick Industries, Inc. and Builders FirstSource, Inc.

## ITEM 6—SELECTED CONSOLIDATED FINANCIAL DATA

The following table summarizes certain selected financial data of continuing operations of the Company as of year-end for each of the five years in the period ended December 31, 2015. The information contained in the following table may not necessarily be indicative of our future performance. Such historical data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and notes thereto included elsewhere in this report.

	Year Ended December 31,				
	2015	2014	2013	2012	2011
(In Millions, Except Per Share Data)					
<b>Income Statement Data: (1)</b>					
Net sales	\$659.6	\$623.7	\$561.5	\$521.1	\$479.3
Cost of sales	526.3	501.1	450.4	420.4	390.1
Gross margin	133.3	122.6	111.1	100.7	89.2
Operating expenses	119.2	114.3	104.8	98.4	99.0
Goodwill impairment	—	—	—	1.9	0.4
Gain on disposal of capital assets	(0.4 )	—	—	(2.4 )	—
Operating income (loss)	14.5	8.3	6.3	2.8	(10.2 )
Interest expense, net	2.3	2.5	2.6	2.9	2.8
Income (loss) from continuing operations before income					
taxes	12.2	5.8	3.7	(0.1 )	(13.0 )
(Benefit) provision for income taxes	(17.2 )	—	0.1	—	(0.3 )
Net income (loss) from continuing operations	29.4	5.8	3.6	(0.1 )	(12.7 )
Per share:					
Net income (loss) from continuing operations (basic					
and diluted)	1.17	0.23	0.15	—	(0.58 )
<b>Balance Sheet Data (at end of year):</b>					
Total assets	\$177.4	\$158.0	\$151.5	\$137.5	\$126.5
Debt—bank, capital leases and other obligations(2)	48.6	63.7	62.0	59.8	52.6
Total shareholders’ equity	52.9	25.7	22.9	19.1	19.9

(1) Amounts exclude operations classified as discontinued.

(2) Debt includes both current and long-term portions of bank debt, capital leases and other obligations. See Note 4 to our consolidated financial statements.

## ITEM 7—MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

We are a distributor of building materials used principally in new residential construction and in home improvement, remodeling and repair work. We distribute our products through 26 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. Our products fall into three categories: (i) millwork, which includes doors, windows, moulding, stair parts and columns, (ii) general building products, which includes composite decking, connectors, fasteners, housewrap, roofing products and insulation, and (iii) wood products, which includes engineered wood products, such as floor systems, as well as wood panels and lumber.

### Industry Conditions

Our sales depend heavily on the strength of local and national new residential construction, home improvement and remodeling markets. During the past several years, our results of operations have been adversely affected by the severe downturn in new housing activity in the United States. However, new housing activity has shown moderate improvement each year since 2009, the trough period of the downturn. In 2015, total housing starts increased 11%, to 1.1 million, but were still below the Historical Average of approximately 1.4 million. Based on the current level of housing activity and industry forecasts, we expect the increase in new housing activity could continue into 2016 but still remain below the Historical Average.

Various factors historically have caused our results of operations to fluctuate from period to period. These factors include levels of construction, home improvement and remodeling activity, weather, prices of commodity wood and steel products, interest rates, competitive pressures, availability of credit and other local, regional, national and economic conditions. Many of these factors are cyclical or seasonal in nature. We anticipate that further fluctuations in operating results from period to period will continue in the future. Our first and fourth quarters are generally adversely affected by winter weather patterns in the Northwest, Midwest and Northeast, which typically cause seasonal decreases in levels of construction activity in these areas. Because much of our overhead and expenses remain relatively fixed throughout the year, our operating profits tend to be lower during the first and fourth quarters.

We believe we have the product offerings, distribution channel, personnel, systems infrastructure, financial, and competitive resources necessary for continued operations. Our future revenues, costs and profitability, however, are all likely to be influenced by a number of risks and uncertainties, including those set forth in Item 1A—RISK FACTORS.

### Critical Accounting Policies

We prepare our consolidated financial statements in accordance with U.S. generally accepted accounting principles, which require management to make estimates and assumptions. Management bases these estimates and assumptions on historical results and known trends as well as management forecasts. Actual results could differ from these estimates and assumptions.

**Accounts Receivable**—Trade accounts receivable consist of amounts owed for orders shipped to customers and are stated net of an allowance for doubtful accounts. Huttig’s corporate management establishes an overall credit policy for sales to customers and delegates responsibility for most credit decisions to regional credit personnel. The allowance for doubtful accounts is determined based on a number of factors including when customer accounts exceed 90 days past due and specific customer account reviews. Our credit policies, together with careful monitoring of customer balances, have resulted in bad debt expense of less than 0.1% of net sales in each of 2015, 2014, and 2013.

Inventory—Inventories are valued at the lower of cost or market. We utilize last-in, first-out (“LIFO”) cost method to value the majority of our inventories. We review inventories on hand and record a provision for slow-moving and obsolete inventory based on historical and expected sales.

-16-

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**Valuation of Goodwill and Other Long-Lived Assets**—We test the carrying value of our goodwill at each reporting unit for impairment on an annual basis and between annual tests in certain circumstances when there are indicators of potential impairment. The carrying value of goodwill is considered impaired when a reporting unit's fair value is less than its carrying value. We also reassess useful lives of previously recognized intangible assets. For goodwill, we first assess the qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. In that event, goodwill impairment is recognized to the extent recorded goodwill exceeds the implied fair value of that goodwill. Circumstances that can lead to annual or interim two-step goodwill testing include significant negative variances from forecasted sales or operating profits or changes in other circumstances that indicate the carrying amount of goodwill may not be recoverable. We utilize a discounted cash flows model to estimate fair value of a reporting unit. In our estimate of fair value of a reporting unit, the following significant assumptions, and changes therein, are considered:

- publicly available and internal projections of single and multi-family housing starts used to project a reporting unit's revenue in future years;
- the reporting unit's gross margin and operating expenses that reflect cost reduction actions taken by us;
- projected variable costs associated with the variable revenue streams projected in the future;
  - projected reporting unit working capital changes and capital expenditure requirements; and
- an estimate of a discount rate commensurate with the weighted average cost of capital for a market participant and a related growth factor.

At December 31, 2015, we had \$6.3 million of goodwill recorded across 14 reporting units. Significant changes in our assumptions and the related projected cash flows utilized in calculating the reporting unit's fair value could result in future goodwill impairment related to any of our reporting units.

We test the carrying value of other long-lived assets, including intangible and other tangible assets, for impairment when events and circumstances warrant such review. The carrying value of long-lived assets is considered impaired when the anticipated undiscounted cash flows from such assets are less than the carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. No goodwill impairment charges were recorded in the years ending December 31, 2013, 2014 or 2015.

**Contingencies**—We accrue expenses when it is probable that an asset has been impaired or a liability has been incurred and we can reasonably estimate the expense. Contingencies for which we have made accruals include environmental, product liability and certain other legal matters. It is possible that future results of operations for any particular quarter or annual period and our financial condition could be materially affected by changes in assumptions or other circumstances related to these matters. We accrue an estimate of the cost of resolution of these matters and make adjustments to the amounts accrued as circumstances change. We expense legal costs as incurred.

**Self-Insurance**—It is our policy to self-insure, up to certain limits, traditional risks including workers' compensation, comprehensive general liability, physical loss to property and auto liability. We are also self-insured, up to certain limits, for certain other insurable risks, including the majority of our medical benefit plans. Insurance coverage is maintained for catastrophic property and casualty exposures as well as those risks required to be insured by law or contract. A provision for self-insured claims, based on our estimate of the aggregate liability for claims incurred, is revised and recorded quarterly. The estimates are derived from both internal and external sources, including but not limited to actuarial type estimates, claims incurred, the probability of losses and historical settlement experience. Our estimates are subject to uncertainty from various sources, including, among others, changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation and economic conditions. Although we believe our estimates are reasonable, significant differences related to the items noted above could materially affect our self-insurance obligations, future expense and cash flow.

**Income Taxes**—We operate within multiple taxing jurisdictions and are subject to audit in these jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve. We regularly review our

potential tax liabilities for tax years subject to audit. Changes in our tax liability may occur in the future as our assessment changes based on the progress of tax examinations in various jurisdictions and/or changes in tax regulations. In management's opinion, adequate provisions for income taxes have been made for all years presented.

-17-

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Deferred tax assets and liabilities are recognized for the future tax benefits or liabilities attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates would be recognized in income in the period that includes the enactment date. We regularly review our deferred tax assets for recoverability and establish a valuation allowance when we believe that such assets may not be recovered, taking into consideration historical operating results, expectations of future earnings, changes in operations, the expected timing of the reversal of existing temporary differences and available tax planning strategies. Currently, we have significant deferred tax assets related to federal and state net operating loss carry-forwards. We carry a valuation allowance for state net operating loss carryforwards based on our projections of continued profitability for 2016 and beyond. Although we believe our estimates to be reasonable, differences in our future operating results from these projections could significantly change our estimates of and realization of these deferred tax assets in future periods.

## Results of Operations

### Fiscal 2015 Compared to Fiscal 2014

#### Continuing Operations

Net sales from continuing operations were \$659.6 million in 2015, which were \$35.9 million, or approximately 6%, higher than 2014. The increase was primarily due to higher levels of construction activity and our core product growth initiatives, which we believe resulted in revenue increases in certain product categories above the overall rate of market growth thereby gaining some level of market share.

Sales in the major product categories changed as follows in 2015 from 2014: millwork sales increased 6% to \$324.4 million, building product sales increased 8% to \$264.7 million, and wood products decreased 2% to \$70.5 million with a 13% increase in sales of engineered wood products and a 12% decrease in sales of other wood products. Fluctuations across product categories can occur based on general market conditions, new product incentives, promotions, changes in product lines, and commodity pricing, among other things.

Gross margin increased approximately 9% to \$133.3 million, or 20.2% of sales, in 2015 as compared to \$122.6 million, or 19.7% of sales, in 2014. The increase in gross margin percentage was primarily due to our operational initiatives, as well as improved product mix as we continue to expand our value-add capabilities to service the repair/remodel construction segment. The pricing environment remains very competitive, which continues to constrain margins.

Operating expenses increased 4% to \$119.2 million, or 18.1% of sales, in 2015, compared to \$114.3 million, or 18.3% of sales, in 2014. The increase in operating expenses was primarily due to an increase in personnel costs, which increased \$5.2 million, principally from wage increases, hiring of additional personnel, and expenses attributable to higher variable costs associated with increasing sales. We recorded total stock-based compensation expense of \$1.8 million in 2015 compared to \$1.4 million in 2014. Non personnel expenses were \$0.4 million lower in 2015 as compared to 2014 due to a significant reduction in fuel costs partially offset by higher insurance claims and equipment rentals.

Net interest expense was \$2.3 million in 2015 compared to \$2.5 million in 2014. The decrease was primarily due to lower average debt and lower borrowing rates in 2015 versus 2014.

An income tax benefit of \$17.2 million was recognized for the year ended December 31, 2015. No income tax expense was recognized for the year ended December 31, 2014. The 2015 income tax benefit primarily relates to the change in the valuation allowance on deferred tax assets, as we believe it is more likely than not that we will utilize federal and

certain state tax net operating loss carryforwards in the future.

As a result of the foregoing factors, we reported income from continuing operations of \$29.4 million in 2015 as compared to \$5.8 million in 2014.

#### Discontinued Operations

We recorded a loss of \$3.4 million from discontinued operations in 2015 as compared to a loss from discontinued operations of \$3.6 million in 2014. The loss in both periods was due to environmental and related legal expenses. See Part I, Item 3—"Legal Proceedings."

-18-

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Fiscal 2014 Compared to Fiscal 2013

Continuing Operations

Net sales from continuing operations were \$623.7 million in 2014, which were \$62.2 million, or approximately 11%, higher than 2013. This increase was primarily due to the continued improvement in new residential construction activity and the addition of new product lines.

Sales in the major product categories changed as follows in 2014 from 2013: millwork sales increased 10% to \$305.9 million, building product sales increased 14% to \$245.7 million, and wood products increased 6% to \$72.1 million with a 20% increase in sales of engineered wood products and a 1% decrease in sales of other wood products. The increase in building product sales was partially due to the addition of new product lines. Fluctuations across product categories can occur based on general market conditions, new product incentives, promotions, changes in product lines, and commodity pricing, among other things.

Gross margin increased approximately 10% to \$122.6 million, or 19.7% of sales, in 2014 as compared to \$111.1 million, or 19.8% of sales, in 2013. The lower margin percentage in 2014 reflects changes in the product mix, including the impact from new product lines. The pricing environment remains very competitive, which continues to constrain margins.

Operating expenses increased \$9.5 million to \$114.3 million, or 18.3% of sales, in 2014, compared to \$104.8 million, or 18.7% of sales, in 2013. The increase in operating expenses was primarily due to an increase in personnel costs, which increased \$6.8 million, principally from increased headcount, general widespread wage increases including reinstatement of prior wage reductions implemented in 2011 and higher variable costs associated with increased sales. We recorded total stock-based compensation expense of \$1.4 million in 2014 compared to \$1.0 million in 2013. Non personnel expenses were \$2.7 million higher in 2014 as compared to 2013 due to an increase in outside service expenses along with an increase in expenses associated with bringing on new product lines and higher variable costs associated with increased sales and increased capital investment.

Net interest expense was \$2.5 million in 2014 compared to \$2.6 million in 2013. The decrease was primarily due to lower borrowing rates in 2015 versus 2014.

No income tax expense was recognized for the year ended December 31, 2014. Income tax expense of \$0.1 million was recognized for the year ended December 31, 2013.

As a result of the foregoing factors, we reported income from continuing operations of \$5.8 million in 2014 as compared to \$3.6 million in 2013.

Discontinued Operations

We recorded a loss of \$3.6 million from discontinued operations in 2014 as compared to a loss from discontinued operations of \$0.4 million in 2013. The loss in both years was due to environmental and related legal expenses. See Part I, Item 1A— “Legal Proceedings.”

Liquidity and Capital Resources

We depend on cash flow from operations and funds available under our revolving credit facility to finance seasonal working capital needs, capital expenditures and any acquisitions that we may undertake. Our working capital requirements are generally greatest in the second and third quarters, which reflect the seasonal nature of our business. The second and third quarters are also typically our strongest operating quarters, largely due to more favorable weather throughout many of our markets compared to the first and fourth quarters. We typically generate cash from

working capital reductions in the fourth quarter of the year and build working capital during the first quarter in preparation for our second and third quarters. We also maintain significant inventories to meet the rapid delivery requirements of our customers and to enable us to obtain favorable pricing, delivery and service terms with our suppliers. At December 31, 2015 and 2014, inventories and accounts receivables constituted approximately 68% and 74% of our total assets, respectively. We also closely monitor operating expenses and inventory levels during seasonally affected periods and, to the extent possible, manage variable operating costs to minimize seasonal effects on our profitability.

-19-

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**Operations**—Cash provided by operating activities improved by \$13.3 million to \$17.1 million in 2015, compared to \$3.8 million in 2014. In 2015, our net income increased \$23.8 million compared to 2014. Net income from continuing operations increased \$23.6 million in 2015 to \$29.4 million due to recognizing an income tax benefit of \$17.2 million related to the release of a significant portion of our valuation allowance on our net deferred tax assets, as well as a \$6.2 million improvement in operating income. Accounts receivable increased by \$7.8 million and \$4.6 million during 2015 and 2014, respectively. Day's sales outstanding (“DSO”) increased by 2.4 days to 33.1 days at December 31, 2015 from 30.7 days at December 31, 2014 based on annualized fourth quarter sales and quarter end accounts receivable balances for the respective periods. Inventory decreased by \$1.5 million in 2015 compared to an increase of \$0.7 million in 2014. Our inventory turns increased to 7.3 turns in 2015 from 6.8 turns in 2014. Accounts payable increased by \$4.2 million during 2015 compared to a \$1.4 million decrease in 2014. The change in accounts payable was generally due to the timing of purchases and payments. Days payable outstanding increased to 32.2 at December 31, 2015 from 30.9 at December 31, 2014 based on annualized fourth quarter costs of goods sold and quarter-end accounts payable balances for the respective periods.

**Investing**—Net cash used in investing activities was \$0.3 million in 2015, as compared to \$1.8 million in 2014. The Company received proceeds of \$2.5 million for the sale of assets of its Southwest Roofing Supply branch in the second quarter of 2015. The Company invested \$2.8 million in machinery and equipment at various locations in 2015, compared to \$1.8 million in 2014.

**Financing**—Cash used in financing activities of \$17.0 million in 2015 reflected net debt payments of \$14.7 million under our credit facility, payments of \$1.7 million for capital lease and other debt obligations and \$0.6 million for the repurchase of 0.2 million shares of common stock in conjunction with the administration of our 2005 Executive Incentive Compensation Plan. Cash used in financing activities of \$2.1 million in 2014 reflected net debt borrowings of \$0.4 million under our credit facility, payments of \$1.7 million for capital lease and other debt obligations, and \$0.8 million for the repurchase of 0.2 million shares of common stock in conjunction with the administration of our 2005 Executive Incentive Compensation Plan. The shares repurchased were retired in both years.

**Credit Facility**—See Note 4 – “Debt” in the Notes to Consolidated Financial Statements in Item 8 for information on our credit agreement.

### Off-Balance Sheet Arrangements

In addition to funds available from operating cash flows and our bank credit facility as described above, we use operating leases as a principal off balance sheet technique. Operating leases are employed as an alternative to purchasing certain property, plant and equipment. Future rental commitments, extending through 2022, under all non-cancelable operating leases in effect at December 31, 2015 totaled \$34.1 million.

### Commitments and Contingencies

The table below summarizes our contractual obligations as of December 31, 2015 (in millions):

	Total	Payments Due by Period			
		2016	2017-2018	2019-2020	Beyond 2020
Long-term debt, including current portion (1)	\$48.6	\$1.2	\$1.0	\$46.4	\$ —
Operating lease obligations (2)	33.0	9.3	14.0	7.3	2.4
<b>Total</b>	<b>\$81.6</b>	<b>\$10.5</b>	<b>\$15.0</b>	<b>\$53.7</b>	<b>\$ 2.4</b>

(1) Amounts represent the expected cash payments of our long-term debt and do not include any fair value adjustments.

(2) Amounts are net of minimum sublease income.

Cautionary Statement Relevant to Forward-looking Information for the Purpose of “Safe Harbor” Provisions of the Private Securities Litigation Reform Act of 1995

This Annual Report and our annual report to stockholders contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. The words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “believe,” “estimate,” “project” or similar expressions may identify forward-looking statements, although not all forward-looking statements contain such words. Statements made in this Annual Report and our annual report to stockholders looking forward in time, including, but not limited to, statements regarding our current views with respect to financial performance, future growth in the housing market, distribution channels, sales, favorable supplier relationships, inventory levels, the ability to meet customer needs, enhanced competitive posture, financial impact from litigation or contingencies, including environmental proceedings, are included pursuant to the “safe harbor” provision of the Private Securities Litigation Reform Act of 1995.

-20-

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These statements present management's expectations, beliefs, plans and objectives regarding our future business and financial performance. These forward-looking statements are based on current projections, estimates, assumptions and judgments, and involve known and unknown risks and uncertainties. We disclaim any obligation to publicly update or revise any of these forward-looking statements, whether as a result of new information, future events or otherwise.

There are a number of factors, some of which are beyond our control that could cause our actual results to differ materially from those expressed or implied in the forward-looking statements. These factors include, but are not limited to: the strength of construction, home improvement and remodeling markets and the recovery of the homebuilding industry to levels consistent with the Historical Average; the cyclical nature of our industry; the cost of environmental compliance, including actual expenses we may incur to resolve proceedings we are involved in arising out of a formerly owned facility in Montana; any limitations on our ability to utilize our deferred tax assets to reduce future taxable income and tax liabilities; our ability to comply with, and the restrictive effect of, the financial covenant applicable under our credit facility; the loss of a significant customer; deterioration of our customers' creditworthiness or our inability to forecast such deteriorations; commodity prices; termination of key supplier relationships; competition with existing or new industry participants; goodwill impairment; the seasonality of our operations; significant uninsured claims; federal and state transportation regulations; fuel cost increases; our failure to attract and retain key personnel; deterioration in our relationship with our unionized employees, including work stoppages or other disputes; funding requirements for multi-employer pension plans for our unionized employees; product liability claims and other legal proceedings; the integration of any business we acquire; and those set forth under Item 1A – "Risk Factors." These factors may not constitute all factors that could cause actual results to differ from those discussed in any forward-looking statement. Accordingly, forward-looking statements should not be relied upon as a predictor of actual results.

#### ITEM 7A—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have exposure to market risk as it relates to effects of changes in interest rates. We had debt outstanding at December 31, 2015 under our credit facility of \$46.1 million.

All of our debt under our revolving credit facility accrues interest at a floating-rate basis. If market interest rates for LIBOR had been different by an average of 1% for the year ended December 31, 2015, our interest expense and income before taxes would have changed by \$0.7 million. These amounts are determined by considering the impact of the hypothetical interest rates on our borrowing cost. This analysis does not consider the effects of any change in the overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management may take actions to further mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in our financial structure.

We are subject to periodic fluctuations in the price of wood, steel commodities, petrochemical-based products and fuel. Profitability is influenced by these changes as prices change between the time we buy and sell the wood, steel or petrochemical-based products. Profitability is also influenced by changes in prices of fuel. In addition, to the extent changes in interest rates affect the housing and remodeling market, we would be affected by such changes.





ITEM 8—FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Huttig Building Products, Inc.:

We have audited the accompanying consolidated balance sheets of Huttig Building Products, Inc, and subsidiary as of December 31, 2015 and 2014, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. We also have audited Huttig Building Products, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Huttig Building Products, Inc. and subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Huttig Building Products, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ KPMG LLP

St. Louis, Missouri  
February 26, 2016

HUTTIG BUILDING PRODUCTS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2015	2014	2013
	(In millions, except per share data)		
Net sales	\$659.6	\$623.7	\$561.5
Cost of sales	526.3	501.1	450.4
Gross margin	133.3	122.6	111.1
Operating expenses	119.2	114.3	104.8
Gain on disposal of assets	(0.4 )		