

Edgar Filing: CHROMCRAFT REVINGTON INC - Form 10-Q

CHROMCRAFT REVINGTON INC  
Form 10-Q  
August 02, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2001

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-13970

CHROMCRAFT REVINGTON, INC.

-----  
(Exact name of registrant as specified in its charter)

Delaware

35-1848094

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(IRS Employer Identification No.)

1100 North Washington Street, Delphi, IN 46923

-----  
(Address, including zip code, of registrant's principal executive offices)

(765) 564-3500

-----  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

The number of shares outstanding for each of the registrant's classes of common stock, as of the latest practicable date:

Common Stock, \$.01 par value -- 9,573,248 shares as of July 31, 2001

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Part I. Financial Information

Item 1. Financial Statements

Condensed Consolidated Statements of Earnings (unaudited)  
Chromcraft Revington, Inc.  
(In thousands, except per share data)

|  | Three Months Ended |                 | Six Months Ended |                 |
|--|--------------------|-----------------|------------------|-----------------|
|  | June 30,<br>2001   | July 1,<br>2000 | June 30,<br>2001 | July 1,<br>2000 |
| Sales  | \$ 51,369          | \$ 65,667       | \$114,270        | \$139,407       |
| Cost of sales                                | 40,091             | 49,573          | 88,493           | 105,198         |
| Gross margin                                 | 11,278             | 16,094          | 25,777           | 34,209          |
| Selling, general and administrative expenses | 7,007              | 9,121           | 15,472           | 18,760          |

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|  |          |          |          |          |
|--|----------|----------|----------|----------|
| Operating income                               | 4,271    | 6,973    | 10,305   | 15,449   |
| Interest expense                               | 194      | 513      | 504      | 991      |
| Earnings before income tax expense             | 4,077    | 6,460    | 9,801    | 14,458   |
| Income tax expense                             | 1,591    | 2,536    | 3,823    | 5,675    |
| Net earnings                                   | \$ 2,486 | \$ 3,924 | \$ 5,978 | \$ 8,783 |
| Earnings per share<br>of common stock          |          |          |          |          |
| Basic  | \$ .26   | \$ .40   | \$ .62   | \$ .90   |
| Diluted  | \$ .26   | \$ .40   | \$ .62   | \$ .88   |
| Shares used in computing<br>earnings per share |          |          |          |          |
| Basic  | 9,573    | 9,713    | 9,573    | 9,812    |
| Diluted  | 9,695    | 9,865    | 9,700    | 9,935    |

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Balance Sheets (unaudited)  
Chromcraft Revington, Inc.  
(In thousands)

|                                    | June 30,<br>2001 | July 1,<br>2000 | December 31,<br>2000 |
|------------------------------------|------------------|-----------------|----------------------|
| <b>Assets</b>                      |                  |                 |                      |
| Cash                               | \$ --            | \$ --           | \$ 441               |
| Accounts receivable                | 25,663           | 33,165          | 25,552               |
| Inventories                        | 52,082           | 57,234          | 55,379               |
| Other assets                       | 4,244            | 4,036           | 3,447                |
| Current assets                     | 81,989           | 94,435          | 84,819               |
| Property, plant and equipment, net | 43,452           | 44,185          | 44,747               |
| Intangibles and other assets       | 29,317           | 29,182          | 30,526               |
| Total assets                       | \$154,758        | \$167,802       | \$160,092            |

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|   | =====     | =====     | =====     |
|---|-----------|-----------|-----------|
| Liabilities and Stockholders' Equity        |           |           |           |
| Accounts payable                            | \$ 5,740  | \$ 9,644  | \$ 6,474  |
| Accrued liabilities                         | 12,463    | 15,433    | 13,694    |
| Revolving credit facility                   | --        | 28,100    | --        |
|   | -----     | -----     | -----     |
| Current liabilities                         | 18,203    | 53,177    | 20,168    |
| Revolving credit facility                   | 9,400     | --        | 19,200    |
| Deferred compensation and other liabilities | 10,932    | 9,879     | 10,479    |
|   | -----     | -----     | -----     |
| Total liabilities                           | 38,535    | 63,056    | 49,847    |
| Stockholders' equity                        | 116,223   | 104,746   | 110,245   |
|   | -----     | -----     | -----     |
| Total liabilities and stockholders' equity  | \$154,758 | \$167,802 | \$160,092 |
|   | =====     | =====     | =====     |

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows (unaudited)  
Chromcraft Revington, Inc.  
(In thousands)

|  | Six Months Ended |                 |
|--|------------------|-----------------|
|  | June 30,<br>2001 | July 1,<br>2000 |
|  | -----            | -----           |
| Operating Activities   |                  |                 |
| Net earnings   | \$ 5,978         | \$ 8,783        |
| Adjustments to reconcile net earnings to net cash provided by operating activities |                  |                 |
| Depreciation and amortization  | 3,036            | 3,153           |
| Deferred income taxes  | 139              | 83              |
| Changes in assets and liabilities  |                  |                 |
| Accounts receivable  | (111)            | (3,591)         |
| Inventories  | 3,297            | (6,784)         |
| Accounts payable and accrued liabilities   | (1,965)          | 1,026           |
| Other  | 74               | 825             |
|  | -----            | -----           |
| Cash provided by operating activities  | 10,448           | 3,495           |
|  | -----            | -----           |
| Investing Activities   |                  |                 |
| Capital expenditures   | (1,099)          | (2,278)         |

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|   |         |         |
|---|---------|---------|
| Proceeds from sales of property, plant and equipment        | 10      | 42      |
|   | -----   | -----   |
| Cash used by investing activities                           | (1,089) | (2,236) |
|   | -----   | -----   |
| Financing Activities  |         |         |
| Net borrowings (repayments) under revolving credit facility | (9,800) | 1,400   |
| Repurchase of common stock                                  | --      | (3,807) |
|   | -----   | -----   |
| Cash used by financing activities                           | (9,800) | (2,407) |
|   | -----   | -----   |
| Decrease in cash  | (441)   | (1,148) |
| Cash at beginning of period                                 | 441     | 1,148   |
|   | -----   | -----   |
| Cash at end of period                                       | \$ --   | \$ --   |
|   | =====   | =====   |

See accompanying notes to condensed consolidated financial statements.

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### Notes to Condensed Consolidated Financial Statements (unaudited) Chromcraft Revington, Inc.

#### Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statement presentation.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

The balance sheet at December 31, 2000 has been derived from the audited financial statements at that date but does not include all information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in Chromcraft Revington's annual report on Form 10-K for the year ended December 31, 2000.

#### Note 2. Withdrawal of Purchase Offer from Court Square Capital Limited

On July 17, 2001, Court Square Capital Limited, a unit of Citigroup, notified the Company that it decided to withdraw its proposal to acquire the issued and

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outstanding capital stock of Chromcraft Revington, Inc. not owned by Court Square Capital Limited. Under the proposal, holders of Chromcraft Revington's publicly traded common stock would have received cash of \$10.30 per share in a transaction to take the Company private. Court Square Capital Limited owns 59.5% of Chromcraft Revington's common stock.

### Note 3. Earnings per Share of Common Stock

Weighted average shares used in the calculation of diluted earnings per share included dilutive potential common shares (stock options) of approximately 122,000 and 127,000 for the three and six months ended June 30, 2001, respectively, and 152,000 and 123,000 for the three and six months ended July 1, 2000, respectively.

Certain stock options to purchase shares of common stock were outstanding during the second quarter and first six months of 2001 and 2000, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares during

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those periods and, therefore, their effect would be antidilutive. Options excluded from the computation of diluted earnings per share were as follows:

|                  | 2001    |                              | 2000    |                              |
|------------------|---------|------------------------------|---------|------------------------------|
|                  | Shares  | Average<br>Exercise<br>Price | Shares  | Average<br>Exercise<br>Price |
| Second quarter   | 376,060 | \$ 13.48                     | 326,060 | \$ 13.91                     |
| First six months | 376,060 | \$ 13.48                     | 386,060 | \$ 13.41                     |

### Note 4. Inventories

The components of inventories consisted of the following:

|                          | (In thousands)   |                 |                      |
|--------------------------|------------------|-----------------|----------------------|
|                          | June 30,<br>2001 | July 1,<br>2000 | December 31,<br>2000 |
| Raw materials            | \$ 15,931        | \$ 18,876       | \$ 17,729            |
| Work in process          | 8,805            | 8,742           | 9,083                |
| Finished goods           | 29,820           | 32,087          | 30,870               |
| Inventories at FIFO cost | 54,556           | 59,705          | 57,682               |
| LIFO reserve             | (2,474)          | (2,471)         | (2,303)              |
|                          | \$ 52,082        | \$ 57,234       | \$ 55,379            |

### Note 5. Property, Plant and Equipment

Depreciation and amortization of property, plant and equipment is provided on a straight-line basis over the estimated useful lives of the assets as follows:

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buildings and improvements, 15 to 45 years; machinery and equipment, 3 to 12 years; and leasehold improvements, 5 to 10 years.

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### Note 6. Accrued Liabilities

Accrued liabilities consisted of the following:

|                                 | (In thousands)   |                 |                      |
|---------------------------------|------------------|-----------------|----------------------|
|                                 | June 30,<br>2001 | July 1,<br>2000 | December 31,<br>2000 |
| Employee benefit plans          | \$ 1,985         | \$ 5,296        | \$ 4,450             |
| Salaries, wages and commissions | 1,513            | 2,208           | 1,586                |
| Vacation and holiday pay        | 1,223            | 1,135           | 1,035                |
| Workers' compensation plans     | 994              | 1,382           | 1,013                |
| Deferred income taxes           | 643              | --              | 1,018                |
| Other accrued liabilities       | 6,105            | 5,412           | 4,592                |
|                                 | -----            | -----           | -----                |
|                                 | \$12,463         | \$15,433        | \$13,694             |
|                                 | =====            | =====           | =====                |

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### General

Chromcraft Revington designs, manufactures and sells residential and commercial furniture through its wholly owned subsidiaries Chromcraft Corporation, Peters-Revington Corporation, Silver Furniture Co., Inc., Cochrane Furniture Company, Inc. and Korn Industries, Incorporated.

The following table sets forth the results of operations of Chromcraft Revington for the three and six months ended June 30, 2001 and July 1, 2000 expressed as a percentage of sales.

|   | Three Months Ended |                 | Six Months Ended |                 |
|---|--------------------|-----------------|------------------|-----------------|
|   | June 30,<br>2001   | July 1,<br>2000 | June 30,<br>2001 | July 1,<br>2000 |
| Sales   | 100.0 %            | 100.0 %         | 100.0 %          | 100.0 %         |
| Cost of sales                                   | 78.0               | 75.5            | 77.4             | 75.5            |
| Gross margin                                    | 22.0               | 24.5            | 22.6             | 24.5            |
| Selling, general and<br>administrative expenses | 13.7               | 13.9            | 13.6             | 13.4            |
| Operating income                                | 8.3                | 10.6            | 9.0              | 11.1            |
| Interest expense                                | .4                 | .8              | .4               | .7              |
| Earnings before                                 | -----              | -----           | -----            | -----           |

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|                    |       |       |       |       |
|--------------------|-------|-------|-------|-------|
| income tax expense | 7.9   | 9.8   | 8.6   | 10.4  |
| Income tax expense | 3.1   | 3.8   | 3.4   | 4.1   |
|                    | ----- | ----- | ----- | ----- |
| Net earnings       | 4.8 % | 6.0 % | 5.2 % | 6.3 % |
|                    | ===== | ===== | ===== | ===== |

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Three and Six Months Ended June 30, 2001 Compared to Three and Six Months Ended July 1, 2000

Consolidated sales for the three months ended June 30, 2001 were \$51,369,000, a decrease of 21.8% from sales of \$65,667,000 for the three months ended July 1, 2000. For the first six months of 2001, consolidated sales were \$114,270,000, an 18.0% decrease from sales of \$139,407,000 for the same period last year. Shipments of occasional, dining room, bedroom, upholstered and commercial furniture were lower during the second quarter and first six months of 2001 as compared to the corresponding periods of 2000. The decline in sales was primarily due to the economic and retail slowdown that began in the second half of last year. The consolidated sales order backlog at June 30, 2001 was lower as compared to July 1, 2000.

In general, selling prices for the first six months of 2001 were slightly higher as compared to the prior year period.

Gross margin as a percentage of sales was 22.0% and 22.6% for the three and six month periods ended June 30, 2001, respectively, as compared to 24.5% for the three and six month periods ended July 1, 2000. The decline in the gross margin percentage for the second quarter and first half of 2001 was primarily due to unabsorbed fixed overhead resulting from the lower sales volume.

Selling, general and administrative expenses as a percentage of sales were 13.7% and 13.6% for the second quarter and first six months of 2001, respectively, as compared to 13.9% and 13.4% for the same periods last year. Although sales were lower for the three and six month periods ended June 30, 2001, selling, general and administrative expenses as a percentage of sales remained at approximately the same level as compared to the prior year. This was primarily due to lower incentive compensation and advertising related costs in 2001 which were offset by the spreading of certain fixed selling and administrative costs over a lower sales volume.

Interest expense for the three and six months ended June 30, 2001 was \$194,000 and \$504,000, respectively, as compared to \$513,000 and \$991,000 for the three and six months ended July 1, 2000, respectively. The decrease in interest expense for 2001 was due to lower average bank borrowings and interest rate reductions.

Chromcraft Revington's effective income tax rate was 39.0% for the three and six month periods ended June 30, 2001 as compared to 39.3% for the three and six month periods ended July 1, 2000. The decrease in the effective tax rate for 2001 was due to lower state income taxes.

Liquidity and Capital Resources

Operating activities provided \$10,448,000 of cash during the six months ended June 30, 2001, an increase of \$6,953,000 from the amount provided for the first half of last year. The increase in cash flow from operating activities in 2001



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was primarily due to a reduction in working capital investment, offset, in part, by lower net earnings. Accounts receivable, due to lower sales volume, increased \$111,000 during the first half of 2001 as compared to an increase of \$3,591,000 during the same period of 2000. Inventories decreased \$3,297,000 during the period as compared to an increase of \$6,784,000 during the first six months of last year reflecting the lower sales activity.

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Investing activities, primarily for capital expenditures, were \$1,089,000 during the first six months of 2001 as compared to \$2,236,000 during the same period last year. Chromcraft Revington expects capital expenditures to be less than \$3,000,000 for the year ending December 31, 2001.

Financing activities used \$9,800,000 of cash during the six months ended June 30, 2001 to reduce bank indebtedness under a revolving credit facility. During the first six months of 2000, financing activities used \$3,807,000 of cash to acquire shares of Chromcraft Revington's common stock under a stock repurchase program and \$1,400,000 was borrowed under the revolving credit facility.

At June 30, 2001, Chromcraft Revington had unused capacity under its revolving credit facility, after reduction for outstanding letters of credit, of \$36,048,000.

### Third Quarter 2001 Outlook

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Entering the third quarter, retail furniture sales continue to remain sluggish and the Company's sales order backlog is lower as compared to a year ago. Chromcraft Revington anticipates that third quarter earnings per share on a diluted basis will be between \$.21 and \$.26, as compared to \$.28 last year.

### Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

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Certain matters included in this discussion are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Certain forward-looking statements are contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations." These forward-looking statements can be generally identified as such because the context of the statements includes words such as "plans," "may," "anticipates," "estimates" and "expects" or words of similar import. All forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reported or expected as of the date of this report. Among the risks and uncertainties that could cause actual results to differ materially from those reported or anticipated are (i) general economic conditions, (ii) cyclical nature of the furniture industry, and (iii) competition in the furniture industry.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Borrowings under Chromcraft Revington's revolving credit facility bear interest at a variable rate and, therefore, are subject to changes in interest rates. The impact of an interest rate change is not considered material.

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## Part II. Other Information

### Item 4. Submission of Matters to a Vote of Security Holders

- (a) Chromcraft Revington held its annual meeting of stockholders on May 1, 2001.
- (b) At the annual meeting, the holders of the common stock of Chromcraft Revington elected five directors to serve until the next annual meeting of stockholders and until their successors are duly elected and qualified. Set forth below are the votes cast for each director.

| Directors          | For       | Withheld  |
|--------------------|-----------|-----------|
| -----              | -----     | -----     |
| David L. Kolb      | 9,064,562 | 16,350    |
| Larry P. Kunz      | 9,064,562 | 16,350    |
| M. Saleem Muqaddam | 8,058,057 | 1,022,855 |
| Michael E. Thomas  | 8,060,557 | 1,020,355 |
| Warren G. Wintrub  | 9,064,562 | 16,350    |

### Item 5. Other Information

If a stockholder proposal is introduced at the 2002 Annual Meeting without any discussion of the proposal in the proxy statement, and if the proponent does not notify Chromcraft Revington on or before February 11, 2002, as required by Rule 14a-4(c)(1) under the Securities Exchange Act of 1934, of the intent to raise such proposal at the Annual Meeting, then proxies received by Chromcraft Revington for the 2002 Annual Meeting will be voted by the persons named as proxies in their discretion in regard to such proposal. Notice is to be given to Chromcraft Revington in writing at its principal office, 1100 North Washington Street, Delphi, Indiana 46923, directed to the attention of the Secretary.

### Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits
- None
- (b) Reports on Form 8-K
- No reports on Form 8-K were filed during the three months ended June 30, 2001.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Chromcraft Revington, Inc. has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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Chromcraft Revington, Inc.

-----  
(Registrant)

Date: August 2, 2001

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/s/ Frank T. Kane

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Frank T. Kane  
Vice President - Finance  
(Duly Authorized Officer and  
Chief Financial Officer)