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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 (IRS Employer Identification No.)
incorporation or organization)

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

Table of Contents

Chromcraft Revington, Inc.

Part I. Financial Information

Item 1. Financial Statements (unaudited)

Condensed Consolidated Statements of Earnings - Three and Six Months Ended June 30, 2001 and July 1, 2000..... 3

Condensed Consolidated Balance Sheets - June 30, 2001, July 1, 2000 and December 31, 2000..... 4

Condensed Consolidated Statements of Cash Flows - Six Months Ended June 30, 2001 and July 1, 2000..... 5

Notes to Condensed Consolidated Financial Statements..... 6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations..... 8

Item 3. Quantitative and Qualitative Disclosures About Market Risk..... 10

Part II. Other Information

Item 4. Submission of Matters to a Vote of Security Holders..... 11

Item 5. Other Information..... 11

Item 6. Exhibits and Reports on Form 8-K..... 11

Signatures..... 12

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, 2001	July 1, 2000	June 30, 2001	July 1, 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 of common stock				
Basic	\$.26	\$.40	\$.62	\$.90
Diluted	\$.26	\$.40	\$.62	\$.88
Shares used in computing 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.

3

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

	June 30, 2001	July 1, 2000	December 31, 2000
Assets			
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.

4

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

	Six Months Ended	
	June 30, 2001	July 1, 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.

5

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

6

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 Exercise Price	Shares	Average Exercise 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, 2001	July 1, 2000	December 31, 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.

7

Note 6. Accrued Liabilities

Accrued liabilities consisted of the following:

	(In thousands)		
	June 30, 2001	July 1, 2000	December 31, 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
	<u>\$12,463</u>	<u>\$15,433</u>	<u>\$13,694</u>

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, 2001	July 1, 2000	June 30, 2001	July 1, 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 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 %
	=====	=====	=====	=====

8

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.

9

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

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

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.

10

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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

/s/ Frank T. Kane

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