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CHROMCRAFT REVINGTON INC
Form 10-Q
May 14, 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 March 31, 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 May 1, 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 | |
|--|--------------------|------------------|
| | March 31, 2001 | April 1, 2000 |
| | ----- | ----- |
| Sales | \$62,901 | \$73,740 |
| Cost of sales | 48,402 | 55,625 |
| | ----- | ----- |
| Gross margin | 14,499 | 18,115 |
| Selling, general and administrative expenses | 8,465 | 9,639 |
| | ----- | ----- |
| Operating income | 6,034 | 8,476 |
| Interest expense | 310 | 478 |
| | ----- | ----- |

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| | | |
|---|----------|----------|
| Earnings before income tax expense | 5,724 | 7,998 |
| Income tax expense | 2,232 | 3,139 |
| | ----- | ----- |
| Net earnings | \$ 3,492 | \$ 4,859 |
| | ===== | ===== |
| Earnings per share of common stock | | |
| Basic | \$.36 | \$.49 |
| | ===== | ===== |
| Diluted | \$.36 | \$.49 |
| | ===== | ===== |
| Shares used in computing earnings per share | | |
| Basic | 9,573 | 9,911 |
| | ===== | ===== |
| Diluted | 9,705 | 10,006 |
| | ===== | ===== |

See accompanying notes to condensed consolidated financial statements.

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

| | March 31, 2001 | April 1, 2000 | December 31, 2000 |
|---|-------------------|------------------|----------------------|
| | ----- | ----- | ----- |
| Assets | | | |
| ----- | | | |
| Cash | \$ -- | \$ -- | \$ 441 |
| Accounts receivable | 27,742 | 35,513 | 25,552 |
| Inventories | 54,310 | 51,082 | 55,379 |
| Other assets | 3,636 | 3,463 | 3,447 |
| | ----- | ----- | ----- |
| Current assets | 85,688 | 90,058 | 84,819 |
| Property, plant and equipment, net | 44,163 | 44,099 | 44,747 |
| Intangibles and other assets | 29,641 | 29,580 | 30,526 |
| | ----- | ----- | ----- |
| Total assets | \$159,492 | \$163,737 | \$160,092 |
| | ===== | ===== | ===== |
| Liabilities and Stockholders' Equity | | | |
| ----- | | | |
| Accounts payable | \$ 7,553 | \$ 10,883 | \$ 6,474 |
| Accrued liabilities | 17,481 | 19,530 | 13,694 |

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| | | | |
|---|-----------|-----------|-----------|
| Revolving credit facility | -- | 23,400 | -- |
| | ----- | ----- | ----- |
| Current liabilities | 25,034 | 53,813 | 20,168 |
| Revolving credit facility | 10,300 | -- | 19,200 |
| Deferred compensation and other liabilities | 10,421 | 8,943 | 10,479 |
| | ----- | ----- | ----- |
| Total liabilities | 45,755 | 62,756 | 49,847 |
| Stockholders' equity | 113,737 | 100,981 | 110,245 |
| | ----- | ----- | ----- |
| Total liabilities and stockholders' equity | \$159,492 | \$163,737 | \$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)

| | Three Months Ended | |
|--|--------------------|----------|
| | March 31, | April 1, |
| | 2001 | 2000 |
| | ----- | ----- |
| Operating Activities | | |
| Net earnings | \$ 3,492 | \$ 4,859 |
| Adjustments to reconcile net earnings to net cash provided by operating activities | | |
| Depreciation and amortization | 1,518 | 1,567 |
| Deferred income taxes | 149 | 244 |
| Changes in assets and liabilities | | |
| Accounts receivable | (2,190) | (5,939) |
| Inventories | 1,069 | (632) |
| Accounts payable and accrued liabilities | 4,866 | 6,066 |
| Other | 164 | 511 |
| | ----- | ----- |
| Cash provided by operating activities | 9,068 | 6,676 |
| | ----- | ----- |
| Investing Activities | | |
| Capital expenditures | (609) | (876) |
| | ----- | ----- |
| Cash used by investing activities | (609) | (876) |
| | ----- | ----- |
| Financing Activities | | |
| Net repayment under revolving credit facility | (8,900) | (3,300) |
| Repurchase of common stock | -- | (3,648) |
| | ----- | ----- |

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| | | |
|-----------------------------------|---------|---------|
| Cash used by financing activities | (8,900) | (6,948) |
| | ----- | ----- |
| 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 generally accepted accounting principles, 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 month period ended March 31, 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. Purchase Offer from Court Square Capital Limited

Chromcraft Revington received on December 22, 2000 a proposal from Court Square Capital Limited, a unit of Citigroup, under which the holders of Chromcraft Revington's publicly traded common stock would receive cash of \$10.30 per share in a transaction to take Chromcraft Revington private. Court Square Capital Limited is presently conducting its due diligence review of Chromcraft Revington. 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

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132,000 and 95,000 for the three months ended March 31, 2001 and April 1, 2000, respectively.

Certain stock options to purchase shares of common stock were outstanding during the first three 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 those periods and, therefore, their effect would be antidilutive. Options excluded from the computation of diluted earnings per share and their weighted average exercise prices at March 31, 2001 and April 1, 2000 were 376,060 shares at \$13.48 and 472,160 shares at \$12.70, respectively.

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Note 4. Inventories

The components of inventories consisted of the following:

| | (In thousands) | | |
|--------------------------|-------------------|------------------|----------------------|
| | March 31, 2001 | April 1, 2000 | December 31, 2000 |
| | ----- | ----- | ----- |
| Raw materials | \$ 16,736 | \$ 18,125 | \$ 17,729 |
| Work in process | 9,631 | 8,429 | 9,083 |
| Finished goods | 30,439 | 26,661 | 30,870 |
| | ----- | ----- | ----- |
| Inventories at FIFO cost | 56,806 | 53,215 | 57,682 |
| LIFO reserve | (2,496) | (2,133) | (2,303) |
| | ----- | ----- | ----- |
| | \$ 54,310 | \$ 51,082 | \$ 55,379 |
| | ===== | ===== | ===== |

Note 5. Accrued Liabilities

Accrued liabilities consisted of the following:

| | (In thousands) | | |
|---------------------------------|-------------------|------------------|----------------------|
| | March 31, 2001 | April 1, 2000 | December 31, 2000 |
| | ----- | ----- | ----- |
| Employee benefit plans | \$ 3,759 | \$ 4,653 | \$ 4,450 |
| Salaries, wages and commissions | 2,117 | 2,562 | 1,586 |
| Income taxes payable | 1,844 | 2,567 | -- |
| Vacation and holiday pay | 1,332 | 1,583 | 1,035 |
| Workers' compensation plans | 1,079 | 1,614 | 1,013 |
| Deferred income taxes | 1,045 | 858 | 1,018 |
| Other accrued liabilities | 6,305 | 5,693 | 4,592 |
| | ----- | ----- | ----- |
| | \$17,481 | \$19,530 | \$13,694 |
| | ===== | ===== | ===== |

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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 ("Chromcraft"), Peters-Revington Corporation ("Peters-Revington"), Silver Furniture Co., Inc. ("Silver Furniture"), Cochrane Furniture Company, Inc. ("Cochrane Furniture") and Korn Industries, Incorporated ("Korn Industries").

The following table sets forth the results of operations of Chromcraft Revington for the three months ended March 31, 2001 and April 1, 2000 expressed as a percentage of sales.

| | Three Months Ended | |
|--|--------------------|------------------|
| | March 31, 2001 | April 1, 2000 |
| Sales | 100.0% | 100.0% |
| Cost of sales | 76.9 | 75.4 |
| Gross margin | 23.1 | 24.6 |
| Selling, general and administrative expenses | 13.5 | 13.1 |
| Operating income | 9.6 | 11.5 |
| Interest expense | .5 | .7 |
| Earnings before income tax expense | 9.1 | 10.8 |
| Income tax expense | 3.5 | 4.2 |
| Net earnings | 5.6% | 6.6% |

Three Months Ended March 31, 2001 Compared to Three Months Ended April 1, 2000

Consolidated sales for the three months ended March 31, 2001 were \$62,901,000, a decrease of 14.7% from sales of \$73,740,000 for the three months ended April 1, 2000. First quarter 2001 shipments of occasional, dining room, bedroom, upholstered and commercial furniture were lower as compared to the first quarter last year. The sales decline was primarily due to the economic and retail slowdown that began in the second half of last year. Occasional and dining room furniture shipments were also negatively impacted by the bankruptcy of a major furniture retailer during 2000 and by increased import and domestic competition. The consolidated sales order backlog at March 31, 2001 was lower as compared to April 1, 2000.

In general, selling prices for the first three months of 2001 were at approximately the same level as during the prior year period.

Gross margin as a percentage of sales was 23.1% for the three months ended March 31, 2001 as compared to 24.6% for the three months ended April 1, 2000. The decline in the gross margin percentage for the first quarter of 2001 was

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primarily due to labor inefficiencies and unabsorbed fixed overhead resulting from the lower sales volume.

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Selling, general and administrative expenses as a percentage of sales were 13.5% and 13.1% for the three months ended March 31, 2001 and April 1, 2000, respectively. The increase in selling, general and administrative expenses as a percentage of sales for the first quarter of 2001 was primarily due to the spreading of certain fixed selling and administrative costs over a lower sales volume.

Interest expense during the first three months of 2001 was \$310,000 as compared to \$478,000 for the first three months of 2000. The decreased interest expense for 2001 was primarily due to lower average bank borrowings during the period.

Chromcraft Revington's effective tax rate was 39.0% and 39.2% for the three month periods ended March 31, 2001 and April 1, 2000, respectively. The decrease in the effective tax rate for 2001 was due to lower state income taxes.

Liquidity and Capital Resources

Operating activities provided \$9,068,000 of cash during the three months ended March 31, 2001, an increase of \$2,392,000 from the amount provided during the three months ended April 1, 2000. The increase in cash generated from operating activities during the first three months of 2001 as compared to the prior year period was primarily due to a reduction in working capital investment, offset by lower earnings. Accounts receivable increased \$2,190,000 during the first quarter of 2001 as compared to an increase of \$5,939,000 during the same period last year. The decrease in accounts receivable was primarily due to the lower sales volume. Inventories decreased \$1,069,000 during the period as compared to an increase of \$632,000 during the first three months of 2000.

During the quarter ended March 31, 2001, Chromcraft Revington invested \$609,000 in capital expenditures as compared to \$876,000 in the prior year period. Chromcraft Revington expects capital expenditures to be less than \$4,000,000 for the year ending December 31, 2001.

Financing activities used \$8,900,000 of cash during the three months ended March 31, 2001 to reduce bank indebtedness under a revolving credit facility. During the first three months of 2000, financing activities used \$3,300,000 of cash to reduce bank indebtedness and \$3,648,000 of cash to acquire shares of Chromcraft Revington's common stock under a stock repurchase plan.

At March 31, 2001, Chromcraft Revington had unused capacity under its revolving credit facility, after reduction for outstanding letters of credit, of \$34,671,000.

Second Quarter 2001 Outlook

Due to the weak retail sales environment, Chromcraft Revington has scheduled selected downtime during the second quarter of 2001 at several of its manufacturing facilities to control inventories. Chromcraft Revington anticipates that second quarter earnings per share on a diluted basis will be between \$.26 and \$.31, as compared to \$.40 last year.

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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.

Part II. Other Information -----

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

On January 12, 2001, Chromcraft Revington filed a Current Report on Form 8-K reporting that the Company received a proposal dated December 22, 2000 from Court Square Capital Limited, a unit of Citigroup, under which the holders of Chromcraft Revington's publicly traded common stock would receive cash of \$10.30 per share in a transaction to take Chromcraft Revington private. Court Square Capital Limited owns 59.5% of Chromcraft Revington's common stock.

On January 23, 2001, Chromcraft Revington filed a Current Report on Form 8-K reporting that the Company and its directors have been named as defendants in three virtually identical lawsuits filed in connection with the Court Square Capital Limited proposal dated December 22, 2000. The complaints allege, among other things, that the defendants have breached their fiduciary duties to Chromcraft Revington common shareholders in connection with the proposed transaction.

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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.

Chromcraft Revington, Inc.

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(Registrant)

Date: May 14, 2001

/s/ Frank T. Kane

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