# Edgar Filing: CHROMCRAFT REVINGTON INC - Form 10-Q 

CHROMCRAFT REVINGTON INC
Form 10-Q
May 09, 2005


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 [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

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 $-6,008,202$ shares as of April 30, 2005

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Item 1. Financial Statements

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

| $\begin{gathered} \text { April 2, } \\ 2005 \end{gathered}$ | $\begin{gathered} \text { April 3 } \\ 2004 \end{gathered}$ |
| :---: | :---: |
| \$44,659 | \$46,467 |
| 34,100 | 35,759 |

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| Gross margin | 10,559 | 10,708 |
| :---: | :---: | :---: |
| Selling, general and administrative expenses | 6,829 | 8,087 |
| Operating income | 3,730 | 2,621 |
| Interest expense | 154 | 197 |
| Earnings before income tax expense | 3,576 | 2,424 |
| Income tax expense | 1,320 | 931 |
| Net earnings | \$ 2,256 | \$ 1,493 |
| Earnings per share of common stock Basic | \$ . 54 | \$ . 36 |
| Diluted | \$ . 53 | \$ . 36 |
| Shares used in computing earnings per share Basic | 4,209 | 4,098 |
| Diluted | 4,273 | 4,183 |

See accompanying notes to condensed consolidated financial statements.

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

| April 2, | April 3, | Dec. 31, |
| :---: | :---: | :---: |
| 2005 | 2004 | 2004 |
| ------- | -------- | --------1 |

## Assets

| Cash and cash equivalents | \$ 156 | \$ -- | \$ -- |
| :---: | :---: | :---: | :---: |
| Accounts receivable | 20,472 | 21,635 | 18,133 |
| Inventories | 34,362 | 32,784 | 33,666 |
| Deferred income taxes and prepaid expenses | 2,031 | 1,634 | 1,971 |
| Current assets | 57,021 | 56,053 | 53,770 |
| Property, plant and equipment, net | 31,849 | 34,439 | 32,490 |
| Other long-term assets | 811 | 765 | 776 |
| Total assets | \$89,681 | \$91, 257 | \$87,036 |



See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statement of Stockholders' Equity (unaudited)
Chromcraft Revington, Inc.
(In thousands, except share data)

|  | Common Stock |  |  | pital in cess of r Value | Unearned ESOP Shares | Retained Earnings |  | Treasur <br> Stock |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance at January 1, 2005 | \$ | 77 | \$ | 15,121 | \$ (18, 062 ) | \$ | 86,119 | \$ $(20,34$ |
| Net earnings |  | -- |  | -- | -- |  | 2,256 |  |
| ESOP compensation expense |  | -- |  | 52 | 169 |  | -- |  |
| Stock option compensation expense |  | -- |  | 45 | -- |  | -- |  |
| Purchase of treasury stock (65,987 shares) |  | -- |  | (100) | -- |  | -- | ( 65 |
| Exercise of stock options (82,987 shares) |  | 1 |  | 852 | -- |  | -- |  |
| Balance at April 2, 2005 | \$ | 78 |  | 15,970 | \$ $(17,893)$ | \$ | 88,375 | \$ $(21,00$ |

See accompanying notes to condensed consolidated financial statements.
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Condensed Consolidated Statements of Cash Flows (unaudited)
    Chromcraft Revington, Inc.
    (In thousands)
```

Operating Activities
Net earnings
Adjustments to reconcile net earnings to
net cash provided by (used in) operating activities
Depreciation expense
Deferred income taxes
Non-cash ESOP compensation expense
Stock option compensation expense
Changes in assets and liabilities
Accounts receivable
Inventories
Accounts payable and accrued liabilities
Other long-term liabilities
Other

Financing Activities
Net borrowings under a bank revolving credit line 3,350 2,700
Principal payments on bank term loan (4,250) (1,250)
Stock repurchase from related party
(754)

177
Exercise of stock options, net of tax benefit
834

Cash provided by (used in) financing activities

Net change in cash and cash equivalents
156
$\qquad$

Cash and cash equivalents at beginning 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
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The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 of America 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 April 2, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

The balance sheet at December 31, 2004 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 $10-\mathrm{K}$ for the year ended December 31, 2004.

Note 2. Inventories
----------------------

Inventories consisted of the following:

|  | (In thousands) |  |  |
| :---: | :---: | :---: | :---: |
|  | April 2, | $\begin{gathered} \text { April 3, } \\ 2004 \end{gathered}$ | $\begin{gathered} \text { Dec. } 31, \\ 2004 \end{gathered}$ |
| Raw materials | \$ 10,729 | \$ 8,438 | \$ 10,980 |
| Work-in-process | 6,410 | 6,577 | 6,374 |
| Finished goods | 19,889 | 19,757 | 18,851 |
|  | 37,028 | 34,772 | 36,205 |
| LIFO reserve | $(2,666)$ | $(1,988)$ | $(2,539)$ |

Note 3. Accrued Liabilities

Accrued liabilities consisted of the following:
(In thousands)


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Note 4. Bank Debt
-------------------

Long term bank debt consisted of the following:

|  | (In thousands) |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \text { April 2, } \\ 2005 \end{gathered}$ |  | $\begin{gathered} \text { April 3, } \\ 2004 \end{gathered}$ |  | $\begin{gathered} \text { Dec. 31, } \\ 2004 \end{gathered}$ |  |
| Term loan | \$ | -- | \$ | 8,000 | \$ | 4,250 |
| Revolving credit line |  | 4,800 |  | 5,500 |  | 1,450 |
|  |  | 4,800 |  | 13,500 |  | 5,700 |
| Less current portion of term loan |  | -- |  | 5,000 |  | -- |
|  | \$ | 4,800 | \$ | 8,500 | \$ | 5,700 |

Note 5. Employee Stock Ownership Plan

Chromcraft Revington sponsors a leveraged employee stock ownership plan ("ESOP") that covers substantially all employees who have completed six months of service. Chromcraft Revington makes annual contributions to the ESOP Trust equal to the ESOP Trust's repayment of its loan to the Company. As the ESOP loan is repaid, shares are released and allocated to ESOP accounts of active employees based on the proportion of debt service paid in the year. Chromcraft Revington accounts for its ESOP in accordance with AICPA Statement of Position 93-6, Accounting for Employee Stock Ownership Plans. Accordingly, unearned ESOP shares are reported as a reduction of stockholders' equity as reflected in the Condensed Consolidated Statement of Stockholders' Equity of the Company. As

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shares are committed to be released, Chromcraft Revington reports compensation expense equal to the current market price of the shares, and the shares become outstanding for earnings per share computations. ESOP compensation expense, a non-cash charge, for the three months ended April 2, 2005 and April 3, 2004 was $\$ 221,000$ and $\$ 226,000$, respectively. ESOP shares consisted of the following:

|  | (In thousands) |  |  |
| :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \text { April 2, } \\ 2005 \end{gathered}$ | $\begin{gathered} \text { April 3, } \\ 2004 \end{gathered}$ | $\begin{gathered} \text { Dec. 31, } \\ 2004 \end{gathered}$ |
| Allocated shares | 184 | 120 | 184 |
| Committed to be released shares | 17 | 17 | -- |
| Unearned ESOP shares | 1,789 | 1,863 | 1,806 |
| Total ESOP shares | 1,990 | 2,000 | 1,990 |
| Unearned ESOP shares, at cost | \$ 17,893 | \$ 18,630 | \$ 18,062 |
| Fair value of unearned ESOP shares | \$ 24,048 | \$ 27,200 | \$ 22,216 |
|  | ======== | = = = = = = = | ======== |

Note 6. 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 64,000 and 85,000 for the three months ended April 2, 2005 and April 3, 2004, respectively.

Note 7. Stock Based Compensation

The Company has two stock-based compensation plans. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related

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interpretations and discloses the fair value of options granted as permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("Statement No. 123"). The estimated per share weighted average fair value of stock options granted during the first quarter of 2005 and 2004 was $\$ 4.98$ and $\$ 5.30$, respectively, on the date of grant. The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of Statement No. 123 to stock-based employee compensation for the three months ended April 2, 2005 and April 3, 2004.

| (in thousands, except per share data) |  |
| :---: | :---: |
| 2005 | 2004 |
| $\$ 2,256$ | $\$ 1,493$ |

```
Add: Stock-based employee compensation expense included
    in reported net earnings, net of related tax effects
        2 8
Deduct: Total stock-based employee compensation expense
        determined under fair-value based method for all awards,
        net of related tax effects
        (158)
--_----
$ 2,126
=======
    Basic - as reported 
    Diluted - as reported
    Diluted - pro forma
Pro forma net earnings
Earnings per share
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
```

        30
    \$ 1,255
    \$ . 54 \$ . 36
\$ . 53 \$ . 36

Overview
--------

For the last several years, U.S. furniture manufacturers have been impacted by low-cost import competition. Foreign manufacturers, primarily in China, have a substantial labor and overhead cost advantage as compared to furniture manufacturers in the United States. We expect these competitive conditions to continue.

The Company's strategy is to operate autonomous niche-focused businesses to serve the fragmented furniture distribution channel with product selection and service. A key element in this strategy is to maintain a low-cost structure to insure that the Company's products are a value to the customer. To lower its costs, the Company has increased imports of low-cost, labor-intensive furniture components and finished furniture from overseas. Using this blended approach of domestic manufacturing and selective importing, the Company believes it is better able to control the quality of furniture and service to its customers. Chromcraft Revington's competitiveness with producers from other countries is influenced by transportation costs, timely delivery of furniture to retailers and product differentiation.

The Company has several businesses, some of which have been impacted more severely than others by the reduced sales volume. Chromcraft Revington is closely monitoring this situation and, if business conditions do not improve, this could cause asset impairment and restructuring charges in the future. Also, the Company's operating units have experienced inflationary price increases in raw materials and other costs. The company is seeking ways to mitigate this impact through product engineering, offshore sourcing of low-cost inventory components and the use of alternative raw materials. Due to the competitive environment, the Company may not be able to pass through any significant cost increases to its customers.

Results of Operations


The following table sets forth the Condensed Consolidated Statements of Earnings

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of Chromcraft Revington for the three months ended April 2, 2005 and April 3, 2004 expressed as a percentage of sales.

|  | Three Months Ended |  |
| :---: | :---: | :---: |
|  | $\begin{aligned} & \text { April } 2 \text {, } \\ & 2005 \end{aligned}$ | $\begin{aligned} & \text { April 3, } \\ & 2004 \end{aligned}$ |
| Sales | $100.0 \%$ | 100.0 \% |
| Cost of sales | 76.4 | 77.0 |
| Gross margin | 23.6 | 23.0 |
| Selling, general and administrative expenses | 15.3 | 17.4 |
| Operating income | 8.3 | 5.6 |
| Interest expense | 0.3 | 0.4 |
| Earnings before income taxes | 8.0 | 5.2 |
| Income tax expense | 3.0 | 2.0 |
| Net earnings | $5.0 \%$ | 3.2 \% |

Consolidated sales for the three months ended April 2, 2005 of $\$ 44,659,000$ were 3.9\% lower as compared to the prior year period. The sales decrease was due to lower shipments of dining room, occasional and bedroom furniture. Upholstered and commercial furniture shipments were higher in 2005 as compared to last year's first quarter. The upholstered furniture sales increase was primarily due to the introduction of leather sofas and chairs imported from overseas. Consolidated sales were lower in the first quarter of 2005 primarily due to a lower number of units sold attributable to foreign import competition.

Gross margin decreased $\$ 149,000$ to $\$ 10,559,000$, or $23.6 \%$ of sales, for the first three months of 2005 from $\$ 10,708,000$, or $23.0 \%$ of sales, for the prior year period. The higher gross margin percentage in 2005 was primarily due to expense reductions in manufacturing overhead costs and slightly higher selling prices.

Selling, general and administrative expenses for the three months ended April 2, 2005 decreased $\$ 1,258,000$ to $\$ 6,829,000$ from $\$ 8,087,000$ for the year ago period. The higher expense in 2004 was due to a $\$ 1,100,000$ charge to record a minimum annual supplemental retirement benefit payable to Michael E. Thomas, Chairman, President, and Chief Executive Officer of the Company. The charge resulted from an amendment to Mr. Thomas' employment and supplemental retirement benefit agreements with the Company.

Interest expense decreased to $\$ 154,000$ in the first quarter of 2005 from $\$ 197,000$ in the prior year quarter. The decrease in interest expense was due to lower average bank borrowings.

Chromcraft Revington's effective income tax rate was 36.9\% for the first three months of 2005 as compared to $38.4 \%$ for the prior year period. The decrease in the effective tax rate for the three-month period ended April 2, 2005 was primarily due to an estimated tax deduction on qualified domestic production activities under a provision of the American Jobs Creation Act of 2004.

Net earnings increased to $\$ 2,256,000$ for the three months ended April 2, 2005, as compared to $\$ 1,493,000$ for the prior year period. Factors contributing to the earnings increase are outlined in the above discussion.

Financial Condition, Liquidity and Capital Resources

Operating activities provided $\$ 1,223,000$ of cash during the three months ended April 2, 2005 as compared to $\$ 1,371,000$ of cash used in the same period last year. The increase in cash was primarily due to higher cash earnings and a lower investment in working capital for the first quarter of 2005 as compared to the prior year period.

At April 2, 2005, inventories were higher as compared to a year ago primarily due to an increase in imported furniture parts and finished furniture to supplement the Company's domestic manufacturing operations. The Company has invested in additional inventories for expansion of its imported leather upholstered furniture line and its new custom-design wood casual dining room program.

Investing activities used $\$ 247,000$ of cash for capital expenditures during the first three months of 2005 as compared to $\$ 256,000$ spent during the same period last year. Chromcraft Revington expects capital expenditures in 2005 to be less than $\$ 1,500,000$.

Financing activities used $\$ 820,000$ of cash for the first three months of 2005 , primarily to reduce bank indebtedness and to acquire 65,987 shares of Chromcraft Revington common stock from Michael E. Thomas, Chairman, President and Chief Executive Officer of the Company for $\$ 863,968$, or $\$ 13.093$ per share. The purchase price was determined based upon an average of the high and low selling prices of the Company's common stock during a period of five consecutive trading days as reported by the American Stock Exchange.

Cash provided by financing activities during the prior year quarter totaled \$1,627,000, primarily from bank borrowings.

Management expects that cash flow from operations and availability under its bank revolving credit line will continue to be sufficient to meet future liquidity needs. At April 2, 2005, the Company had approximately $\$ 33,200,000$ in unused availability under its bank revolving credit line that matures in 2007. Chromcraft Revington expects to generate excess cash flow in 2005 which will be used to reduce bank indebtedness, repurchase Company common stock or for general corporate purposes.

Recently Issued Accounting Standards

In November 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 151, Inventory Costs ("Statement No. 151"). Statement No. 151 amends Accounting Research Bulletin No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. Statement No. 151 requires that those items be recognized as current-period charges and requires that allocation of fixed production overheads to the cost of conversion be based on the normal capacity of the production facilities. Statement No. 151 is effective for fiscal years beginning after June 15, 2005. The Company does not expect the adoption of Statement No. 151 to have a material impact on the Company's financial condition or results of operations.

In December 2004, FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payments ("Statement No. 123(R)"). Statement No. 123 (R) replaces FASB Statement No. 123 and supersedes Accounting Principles Board Opinion No. 25. Statement No. $123(R)$ will require the fair value of all

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stock option awards issued to employees to be recorded as an expense over the related vesting period. Statement No. $123(\mathrm{R})$ also requires the recognition of compensation expense for the fair value of any unvested stock option awards at the date of adoption. The Securities and Exchange Commission ("Commission") amended FASB's compliance dates for Statement No. 123 (R). The Commission's new rule allows a calendar year-end company to delay compliance with Statement No. $123(R)$ until the first quarter of 2006 . The Company has not determined the impact of Statement No. $123(R)$.

Forward-Looking Statements

Certain information and statements contained in this report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements can be generally identified as such because they include future tense or dates, or are not historical or current facts, or include words such as "expects", "may", "anticipates", "believes" or words of similar import. Forward-looking statements are not guarantees of performance and are subject to certain risks and uncertainties that could cause actual results or outcomes to differ materially from those reported, expected or anticipated as of the date of this report.

Among such risks and uncertainties that could cause actual results or outcomes to differ materially from those reported, expected or anticipated are general economic conditions; import and domestic competition in the furniture industry; market interest rates; consumer confidence levels; cyclical nature of the furniture industry; consumer and business spending; changes in relationships with customers; customer acceptance of existing and new products; new home and existing home sales; and other factors that generally affect business.

The Company does not undertake any obligation to update or revise publicly any forward-looking statements to reflect information, events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events or circumstances.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Borrowings under Chromcraft Revington's bank agreement bear interest at a variable rate and, therefore, are subject to changes in interest rates. A one-percentage point fluctuation in market interest rates would not have a material impact on net earnings in 2005.

The Company sources certain raw materials and finished furniture, primarily from China. These purchases are fixed price contracts payable in U.S. dollars and, therefore, the Company has no material foreign exchange rate risk exposure.

Item 4. Controls and Procedures

Chromcraft Revington's acting principal executive officer and principal financial officer has concluded, based upon his evaluation, that the Company's disclosure controls and procedures (as defined in Rule 13a-15 (e) under the Securities Exchange Act of 1934, as amended), were effective as of the end of the period covered by this Form 10-Q.

Chromcraft Revington's management, including its acting principal executive

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officer and principal financial officer, does not expect that the Company's disclosure controls and procedures or its internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control.

There have been no significant changes in Chromcraft Revington's internal control over financial reporting that occurred during the quarter covered by this report that may have materially affected, or are reasonably likely to materially affect, Chromcraft Revington's internal control over financial reporting.

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PART II.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table represents information with respect to shares of Chromcraft Revington common stock repurchased by the Company during the quarter ended April 2, 2005.

Purchase of Equity Securities

| Period | Total number <br> of shares <br> purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs |
| :---: | :---: | :---: | :---: |
| January 1, 2005 to January 29, 2005 January 30, 2005 to February 26, 2005 February 27, 2005 to April 2, 2005 | $\begin{equation*} 65,987 \tag{b} \end{equation*}$ | $\$ 13.093$ | 65,-987 |
| Total | 65,987 | \$ 13.093 | 65,987 |

(a) On February 8, 2005, the Board of Directors authorized the purchase of an additional 500,000 shares of common stock of the Company.
(b) On March 30, 2005, the Company purchased 65,987 shares of Chromcraft Revington common stock from Michael E. Thomas, Chairman, President and Chief Executive Officer for $\$ 863,968$, or $\$ 13.093$ per share. The purchase price was determined based upon an average of the high and low selling

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prices of the Company's common stock during a period of five consecutive trading days as reported on the American Stock Exchange.

Item 6. Exhibits
31.1 Certification of Acting Principal Executive Officer required pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2 Certification of Chief Financial Officer required pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1 Certifications of Acting Principal Executive Officer and Chief Financial Officer required pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

## 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.
(Registrant)

Date: May 9, 2005

By: /s/ Frank T. Kane

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

