

CHICAGO RIVET & MACHINE CO

Form 10-Q

May 09, 2011

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

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 000-01227

Chicago Rivet & Machine Co.

(Exact Name of Registrant as Specified in Its Charter)

Illinois
**(State or Other Jurisdiction
of Incorporation or Organization)**

36-0904920
**(I.R.S. Employer
Identification No.)**

901 Frontenac Road, Naperville, Illinois
(Address of Principal Executive Offices)

60563
(Zip Code)

Registrant's Telephone Number, Including Area Code (630) 357-8500

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) 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 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
(Do not check if a 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

As of March 31, 2011, there were 966,132 shares of the registrant's common stock outstanding.

CHICAGO RIVET & MACHINE CO.
INDEX

	Page
PART I. FINANCIAL INFORMATION (Unaudited)	
<u>Condensed Consolidated Balance Sheets at March 31, 2011 and December 31, 2010</u>	2-3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2011 and 2010</u>	4
<u>Condensed Consolidated Statements of Retained Earnings for the Three Months Ended March 31, 2011 and 2010</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010</u>	6
<u>Notes to the Condensed Consolidated Financial Statements</u>	7-8
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	9-10
<u>Controls and Procedures</u>	11
PART II. <u>OTHER INFORMATION</u>	12-18
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents

Item 1. Financial Statements.

CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Balance Sheets
March 31, 2011 and December 31, 2010

	March 31, 2011 (Unaudited)	December 31, 2010
Assets		
Current Assets:		
Cash and cash equivalents	\$ 591,993	\$ 725,524
Certificates of deposit	5,828,000	6,380,000
Accounts receivable, net of allowance of \$137,000 and \$135,000, respectively	5,052,930	4,017,081
Inventories, net	4,800,527	4,310,154
Deferred income taxes	388,191	394,191
Prepaid income taxes		72,249
Other current assets	322,361	280,768
 Total current assets	 16,984,002	 16,179,967
Property, Plant and Equipment:		
Land and improvements	1,250,875	1,250,875
Buildings and improvements	6,424,597	6,354,014
Production equipment and other	28,238,501	28,019,687
	35,913,973	35,624,576
Less accumulated depreciation	28,374,059	28,145,698
 Net property, plant and equipment	 7,539,914	 7,478,878
 Total assets	 \$ 24,523,916	 \$ 23,658,845

See Notes to the Condensed Consolidated Financial Statements

Table of Contents

CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Balance Sheets
March 31, 2011 and December 31, 2010

	March 31, 2011 (Unaudited)	December 31, 2010
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	\$ 1,561,861	\$ 748,781
Accrued wages and salaries	574,297	405,604
Other accrued expenses	251,016	312,123
Unearned revenue and customer deposits	65,017	84,698
Total current liabilities	2,452,191	1,551,206
Deferred income taxes	708,275	745,275
Total liabilities	3,160,466	2,296,481
Commitments and contingencies (Note 4)		
Shareholders' Equity:		
Preferred stock, no par value, 500,000 shares authorized: none outstanding		
Common stock, \$1.00 par value, 4,000,000 shares authorized: 1,138,096 shares issued; 966,132 shares outstanding	1,138,096	1,138,096
Additional paid-in capital	447,134	447,134
Retained earnings	23,700,318	23,699,232
Treasury stock, 171,964 shares at cost	(3,922,098)	(3,922,098)
Total shareholders' equity	21,363,450	21,362,364
Total liabilities and shareholders' equity	\$ 24,523,916	\$ 23,658,845

See Notes to the Condensed Consolidated Financial Statements

Table of Contents

CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Statements of Operations
For the Three Months Ended March 31, 2011 and 2010
(Unaudited)

	2011	2010
Net sales	\$ 7,814,368	\$ 6,761,393
Cost of goods sold	6,369,860	5,495,530
Gross profit	1,444,508	1,265,863
Selling and administrative expenses	1,283,015	1,233,835
Operating profit	161,493	32,028
Other income:		
Interest income	11,929	13,241
Other income	3,600	3,600
Income before income taxes	177,022	48,869
Provision for income taxes	60,000	15,000
Net income	\$ 117,022	\$ 33,869
Average common shares outstanding	966,132	966,132
Per share data:		
Net income per share	\$ 0.12	\$ 0.04
Cash dividends declared per share	\$ 0.12	\$ 0.10

See Notes to the Condensed Consolidated Financial Statements

Table of Contents

CHICAGO RIVET & MACHINE CO.
 Condensed Consolidated Statements of Retained Earnings
 For the Three Months Ended March 31, 2011 and 2010
 (Unaudited)

	2011	2010
Retained earnings at beginning of period	\$ 23,699,232	\$ 23,498,982
Net income	117,022	33,869
Cash dividends declared in the period; \$.12 per share in 2011 and \$.10 per share in 2010	(115,936)	(96,613)
Retained earnings at end of period	\$ 23,700,318	\$ 23,436,238

See Notes to the Condensed Consolidated Financial Statements

Table of Contents

CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2011 and 2010
(Unaudited)

	2011	2010
Cash flows from operating activities:		
Net income	\$ 117,022	\$ 33,869
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	243,244	245,730
Net gain on disposal of equipment	(1,990)	
Deferred income taxes	(31,000)	(45,000)
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,035,849)	(420,752)
Inventories, net	(490,373)	(614,883)
Other current assets	30,656	6,198
Accounts payable	749,714	354,022
Accrued wages and salaries	168,693	276,436
Other accrued expenses	(61,107)	(17,744)
Unearned revenue and customer deposits	(19,681)	40,457
Net cash used in operating activities	(330,671)	(141,667)
Cash flows from investing activities:		
Capital expenditures	(240,914)	(37,656)
Proceeds from the sale of equipment	1,990	
Proceeds from certificates of deposit	850,000	2,450,000
Purchases of certificates of deposit	(298,000)	(2,200,000)
Net cash provided by investing activities	313,076	212,344
Cash flows from financing activities:		
Cash dividends paid	(115,936)	(96,613)
Net cash used in financing activities	(115,936)	(96,613)
Net decrease in cash and cash equivalents	(133,531)	(25,936)
Cash and cash equivalents at beginning of period	725,524	569,286
Cash and cash equivalents at end of period	\$ 591,993	\$ 543,350
Supplemental schedule of non-cash investing activities:		
Capital expenditures in accounts payable	\$ 63,366	\$
See Notes to the Condensed Consolidated Financial Statements		

Table of Contents

CHICAGO RIVET & MACHINE CO.
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

1. In the opinion of the Company, the accompanying unaudited interim financial statements contain all adjustments necessary to present fairly the financial position of the Company as of March 31, 2011 (unaudited) and December 31, 2010 (audited) and the results of operations and changes in cash flows for the indicated periods. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted from these unaudited financial statements in accordance with applicable rules. Please refer to the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. The results of operations for the three month period ended March 31, 2011 are not necessarily indicative of the results to be expected for the year.

3. The Company extends credit on the basis of terms that are customary within our markets to various companies doing business primarily in the automotive industry. The Company has a concentration of credit risk primarily within the automotive industry and in the Midwestern United States.

4. The Company is, from time to time, involved in litigation, including environmental claims and contract disputes, in the normal course of business. While it is not possible at this time to establish the ultimate amount of liability with respect to contingent liabilities, including those related to legal proceedings, management is of the opinion that the aggregate amount of any such liabilities, for which provision has not been made, will not have a material adverse effect on the Company's financial position.

5. The Company's federal income tax returns for the 2008, 2009 and 2010 tax years are subject to examination by the Internal Revenue Service (IRS). While it may be possible that a reduction could occur with respect to the Company's unrecognized tax benefits as an outcome of an IRS examination, management does not anticipate any adjustments that would result in a material change to the results of operations or financial condition of the Company. No statutes have been extended on any of the Company's federal income tax filings. The statute of limitations on the Company's 2008, 2009 and 2010 federal income tax returns will expire on September 15, 2012, 2013 and 2014, respectively.

The Company's state income tax returns for the 2008 through 2010 tax years remain subject to examination by various state authorities with the latest closing period on October 31, 2014. The Company is not currently under examination by any state authority for income tax purposes and no statutes for state income tax filings have been extended.

6. Inventories are stated at the lower of cost or net realizable value, cost being determined by the first-in, first-out method. A summary of inventories is as follows:

	March 31, 2011	December 31, 2010
Raw material	\$ 1,964,906	\$ 1,821,397
Work-in-process	1,764,275	1,363,637
Finished goods	1,558,946	1,641,720
	5,288,127	4,826,754
Valuation reserves	(487,600)	(516,600)
	\$ 4,800,527	\$ 4,310,154

Table of Contents

CHICAGO RIVET & MACHINE CO.
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

7. Segment Information The Company operates in two business segments as determined by its products. The fastener segment includes rivets, cold-formed fasteners and screw machine products. The assembly equipment segment includes automatic rivet setting machines and parts and tools for such machines. Information by segment is as follows:

	Fastener	Assembly Equipment	Other	Consolidated
Three Months Ended March 31, 2011:				
Net sales	\$ 7,109,655	\$ 704,713		\$ 7,814,368
Depreciation	208,947	15,877	18,420	243,244
Segment profit	564,166	111,755		675,921
Selling and administrative expenses			(510,828)	(510,828)
Interest income			11,929	11,929
Income before income taxes				177,022
Capital expenditures	235,301	31,250	37,729	304,280
Segment assets:				
Accounts receivable, net	4,717,467	335,463		5,052,930
Inventories, net	3,955,201	845,326		4,800,527
Property, plant and equipment, net	5,726,679	1,113,867	699,368	7,539,914
Other assets			7,130,545	7,130,545
				24,523,916
Three Months Ended March 31, 2010:				
Net sales	\$ 6,039,861	\$ 721,532		\$ 6,761,393
Depreciation	215,571	14,199	15,960	245,730
Segment profit	416,620	121,442		538,062
Selling and administrative expenses			(502,434)	(502,434)
Interest income			13,241	13,241
Income before income taxes				48,869
Capital expenditures	37,656			37,656
Segment assets:				
Accounts receivable, net	3,815,927	418,488		4,234,415
Inventories, net	3,331,706	1,037,113		4,368,819

Edgar Filing: CHICAGO RIVET & MACHINE CO - Form 10-Q

Property, plant and equipment, net	5,946,584	986,770	665,047	7,598,401
Other assets			7,975,863	7,975,863
				24,177,498

8. Subsequent Event On April 20, 2011, the Company completed the sale of its Jefferson, Iowa property that had formerly been used in its fastener operations, for a net gain of approximately \$140,000.

8

Table of Contents

CHICAGO RIVET & MACHINE CO.

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

Revenues for the first quarter of 2011 were \$7,814,368, an increase of \$1,052,975, or 15.6%, compared with the \$6,761,393 recorded in last year's first quarter. The increase in sales reflects the continued improvement in our operations, as well as growing confidence in the broader economy. The increase in revenue and continued emphasis on cost control measures have resulted in a net profit of \$117,022, or \$0.12 per share, compared to net income of \$33,869, or \$0.04 per share, in the first quarter of 2010.

Fastener segment revenues were \$7,109,655 in the first quarter of 2011, an increase of \$1,069,794, or 17.7%, from the \$6,039,861 reported in the first quarter of 2010. This marks the sixth consecutive quarter of increased sales for the fastener segment compared with the year earlier quarter. With the majority of such revenues derived from the automotive industry, the segment has benefited from improved domestic demand for autos and trucks during the current year. Raw material costs were higher in the first quarter compared to last year while other variable cost of sales items were little changed as a percentage of net sales due to cost control efforts. Fixed costs, while higher on an absolute dollar basis, accounted for a smaller percentage of net sales due to the higher level of sales achieved in the current year. The combination of higher sales and improved plant utilization offset higher raw material prices, contributing to an increase in segment gross margin of approximately \$193,000.

Assembly equipment segment revenues declined by \$16,819, or 2.3%, from \$721,532 in the first quarter of 2010 to \$704,713 in 2011. Machine shipments showed a slight improvement over the first quarter of 2010, however, tools and machine parts sales declined by a greater amount, resulting in a net decline. Cost of sales components were little changed, individually or by category, from the year earlier period with higher raw material prices accounting for the largest negative component of change. As a result of the net decline in sales and smaller decline in cost of sales, segment margins were \$14,000 lower in the first quarter of 2011 than in 2010.

Selling and administrative expenses during the first quarter of 2011 were \$1,283,015, an increase of \$49,180, or 4%, compared to the first quarter of 2010. The increase is primarily due to a \$20,000 increase in commissions related to higher sales, and a \$15,000 increase in profit sharing expense related to improved operating results. Compared to net sales, selling and administrative expenses for the quarter declined from 18.2% in 2010 to 16.4% in 2011.

Working capital amounted to \$14.5 million as of March 31, 2011, a decline of \$.1 million from the beginning of the current year. The largest component of the net change in the first quarter was accounts receivable, which increased by \$1 million primarily due to the greater sales activity during the quarter, especially in the final month, compared to the fourth quarter of 2010. Largely offsetting this change was an increase of \$.8 million in accounts payable and \$.2 million in accrued salaries and wages since the beginning of the year. These balances are consistent with the level of activity during the quarter. Inventories increased by \$.5 million in the first quarter of 2011 due to increased production activity and higher prices for raw materials. Additionally, cash expenditures for capital items totaled \$.2 million during the first quarter. The net result of these changes and other cash flow items on cash and certificates of deposit was a decrease of \$.7 million, to \$6.4 million, as of March 31, 2011. Management believes that current cash, cash equivalents and operating cash flow will provide adequate working capital for the foreseeable future.

While we are pleased to report solid improvement in sales and profits in the first quarter of 2011, compared with the previous quarter and the first quarter of 2010, we are cautious in our outlook due to factors over which we have little influence, such as higher raw material prices and a sluggish economy. We are also mindful of the potential negative impact that disruptions in the automotive supply chain may have for our automotive customers due to the recent earthquake and related nuclear catastrophe in Japan. Even amidst these uncertainties, our sound financial condition allows us to continue to look for opportunities to profitably grow our revenues and improve our bottom line. We will continue to make adjustments to our activities which we feel are necessary based on conditions in our markets, while maintaining the high level of quality our customers demand.

Table of Contents

This discussion contains certain forward-looking statements which are inherently subject to risks and uncertainties that may cause actual events to differ materially from those discussed herein. Factors which may cause such differences in events include, those disclosed under Risk Factors in our Annual Report on Form 10-K and in the other filings we make with the United States Securities and Exchange Commission. These factors, include among other things: conditions in the domestic automotive industry, upon which we rely for sales revenue, the intense competition in our markets, the concentration of our sales to two major customers, the price and availability of raw materials, labor relations issues, losses related to product liability, warranty and recall claims, costs relating to environmental laws and regulations, the loss of the services of our key employees and difficulties in achieving cost savings. Many of these factors are beyond our ability to control or predict. Readers are cautioned not to place undue reliance on these forward-looking statements. We undertake no obligation to publish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Table of Contents

CHICAGO RIVET & MACHINE CO.

Item 4. Controls and Procedures.

(a) Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and President, Chief Operating Officer and Treasurer (the Company's principal financial officer), has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and President, Chief Operating Officer and Treasurer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

(b) Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 4. Exhibits

- 31 Rule 13a-14(a) or 15d-14(a) Certifications
- 31.1 Certification Pursuant to Rule 13a-14(a) or 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification Pursuant to Rule 13a-14(a) or 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Section 1350 Certifications
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

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

CHICAGO RIVET & MACHINE CO.

(Registrant)

Date: May 9, 2011

/s/ John A. Morrissey
John A. Morrissey
Chairman of the Board of Directors and
Chief Executive Officer
(Principal Executive Officer)

Date: May 9, 2011

/s/ Michael J. Bourg
Michael J. Bourg
President, Chief Operating Officer and
Treasurer
(Principal Financial Officer)

13

Table of Contents

CHICAGO RIVET & MACHINE CO.
EXHIBITS

INDEX TO EXHIBITS

Exhibit Number		Page
31	Rule 13a-14(a) or 15d-14(a) Certifications	
31.1	Certification Pursuant to Rule 13a-14(a) or 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	15
31.2	Certification Pursuant to Rule 13a-14(a) or 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	16
32	Section 1350 Certifications	
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	17
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	18