

CHICAGO RIVET & MACHINE CO

Form 10-Q

May 04, 2012

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, 2012

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)

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

**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)**

**(630) 357-8500**

**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

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  (Do not check if smaller reporting company)

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, 2012, there were 966,132 shares of the registrant's common stock outstanding.

**Table of Contents**

CHICAGO RIVET & MACHINE CO.

INDEX

<u>PART I. FINANCIAL INFORMATION (Unaudited)</u>	Page
<u>Condensed Consolidated Balance Sheets at March 31, 2012 and December 31, 2011</u>	2-3
<u>Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2012 and 2011</u>	4
<u>Condensed Consolidated Statements of Retained Earnings for the Three Months Ended March 31, 2012 and 2011</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2012 and 2011</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
<u>PART II. OTHER INFORMATION</u>	12-18

**Table of Contents**

## Item 1. Financial Statements.

## CHICAGO RIVET &amp; MACHINE CO.

## Condensed Consolidated Balance Sheets

March 31, 2012 and December 31, 2011

	March 31, 2012 (Unaudited)	December 31, 2011
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 199,867	\$ 704,345
Certificates of deposit	5,798,000	5,880,000
Accounts receivable, net of allowance of \$ 140,000	6,210,192	4,398,426
Inventories, net	5,065,446	5,212,040
Deferred income taxes	419,191	420,191
Other current assets	323,309	347,737
<b>Total current assets</b>	<b>18,016,005</b>	<b>16,962,739</b>
<b>Property, Plant and Equipment:</b>		
Land and improvements	1,238,150	1,238,150
Buildings and improvements	6,169,545	6,169,545
Production equipment and other	28,907,266	28,785,896
	36,314,961	36,193,591
Less accumulated depreciation	28,526,667	28,298,066
<b>Net property, plant and equipment</b>	<b>7,788,294</b>	<b>7,895,525</b>
<b>Total assets</b>	<b>\$ 25,804,299</b>	<b>\$ 24,858,264</b>

See Notes to the Condensed Consolidated Financial Statements

**Table of Contents**

## CHICAGO RIVET &amp; MACHINE CO.

## Condensed Consolidated Balance Sheets

March 31, 2012 and December 31, 2011

	March 31, 2012 (Unaudited)	December 31, 2011
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 1,285,172	\$ 968,266
Accrued wages and salaries	653,433	374,964
Other accrued expenses	531,989	453,594
Unearned revenue and customer deposits	90,103	151,652
<b>Total current liabilities</b>	<b>2,560,697</b>	<b>1,948,476</b>
Deferred income taxes	770,275	785,275
<b>Total liabilities</b>	<b>3,330,972</b>	<b>2,733,751</b>
<b>Commitments and contingencies (Note 3)</b>		
<b>Shareholders' Equity:</b>		
Preferred stock, no par value, 500,000 share 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	24,810,195	24,461,381
Treasury stock, 171,964 shares at cost	(3,922,098)	(3,922,098)
<b>Total shareholders' equity</b>	<b>22,473,327</b>	<b>22,124,513</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 25,804,299</b>	<b>\$ 24,858,264</b>

See Notes to the Condensed Consolidated Financial Statements

**Table of Contents**

CHICAGO RIVET & MACHINE CO.

Condensed Consolidated Statements of Income

For the Three Months Ended March 31, 2012 and 2011

(Unaudited)

	2012	2011
Net sales	\$ 9,200,318	\$ 7,814,368
Cost of goods sold	7,122,029	6,369,860
Gross profit	2,078,289	1,444,508
Selling and administrative expenses	1,391,598	1,285,005
Operating profit	686,691	159,503
Other income:		
Interest income	8,852	11,929
Gain from the disposal of equipment	30,000	1,990
Other income	4,191	3,600
Income before income taxes	729,734	177,022
Provision for income taxes	236,000	60,000
Net income	\$ 493,734	\$ 117,022
Average common shares outstanding	966,132	966,132
Per share data:		
Net income per share	\$ 0.51	\$ 0.12
Cash dividends declared per share	\$ 0.15	\$ 0.12

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, 2012 and 2011

(Unaudited)

	2012	2011
Retained earnings at beginning of period	\$ 24,461,381	\$ 23,699,232
Net income	493,734	117,022
Cash dividends declared in the period; \$.15 per share in 2012 and \$.12 per share in 2011	(144,920)	(115,936)
Retained earnings at end of period	\$ 24,810,195	\$ 23,700,318

See Notes to the Condensed Consolidated Financial Statements

**Table of Contents**

## CHICAGO RIVET &amp; MACHINE CO.

## Condensed Consolidated Statements of Cash Flows

For the Three Months Ended March 31, 2012 and 2011

(Unaudited)

	2012	2011
Cash flows from operating activities:		
Net income	\$ 493,734	\$ 117,022
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	243,996	243,244
Net gain on disposal of property and equipment	(30,000)	(1,990)
Deferred income taxes	(14,000)	(31,000)
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,811,766)	(1,035,849)
Inventories, net	146,594	(490,373)
Other current assets	24,428	30,656
Accounts payable	282,297	749,714
Accrued wages and salaries	278,469	168,693
Other accrued expenses	78,395	(61,107)
Unearned revenue and customer deposits	(61,549)	(19,681)
Net cash used in operating activities	(369,402)	(330,671)
Cash flows from investing activities:		
Capital expenditures	(102,156)	(240,914)
Proceeds from the sale of property and equipment	30,000	1,990
Proceeds from certificates of deposit	1,147,000	850,000
Purchases of certificates of deposit	(1,065,000)	(298,000)
Net cash provided by investing activities	9,844	313,076
Cash flows from financing activities:		
Cash dividends paid	(144,920)	(115,936)
Net cash used in financing activities	(144,920)	(115,936)
Net decrease in cash and cash equivalents	(504,478)	(133,531)
Cash and cash equivalents at beginning of period	704,345	725,524
Cash and cash equivalents at end of period	\$ 199,867	\$ 591,993
Supplemental schedule of non-cash investing activities:		
Capital expenditures in accounts payable	\$ 34,609	\$ 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, 2012 (unaudited) and December 31, 2011 (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, 2011.

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. The results of operations for the three month period ended March 31, 2012 are not necessarily indicative of the results to be expected for the year.

Certain items in 2011 have been reclassified to conform to the presentation in 2012. These changes have no effect on the results of operations or the financial position of the Company.

2. 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.

3. 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.

4. The Company's effective tax rates were approximately 32.3% and 33.9% for the first quarter of 2012 and 2011, respectively. Rates were lower than the U.S. federal statutory rate primarily due to the Domestic Production Activities Deduction allowed under Internal Revenue Code Section 199.

The Company's federal income tax returns for the 2009, 2010 and 2011 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 2009, 2010 and 2011 federal income tax returns will expire on September 15, 2013, 2014 and 2015, respectively.

The Company's state income tax returns for the 2009 through 2011 tax years remain subject to examination by various state authorities with the latest closing period on October 31, 2015. 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.

5. 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, 2012	December 31, 2011
Raw material	\$ 1,796,802	\$ 2,016,032
Work-in-process	2,106,113	1,984,368
Finished goods	1,723,031	1,760,640
	5,625,946	5,761,040

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

Valuation reserves	(560,500)	(549,000)
	\$ 5,065,446	\$ 5,212,040

**Table of Contents**

## CHICAGO RIVET &amp; MACHINE CO.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

6. 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
<b>Three Months Ended March 31, 2012:</b>				
Net sales	\$ 8,334,120	\$ 866,198	\$	\$ 9,200,318
Depreciation	211,914	14,125	17,957	243,996
Segment profit	1,050,436	201,332		1,251,768
Selling and administrative expenses			(530,886)	(530,886)
Interest income			8,852	8,852
Income before income taxes				729,734
Capital expenditures	136,765			136,765
<b>Segment assets:</b>				
Accounts receivable, net	5,806,019	404,173		6,210,192
Inventories, net	4,306,404	759,042		5,065,446
Property, plant and equipment, net	6,078,245	1,083,189	626,860	7,788,294
Other assets			6,740,367	6,740,367
				25,804,299
<b>Three Months Ended March 31, 2011:</b>				
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
<b>Segment assets:</b>				
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



**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 2012 were \$9,200,318, an increase of \$1,385,950, or 17.7%, compared with \$7,814,368 recorded in last year's first quarter. The increase in sales reflects the continued improvement in our operations, as well as an increase in U.S. automotive production, upon which we rely for the majority of our revenue. The increase in revenue and continued emphasis on cost control measures have resulted in net income of \$493,734, or \$0.51 per share, in the first quarter of 2012 compared to net income of \$117,022, or \$0.12 per share, in the first quarter of 2011.

Fastener segment revenues were \$8,334,120 in the first quarter of 2012, an increase of \$1,224,465, or 17.2%, from the \$7,109,655 reported in the first quarter of 2011. This marks the tenth 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 benefited from better-than-expected domestic demand for autos and trucks during the current year. Part of the improved demand is attributable to a relatively mild winter in many parts of the country, which may have accelerated some purchasing decisions. Raw material costs were higher in the first quarter compared to last year, with the average price for steel, our primary raw material, increasing 4.4% compared to the first quarter of 2011. Other variable cost of sales items were little changed overall 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 \$546,000.

Assembly equipment segment revenues increased by \$161,485, or 22.9%, from \$704,713 in the first quarter of 2011 to \$866,198 in 2012. A greater number of machines shipped in the current year quarter compared with the first quarter of 2011, accounting for the majority of the sales increase, however, tools and machine parts sales also registered gains. Although materials prices were up from a year earlier, by keeping employment levels relatively unchanged, the increase in sales resulted in an improvement of assembly equipment segment margins of approximately \$88,000 over the first quarter of 2011.

Selling and administrative expenses during the first quarter of 2012 were \$1,391,598, an increase of \$106,593, compared to the first quarter of 2011. The change is primarily due to a \$44,000 increase in profit sharing expense, related to improved operating results, and a \$30,000 increase in office supplies and maintenance expense, principally related to computer system upgrades. The remaining net increase in the quarter comprises various smaller items. Compared to net sales, selling and administrative expenses for the first quarter declined from 16.4% in 2011 to 15.1% in 2012.

Working capital amounted to \$15.5 million as of March 31, 2012, an increase of approximately \$.5 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 \$1.8 million due to the greater sales activity during the quarter, compared to the fourth quarter of 2011. Partially offsetting this change was an increase of \$.6 million in accounts payable and accrued expenses since the beginning of the year. These balances are consistent with the level of activity during the quarter. The net result of these changes and other cash flow items on cash and certificates of deposit was a decrease of \$.6 million, to \$6 million, as of March 31, 2012. Management believes that current cash, cash equivalents and operating cash flow will provide adequate working capital for the foreseeable future.

We are pleased to report solid improvement in sales and profits in the first quarter of 2012, compared with the previous quarter and the first quarter of 2011. However, our outlook is tempered due to conditions over which we have little control, including a persistently low growth rate in the domestic economy, for which current forecasts offer little hope for significant improvement in the near-term, and threats to the automotive supply chain that could interrupt the strong demand we have experienced early this year. A recent explosion at a manufacturing facility in Germany that makes a resin used in several safety-critical components, while not having a direct impact on our production capability, was initially thought to be serious enough to disrupt domestic vehicle production due to its limited availability. While not as dramatic as last year's earthquake in Japan, these occurrences highlight the interconnected nature of the global automotive supply chain. Amidst these concerns, we have been able to maintain our sound financial condition while pursuing 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 and reliability of service our customers demand.

*This discussion contains certain forward-looking statements which are inherently subject to risks and uncertainties that may cause actual events to differ materially from*



**Table of Contents**

*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.
- 101 Interactive Data File. Includes the following financial and related information from Chicago Rivet & Machine Co.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 formatted in Extensible Business Reporting Language (XBRL): (1) Condensed Consolidated Balance sheets, (2) Condensed Consolidated Statements of Income, (3) Condensed Consolidated Statements of Retained Earnings, (4) Condensed Consolidated Statements of Cash Flows, and (5) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.\*

\* Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

**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 4, 2012

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

(Principal Executive Officer)

Date: May 4, 2012

/s/ Michael J. Bourg  
Michael J. Bourg  
President, Chief Operating  
Officer and Treasurer

(Principal Financial Officer)

**Table of Contents**

CHICAGO RIVET & MACHINE CO.

EXHIBITS

INDEX TO EXHIBITS

Exhibit		Page
Number		
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
101	Interactive Data File. Includes the following financial and related information from Chicago Rivet & Machine Co. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 formatted in Extensible Business Reporting Language (XBRL): (1) Condensed Consolidated Balance sheets, (2) Condensed Consolidated Statements of Income, (3) Condensed Consolidated Statements of Retained Earnings, (4) Condensed Consolidated Statements of Cash Flows, and (5) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.*	

\* Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.