

CHICAGO RIVET & MACHINE CO

Form 10-Q

August 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 June 30, 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 June 30, 2011, there were 966,132 shares of the registrant's common stock outstanding.

CHICAGO RIVET & MACHINE CO.
INDEX

	Page
<u>PART I. FINANCIAL INFORMATION (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets at June 30, 2011 and December 31, 2010</u>	2-3
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2011 and 2010</u>	4
<u>Condensed Consolidated Statements of Retained Earnings for the Six Months Ended June 30, 2011 and 2010</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2011 and 2010</u>	6
<u>Notes to the Condensed Consolidated Financial Statements</u>	7-9
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10-11
<u>Controls and Procedures</u>	12
<u>PART II. OTHER INFORMATION</u>	13-19
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

Table of Contents

Item 1. Financial Statements.

CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Balance Sheets
June 30, 2011 and December 31, 2010

	June 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,265,387	\$ 725,524
Certificates of deposit	5,220,000	6,380,000
Accounts receivable, net of allowance of \$135,000	5,046,474	4,017,081
Inventories, net	4,895,737	4,310,154
Deferred income taxes	388,191	394,191
Prepaid income taxes		72,249
Other current assets	291,186	280,768
 Total current assets	 17,106,975	 16,179,967
Property, Plant and Equipment:		
Land and improvements	1,238,150	1,250,875
Buildings and improvements	6,021,895	6,354,014
Production equipment and other	28,110,112	28,019,687
	35,370,157	35,624,576
Less accumulated depreciation	27,865,877	28,145,698
 Net property, plant and equipment	 7,504,280	 7,478,878
 Total assets	 \$ 24,611,255	 \$ 23,658,845

See Notes to the Condensed Consolidated Financial Statements

Table of Contents

CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Balance Sheets
June 30, 2011 and December 31, 2010

	June 30, 2011 (Unaudited)	December 31, 2010
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	\$ 1,008,502	\$ 748,781
Accrued wages and salaries	619,181	405,604
Other accrued expenses	368,520	312,123
Unearned revenue and customer deposits	94,742	84,698
Total current liabilities	2,090,945	1,551,206
Deferred income taxes	685,275	745,275
Total liabilities	2,776,220	2,296,481
Commitments and contingencies (Note 3)		
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	24,171,903	23,699,232
Treasury stock, 171,964 shares at cost	(3,922,098)	(3,922,098)
Total shareholders' equity	21,835,035	21,362,364
Total liabilities and shareholders' equity	\$ 24,611,255	\$ 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 and Six Months Ended June 30, 2011 and 2010
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net sales	\$ 8,134,104	\$ 7,938,533	\$ 15,948,472	\$ 14,699,926
Cost of goods sold	6,205,420	6,028,069	12,575,280	11,523,599
Gross profit	1,928,684	1,910,464	3,373,192	3,176,327
Selling and administrative expenses	1,258,503	1,322,201	2,543,508	2,556,036
Operating profit	670,181	588,263	829,684	620,291
Other income and expenses:				
Interest income	11,089	13,119	23,018	26,360
Gain from disposal of property and equipment	187,073	6,500	189,063	6,500
Other income	4,178	4,178	7,778	7,778
Income before provision for income taxes	872,521	612,060	1,049,543	660,929
Provision for income taxes	285,000	192,000	345,000	207,000
Net income	\$ 587,521	\$ 420,060	\$ 704,543	\$ 453,929
Average common shares outstanding	966,132	966,132	966,132	966,132
Per share data:				
Net income per share	\$ 0.61	\$ 0.43	\$ 0.73	\$ 0.47
Cash dividends declared per share	\$ 0.12	\$ 0.10	\$ 0.24	\$ 0.20

See Notes to the Condensed Consolidated Financial Statements

Table of Contents

CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Statements of Retained Earnings
For the Six Months Ended June 30, 2011 and 2010
(Unaudited)

	2011	2010
Retained earnings at beginning of period	\$ 23,699,232	\$ 23,498,982
Net income for the period	704,543	453,929
Cash dividends declared in the period; \$.24 per share in 2011 and \$.20 per share in 2010	(231,872)	(193,227)
Retained earnings at end of period	\$ 24,171,903	\$ 23,759,684

See Notes to the Condensed Consolidated Financial Statements

5

Table of Contents

CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2011 and 2010
(Unaudited)

	2011	2010
Cash flows from operating activities:		
Net income	\$ 704,543	\$ 453,929
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	481,542	491,820
Net gain on disposal of property and equipment	(189,063)	(6,500)
Deferred income taxes	(54,000)	(46,000)
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,029,393)	(942,981)
Inventories, net	(585,583)	(308,607)
Other current assets	61,831	55,848
Accounts payable	193,225	163,667
Accrued wages and salaries	213,577	411,085
Other accrued expenses	56,397	41,200
Unearned revenue and customer deposits	10,044	30,143
Net cash (used in) provided by operating activities	(136,880)	343,604
Cash flows from investing activities:		
Capital expenditures	(663,775)	(151,000)
Proceeds from the sale of property and equipment	412,390	6,500
Proceeds from certificates of deposit	2,155,000	4,700,000
Purchases of certificates of deposit	(995,000)	(4,496,000)
Net cash provided by investing activities	908,615	59,500
Cash flows from financing activities:		
Cash dividends paid	(231,872)	(193,227)
Net cash used in financing activities	(231,872)	(193,227)
Net increase in cash and cash equivalents	539,863	209,877
Cash and cash equivalents at beginning of period	725,524	569,286
Cash and cash equivalents at end of period	\$ 1,265,387	\$ 779,163
Supplemental schedule of non-cash investing activities:		
Capital expenditures in accounts payable	\$ 66,496	\$
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 June 30, 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. The results of operations for the three and six-month period ending June 30, 2011 are not necessarily indicative of the results to be expected for the year.

Certain items in 2010 have been reclassified to conform to the presentation in 2011. 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 32.7% and 31.4% for the second quarter of 2011 and 2010, respectively, and 32.9% and 31.3% for the six months ended June 30, 2011 and 2010, 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 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.

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:

	June 30, 2011	December 31, 2010
Raw material	\$ 2,126,811	\$ 1,821,397
Work-in-process	1,700,638	1,363,637
Finished goods	1,585,493	1,641,720
	5,412,942	4,826,754

Valuation reserves	(517,205)	(516,600)
	\$ 4,895,737	\$ 4,310,154

Table of Contents

CHICAGO RIVET & 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
Three Months Ended June 30, 2011:				
Net sales	\$ 7,307,006	\$ 827,098		\$ 8,134,104
Depreciation	204,001	15,877	18,420	238,298
Segment profit	953,663	201,022		1,154,685
Selling and administrative expenses			(293,253)	(293,253)
Interest income			11,089	11,089
Income before income taxes				872,521
Capital expenditures	395,976	30,015		425,991
Segment assets:				
Accounts receivable, net	4,629,002	417,472		5,046,474
Inventories	4,063,062	832,675		4,895,737
Property, plant and equipment, net	5,695,327	1,128,005	680,948	7,504,280
Other assets			7,164,764	7,164,764
				24,611,255
Three Months Ended June 30, 2010:				
Net sales	\$ 6,966,882	\$ 971,651		\$ 7,938,533
Depreciation	215,931	14,199	15,960	246,090
Segment profit	846,861	294,754		1,141,615
Selling and administrative expenses			(542,674)	(542,674)
Interest income			13,119	13,119
Income before income taxes				612,060
Capital expenditures	113,344			113,344
Segment assets:				
Accounts receivable, net	4,340,252	416,392		4,756,644
Inventories	3,053,643	1,008,900		4,062,543

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

Property, plant and equipment, net	5,823,374	972,571	669,710	7,465,655
Other assets			8,206,026	8,206,026
				24,490,868

Table of Contents

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

	Fastener	Assembly Equipment	Other	Consolidated
Six Months Ended June 30, 2011:				
Net sales	\$ 14,416,661	\$ 1,531,811		\$ 15,948,472
Depreciation	412,948	31,754	36,840	481,542
Segment profit	1,517,829	312,777		1,830,606
Selling and administrative expenses			(804,081)	(804,081)
Interest income			23,018	23,018
Income before income taxes				1,049,543
Capital expenditures	631,277	61,265	37,729	730,271
Six Months Ended June 30, 2010:				
Net sales	\$ 13,006,743	\$ 1,693,183		\$ 14,699,926
Depreciation	431,502	28,398	31,920	491,820
Segment profit	1,263,481	416,196		1,679,677
Selling and administrative expenses			(1,045,108)	(1,045,108)
Interest income			26,360	26,360
Income before income taxes				660,929
Capital expenditures	151,000			151,000

Table of Contents

CHICAGO RIVET & MACHINE CO.

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

Results for the second quarter of 2011, as well as those of the current year to date, reflect a continuation of the improved results we have reported in recent quarters. Net sales for the second quarter this year totaled \$8,134,104, an increase of \$195,571, or 2.5%, compared with the year earlier quarter. As of June 30, 2011, year to date sales totaled \$15,948,472, an improvement of \$1,248,546, or 8.5%, compared with the first half of 2010. The increase in revenue, and the sale of certain property and equipment, helped to improve net income for the second quarter to \$587,521, or \$0.61 per share, compared with \$420,060, or \$0.43 per share, in the second quarter of 2010. Net income for the first half of 2011 was \$704,543, or \$0.73 per share, compared with \$453,929, or \$0.47 per share, reported in 2010.

During the second quarter, fastener segment revenues improved to \$7,307,006, or 4.9%, from the \$6,966,882 reported in the second quarter of 2010. This marks the seventh consecutive quarter of increased sales for the fastener segment compared with the year earlier quarter and is 2.8% greater than the first quarter of 2011. With the majority of such revenues derived from the automotive industry, sales during the quarter were dampened by U.S. automotive production cuts brought on by supply chain disruptions related to the March earthquake in Japan. For the first six months of the year, fastener segment revenues were \$14,416,661, an increase of \$1,409,918, or 10.8%, compared to the first half of 2010. Higher sales and continued cost control efforts contributed to improved fastener segment margins for the quarter and year to date periods. However, higher raw material prices in the current year have resulted in margin percentages that were only fractionally improved from a year earlier. During the second quarter, the average price of steel, our primary raw material, increased 5.2% compared to the same period last year, and for the first half of 2011 steel prices increased 8.7%. As a net result, second quarter gross margins were \$1,640,684 compared with \$1,523,370 in 2010, while gross margins for the first half of the year improved to \$2,887,645, from \$2,577,614 a year earlier.

Revenues within the assembly equipment segment were \$827,098 in the second quarter of 2011, a decline of \$144,553, or 14.9%, compared to the second quarter of 2010, when revenues were \$971,651. The decline is primarily due to the inclusion of a large replacement parts order in the second quarter of 2010 and the lack of any high-dollar specialty machines in the current year quarter. However, the number of machines shipped in the second quarter this year exceeded last year, and segment sales for the second quarter improved \$122,385, or 17.4%, over the first quarter of this year. Year to date revenues of \$1,531,811 represents a decline of \$161,372, or 9.5%, compared to the \$1,693,183 reported in the first half of 2010. The factors affecting the second quarter sales were largely responsible for the year to date declines. While we were able to reduce manufacturing costs below year earlier levels, the decline in revenues resulted in a reduction in second quarter and year to date assembly equipment gross margins of \$99,094 and \$113,166, respectively, compared to the year earlier periods.

Selling and administrative expenses for the second quarter of 2011 were \$1,258,503, a decline of \$63,698 compared with the year earlier quarter, reversing a net increase in the first quarter. The reduction was primarily due to payroll related savings of \$66,000 from head count reductions in the prior year, a \$28,000 reduction in professional fees and lower bad debt reserve of \$15,000. Offsetting these savings were increases in profit sharing of \$40,000, related to improved profitability, and \$8,000 in commissions for higher sales. For the first six months of the year, selling and administrative expenses have declined \$12,528, from \$2,556,036 in 2010 to \$2,543,508 in 2011. While payroll related expenses are down \$66,000 and professional fees are lower by \$32,000 for the first six months of the year, commissions have increased approximately \$29,000 due to improved sales, and profit sharing expense has increased by \$55,000 due to improved profitability, compared to the first six months of 2010. Selling and administrative expenses as a percentage of net sales for the first half of 2011 declined to 15.9%, from 17.4% in 2010.

&