

CHICAGO RIVET & MACHINE CO

Form 10-Q

May 06, 2015

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, 2015

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	36-0904920 (I.R.S. Employer
Incorporation or Organization)	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

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

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 April 30, 2015, there were 966,132 shares of the registrant's common stock outstanding.

Table of Contents

CHICAGO RIVET & MACHINE CO.

INDEX

	Page
PART I. FINANCIAL INFORMATION (Unaudited)	
<u>Condensed Consolidated Balance Sheets at March 31, 2015 and December 31, 2014</u>	2-3
<u>Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2015 and 2014</u>	4
<u>Condensed Consolidated Statements of Retained Earnings for the Three Months Ended March 31, 2015 and 2014</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014</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
PART II. <u>OTHER INFORMATION</u>	13-19

Table of Contents

Item 1. Financial Statements.

CHICAGO RIVET & MACHINE CO.

Condensed Consolidated Balance Sheets

March 31, 2015 and December 31, 2014

	March 31, 2015 (Unaudited)	December 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	\$ 457,693	\$ 231,252
Certificates of deposit	5,809,000	6,058,000
Accounts receivable, net of allowance of \$150,000	6,267,309	5,669,654
Inventories, net	5,035,548	5,162,474
Deferred income taxes	448,191	446,191
Prepaid Income Taxes		173,656
Other current assets	424,084	348,413
Total current assets	18,441,825	18,089,640
Property, Plant and Equipment:		
Land and improvements	1,270,242	1,270,242
Buildings and improvements	6,498,846	6,494,896
Production equipment and other	33,579,689	33,190,789
	41,348,777	40,955,927
Less accumulated depreciation	30,370,831	30,077,932
Net property, plant and equipment	10,977,946	10,877,995
Total assets	\$ 29,419,771	\$ 28,967,635

See Notes to the Condensed Consolidated Financial Statements

Table of Contents

CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Balance Sheets
March 31, 2015 and December 31, 2014

	March 31, 2015 (Unaudited)	December 31, 2014
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	\$ 1,282,362	\$ 923,819
Accrued wages and salaries	801,408	605,029
Other accrued expenses	278,049	520,723
Unearned revenue and customer deposits	184,718	69,866
Total current liabilities	2,546,537	2,119,437
Deferred income taxes	1,085,275	1,107,275
Total liabilities	3,631,812	3,226,712
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	28,124,827	28,077,791
Treasury stock, 171,964 shares at cost	(3,922,098)	(3,922,098)
Total shareholders equity	25,787,959	25,740,923
Total liabilities and shareholders equity	\$ 29,419,771	\$ 28,967,635

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, 2015 and 2014

(Unaudited)

	2015	2014
Net sales	\$ 9,283,791	\$ 9,950,424
Cost of goods sold	7,189,926	7,688,116
Gross profit	2,093,865	2,262,308
Selling and administrative expenses	1,425,825	1,414,052
Operating profit	668,040	848,256
Other income	10,433	10,117
Income before income taxes	678,473	858,373
Provision for income taxes	216,000	290,000
Net income	\$ 462,473	\$ 568,373
Per share data, basic and diluted:		
Net income per share	\$ 0.48	\$ 0.59
Average common shares outstanding	966,132	966,132
Cash dividends declared per share	\$ 0.43	\$ 0.58

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, 2015 and 2014

(Unaudited)

	2015	2014
Retained earnings at beginning of period	\$ 28,077,791	\$ 27,207,970
Net income	462,473	568,373
Cash dividends declared in the period; \$.43 per share in 2015 and \$.58 per share in 2014	(415,437)	(560,357)
Retained earnings at end of period	\$ 28,124,827	\$ 27,215,986

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, 2015 and 2014

(Unaudited)

	2015	2014
Cash flows from operating activities:		
Net income	\$ 462,473	\$ 568,373
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	312,645	305,326
(Gain) loss on disposal of equipment	1,088	(17,000)
Deferred income taxes	(24,000)	7,000
Changes in operating assets and liabilities:		
Accounts receivable	(597,655)	(947,840)
Inventories	126,926	(272,644)
Other current assets	97,985	(23,971)
Accounts payable	316,075	855,106
Accrued wages and salaries	196,379	220,394
Other accrued expenses	(242,674)	(16,974)
Unearned revenue and customer deposits	114,852	(50,360)
Net cash provided by operating activities	764,094	627,410
Cash flows from investing activities:		
Capital expenditures	(371,216)	(537,588)
Proceeds from the sale of equipment		17,000
Proceeds from certificates of deposit	1,843,000	1,245,000
Purchases of certificates of deposit	(1,594,000)	(498,000)
Net cash provided by (used in) investing activities	(122,216)	226,412
Cash flows from financing activities:		
Cash dividends paid	(415,437)	(560,357)
Net cash used in financing activities	(415,437)	(560,357)
Net increase in cash and cash equivalents	226,441	293,465
Cash and cash equivalents at beginning of period	231,252	443,608
Cash and cash equivalents at end of period	\$ 457,693	\$ 737,073
Supplemental schedule of non-cash investing activities:		
Capital expenditures in accounts payable	\$ 42,468	\$ 13,030

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, 2015 (unaudited) and December 31, 2014 (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, 2014.

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, 2015 are not necessarily indicative of the results to be expected for the year.

Certain items in 2014 have been reclassified to conform to the presentation in 2015. These changes have no effect on net income 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 has entered into a contract to expand the fastener facility in Madison Heights, Michigan in order to provide additional capacity and improve workflow through the plant. The base contract amount is \$1,502,500 and is expected to be completed before the end of 2015.

5. The Company's effective tax rates were approximately 31.8% and 33.8% for the first quarter of 2015 and 2014, 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 2011 through 2014 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 2011 through 2014 federal income tax returns will expire on September 15, 2015 through 2018, respectively.

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

The Company's state income tax returns for the 2011 through 2014 tax years remain subject to examination by various state authorities with the latest closing period on October 31, 2018. 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.

Table of Contents

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, 2015	December 31, 2014
Raw material	\$ 1,904,715	\$ 2,154,572
Work-in-process	1,803,623	1,664,899
Finished goods	1,945,210	1,961,003
Inventory, gross	5,653,548	5,780,474
Valuation reserves	618,000	618,000
Inventory, net	\$ 5,035,548	\$ 5,162,474

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, 2015:				
Net sales	\$ 8,400,497	\$ 883,294	\$	\$ 9,283,791
Depreciation	273,752	20,097	18,796	312,645
Segment operating profit	1,018,047	244,589		1,262,636
Selling and administrative expenses			(590,996)	(590,996)
Interest income			6,833	6,833
Income before income taxes				\$ 678,473
Capital expenditures	350,817	54,775	8,092	413,684
Segment assets:				
Accounts receivable, net	5,815,951	451,358		6,267,309
Inventories, net	4,187,776	847,772		5,035,548
Property, plant and equipment, net	9,344,594	1,147,395	485,957	10,977,946
Other assets			7,138,968	7,138,968
				\$ 29,419,771
Three Months Ended March 31, 2014:				
Net sales	\$ 9,087,735	\$ 862,689	\$	\$ 9,950,424
Depreciation	271,198	16,066	18,062	305,326
Segment operating profit	1,178,991	231,039		1,410,030
Selling and administrative expenses			(558,174)	(558,174)
Interest income			6,517	6,517
Income before income taxes				\$ 858,373
Capital expenditures	550,618			550,618
Segment assets:				

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

Accounts receivable, net	6,036,691	421,919		6,458,610
Inventories, net	4,349,163	804,269		5,153,432
Property, plant and equipment, net	9,006,961	1,121,067	526,384	10,654,412
Other assets			6,940,104	6,940,104
				\$ 29,206,558

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 2015 were \$9,283,791 compared to \$9,950,424 in the first quarter of 2014, a decline of \$666,633, or 6.7%. The reduction in sales was primarily related to weaker demand from certain automotive customers and lower export sales. While sales were lower, certain manufacturing expenses also declined, resulting in an overall gross margin rate that was only fractionally lower than in the first quarter of 2014. Net income was \$462,473, or \$0.48 per share, in the first quarter of this year compared to \$568,373, or \$0.59 per share, in the first quarter of 2014. In addition to a regular quarterly dividend of \$.18 per share, an extra dividend of \$.25 per share was paid in the first quarter based on the positive results achieved in 2014.

Fastener segment revenues were \$8,400,497 in the first quarter of 2015, declining \$687,238, or 7.6%, from \$9,087,735 reported in the first quarter of 2014. The decline was primarily due to reduced demand from certain automotive customers, including a \$269,000 drop in shipments to a customer with a production facility in China. North American vehicle production declined in the first two months of the year, compared to a year earlier, before rebounding in March. Additionally, even though our export sales account for less than 10% of overall sales, certain foreign markets have exhibited weakness recently. The impact of the lower sales was lessened due to a \$123,000 reduction in tooling expense and a \$68,000 reduction in natural gas expense from the elevated levels of 2014, as well as lower expenditures for supplies and maintenance. The net effect of these cost savings and the lower sales volume resulted in a decrease in fastener segment gross margin of approximately \$178,000.

Assembly equipment segment revenues were \$883,294 in the first quarter of 2015 compared to \$862,689 in the first quarter of 2014, an increase of \$20,605, or 2.4%. The increase in revenue was primarily due to an increase in parts and tool sales as fewer machines were shipped in the current year quarter compared to last year. The increase in sales during the quarter, while keeping manufacturing costs comparable to the same period last year, resulted in an improvement in segment margins of approximately \$10,000 in the first quarter of 2015. As of March 31, 2015, machine orders trail the level of a year earlier.

Selling and administrative expenses during the first quarter of 2015 were \$1,425,825, an increase of \$11,773, or less than 1%, compared to \$1,414,052 recorded in the first quarter of 2014. While profit sharing expense declined in the first quarter by \$20,000, due to lower profitability, smaller increases in annual reporting expenses, repairs and maintenance and employee insurance contributed to the overall increase. Compared to net sales, selling and administrative expenses were 15.4% for the current year quarter compared to 14.2% in the first quarter of 2014.

Other income in the first quarter of 2015 was \$10,433, compared to \$10,117 in the first quarter of 2014. Other income consists primarily of interest income on certificates of deposit.

The Company's effective tax rates were approximately 31.8% and 33.8% for the first quarter of 2015 and 2014, 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.

Working capital amounted to \$15.9 million as of March 31, 2015, a decrease of approximately \$.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 \$.6 million due to greater sales activity during the quarter, compared to the seasonally lower fourth quarter of 2014. Partially offsetting this change was an increase of \$.4 million in accounts payable, which relates to the greater level of activity in the quarter, and a reduction in prepaid income taxes of \$.2 million since the

beginning of the year. The net result of these changes and other cash flow items was to leave cash, cash equivalents and certificates of deposit relatively unchanged at March 31, 2015 from the beginning of the year at \$6.3 million. Management believes that current cash, cash equivalents and operating cash flow will provide adequate working capital for the next twelve months.

We are pleased to report very respectable results for the first quarter of 2015, in spite of uneven demand in certain markets. We have adjusted our work schedules in response to reduced customer demand and will continue to emphasize cost controls wherever possible. Conditions in the automotive market, upon which we rely for the majority of our revenues, remain favorable, even though the current year growth rate is expected to be lower than in recent years. The slowing of the domestic economy experienced in late 2014 and early 2015 is currently expected to improve in coming quarters. We have seen a firming of fastener segment demand early in the second quarter, however equipment segment demand has been mixed, with increased tools and parts orders being somewhat offset by lower machine orders. Our financial condition remains sound, allowing us to make significant investments in our operations in recent years in an

Table of Contents

effort to remain competitive and pursue 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 an emphasis on 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 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, risks related to export sales, 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 6. 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, 2015 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.

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 6, 2015

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

Date: May 6, 2015

/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 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	16
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	17
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	18
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	19
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, 2015 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.	