CHICAGO RIVET & MACHINE CO
Form 10-Q
November 07, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

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)**

(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 x 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 x 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 x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of November 3, 2014, there were 966,132 shares of the registrant s common stock outstanding.

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CHICAGO RIVET & MACHINE CO.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

CHICAGO RIVET & MACHINE CO.

Condensed Consolidated Balance Sheets

September 30, 2014 and December 31, 2013

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current Assets:		
Cash and cash equivalents	$ 851,331	$ 443,608
Certificates of deposit	5,809,000	6,207,348
Accounts receivable, net of allowance of $150,000	5,961,305	5,510,770
Inventories, net	5,282,751	4,880,788
Deferred income taxes	448,191	410,191
Other current assets	435,467	295,521
Total current assets	18,788,045	17,748,226
Property, Plant and Equipment:		
Land and improvements	1,246,920	1,238,150
Buildings and improvements	6,462,384	6,438,022
Production equipment and other	32,941,122	31,806,103
	40,650,426	39,482,275
Less accumulated depreciation	29,825,757	29,073,155
Net property, plant and equipment	10,824,669	10,409,120
Total assets	$ 29,612,714	$ 28,157,346

See Notes to the Condensed Consolidated Financial Statements

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CHICAGO RIVET & MACHINE CO.

Condensed Consolidated Balance Sheets

September 30, 2014 and December 31, 2013

	September 30, 2014 (Unaudited)	December 31, 2013
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	$ 1,295,116	$ 924,943
Accrued wages and salaries	1,022,952	560,114
Other accrued expenses	553,281	609,846
Unearned revenue and customer deposits	90,968	126,066
Total current liabilities	2,962,317	2,220,969
Deferred income taxes	1,009,275	1,065,275
Total liabilities	3,971,592	3,286,244
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	27,977,990	27,207,970
Treasury stock, 171,964 shares at cost	(3,922,098)	(3,922,098)
Total shareholders equity	25,641,122	24,871,102
Total liabilities and shareholders equity	$ 29,612,714	$ 28,157,346

See Notes to the Condensed Consolidated Financial Statements

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CHICAGO RIVET & MACHINE CO.

Condensed Consolidated Statements of Income

For the Three and Nine Months Ended September 30, 2014 and 2013

(Unaudited)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net sales	$ 8,995,825	$ 9,461,778	$ 28,446,927	$ 27,915,157
Cost of goods sold	6,909,045	6,931,307	21,876,032	21,161,859
Gross profit	2,086,780	2,530,471	6,570,895	6,753,298
Selling and administrative expenses	1,326,911	1,391,902	4,120,849	4,072,643
Operating profit	759,869	1,138,569	2,450,046	2,680,655
Other income:				
Interest income	6,375	7,801	19,237	23,286
Gain (loss) from disposal of equipment	(1,087)	74,235	17,613	116,721
Other income	3,600	3,600	11,288	11,288
Income before income taxes	768,757	1,224,205	2,498,184	2,831,950
Provision for income taxes	228,000	404,000	820,000	920,000
Net income	$ 540,757	$ 820,205	$ 1,678,184	$ 1,911,950
Per share data, basic and diluted:				
Net income per share	$ 0.56	$ 0.85	$ 1.74	$ 1.98
Average common shares outstanding	966,132	966,132	966,132	966,132
Cash dividends declared per share	$ 0.18	$ 0.15	$ 0.94	$ 0.45

See Notes to the Condensed Consolidated Financial Statements

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CHICAGO RIVET & MACHINE CO.

Condensed Consolidated Statements of Retained Earnings

For the Nine Months Ended September 30, 2014 and 2013

(Unaudited)

	2014	2013
Retained earnings at beginning of period	$ 27,207,970	$ 25,337,604
Net income for the period	1,678,184	1,911,950
Cash dividends declared in the period; $.94 per share in 2014 and $.45 per share in 2013	(908,164)	(434,760)
Retained earnings at end of period	$ 27,977,990	$ 26,814,794

See Notes to the Condensed Consolidated Financial Statements

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CHICAGO RIVET & MACHINE CO.

Condensed Consolidated Statements of Cash Flows

For the Nine Months Ended September 30, 2014 and 2013

(Unaudited)

	2014	2013
Cash flows from operating activities:		
Net income	$ 1,678,184	$ 1,911,950
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	932,500	801,689
Gain on disposal of equipment	(17,613)	(116,721)
Deferred income taxes	(94,000)	40,000
Changes in operating assets and liabilities:		
Accounts receivable, net	(450,535)	(1,670,471)
Inventories, net	(401,963)	41,851
Other current assets	(139,946)	72,085
Accounts payable	350,207	413,512
Accrued wages and salaries	462,838	555,361
Other accrued expenses	(56,565)	237,527
Unearned revenue and customer deposits	(35,098)	125,868
Net cash provided by operating activities	2,228,009	2,412,651
Cash flows from investing activities:		
Capital expenditures	(1,329,170)	(2,751,108)
Proceeds from the sale of equipment	18,700	165,200
Proceeds from certificates of deposit	2,639,348	5,363,000
Purchases of certificates of deposit	(2,241,000)	(4,233,348)
Net cash used in investing activities	(912,122)	(1,456,256)
Cash flows from financing activities:		
Cash dividends paid	(908,164)	(434,760)
Net cash used in financing activities	(908,164)	(434,760)
Net increase in cash and cash equivalents	407,723	521,635
Cash and cash equivalents at beginning of period	443,608	392,810
Cash and cash equivalents at end of period	$ 851,331	$ 914,445
Supplemental schedule of non-cash investing activities:		
Capital expenditures in accounts payable	$ 19,966	$ 9,212

See Notes to the Condensed Consolidated Financial Statements

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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 September 30, 2014 (unaudited) and December 31, 2013 (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, 2013.

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 nine-month period ending September 30, 2014 are not necessarily indicative of the results to be expected for the year.

New Accounting Pronouncements-In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. This ASU is effective for interim and annual reporting periods beginning after December 15, 2016 and is to be applied retrospectively. Early adoption is not permitted. The Company is currently evaluating the impact that the adoption of this guidance will have on the consolidated results of operation, financial position and related disclosures.

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 29.7% and 33.0% for the third quarter of 2014 and 2013, respectively, and 32.8% and 32.5% for the nine months ended September 30, 2014 and 2013, 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, 2012 and 2013 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, 2012 and 2013 federal income tax returns will expire on September 15, 2015, 2016 and 2017, respectively.

The Company s state income tax returns for the 2011 through 2013 tax years remain subject to examination by various state authorities with the latest closing period on October 31, 2017. The Company is currently not under examination by any state authority for income tax purposes and no statutes for state income tax filings have been extended.

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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:

	September 30, 2014	December 31, 2013
Raw material	$ 2,210,806	$ 2,130,718
Work-in-process	1,833,310	1,507,755
Finished goods	1,868,835	1,806,315
Inventory, gross	5,912,951	5,444,788
Valuation reserves	630,200	564,000
Inventory, net	$ 5,282,751	$ 4,880,788

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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 cold-formed parts, rivets 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 September 30, 2014:				
Net sales	$ 8,295,936	$ 699,889	$	$ 8,995,825
Depreciation	279,258	16,066	18,440	313,764
Segment profit	1,111,165	157,153		1,268,318
Selling and administrative expenses			(504,849)	(504,849)
Loss from the disposal of equipment			(1,087)	(1,087)
Interest income			6,375	6,375
Income before income taxes				$ 768,757
Capital expenditures	532,879		16,170	549,049
Segment assets:				
Accounts receivable, net	5,615,498	345,807		5,961,305
Inventories, net	4,479,552	803,199		5,282,751
Property, plant and equipment, net	9,199,056	1,110,475	515,138	10,824,669
Other assets			7,543,989	7,543,989
				$ 29,612,714
Three Months Ended September 30, 2013:				
Net sales	$ 8,631,105	$ 830,673	$	$ 9,461,778
Depreciation	237,621	14,050	19,199	270,870
Segment profit	1,453,799	228,013		1,681,812
Selling and administrative expenses			(539,643)	(539,643)
Gain from the disposal of equipment			74,235	74,235
Interest income			7,801	7,801

Income before income taxes				$ 1,224,205
Capital expenditures	518,150		267,221	785,371
Segment assets:				
Accounts receivable, net	5,873,916	374,487		6,248,403
Inventories, net	3,994,869	899,652		4,894,521
Property, plant and equipment, net	8,309,105	1,124,031	554,882	9,988,018
Other assets			7,658,231	7,658,231
				$ 28,789,173

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CHICAGO RIVET & MACHINE CO.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	Fastener	Assembly Equipment	Other	Consolidated
Nine Months Ended September 30, 2014:				
Net sales	$ 26,148,265	$ 2,298,662	$	$ 28,446,927
Depreciation	829,612	48,198	54,690	932,500
Segment profit	3,489,617	558,550		4,048,167
Selling and administrative expenses			(1,586,833)	(1,586,833)
Gain from the disposal of equipment			17,613	17,613
Interest income			19,237	19,237
Income before income taxes				$ 2,498,184
Capital expenditures	1,302,214	21,540	25,382	1,349,136
Nine Months Ended September 30, 2013:				
Net sales	$ 25,397,537	$ 2,517,620	$	$ 27,915,157
Depreciation	702,089	42,150	57,450	801,689
Segment profit	3,615,776	677,939		4,293,715
Selling and administrative expenses			(1,601,772)	(1,601,772)
Gain from the disposal of equipment			116,721	116,721
Interest income			23,286	23,286
Income before income taxes				$ 2,831,950
Capital expenditures	2,429,172	59,863	271,285	2,760,320

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CHICAGO RIVET & MACHINE CO.

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

Net sales in the third quarter were $8,995,825 this year, compared to $9,461,778 in the third quarter of 2013. The 4.9% decline was only the second quarter in which sales did not exceed the year earlier quarter, in over five years. As of September 30, 2014, year to date sales totaled $28,446,927, an improvement of $531,770, or 1.9%, compared with the first three quarters of 2013. Net income for the third quarter was $540,757, or $0.56 per share, compared with $820,205, or $0.85 per share, in the third quarter of 2013. Net income for the first three quarters of 2014 was $1,678,184, or $1.74 per share, compared with $1,911,950, or $1.98 per share, reported in 2013. Contributing to the less profitable results for the third quarter and the current year to date were the lower sales, a less favorable product mix and increases in certain overhead costs, as well as a reduction in gains from disposals of equipment.

In the third quarter, fastener segment revenues were $8,295,936, a 3.9% decline from $8,631,105 in the year earlier quarter. For the first three quarters of the year, fastener segment revenues have increased $750,728, or 3.0%, to $26,148,265 from $25,397,537 in 2013. Fastener segment gross margin was $1,858,769 in the third quarter compared to $2,228,251 in the third quarter of 2013, as lower sales and increases in certain production costs negatively impacted margins in the quarter. Compared to the year earlier quarter, depreciation expense was $41,000 higher in the third quarter, due to recent investments in equipment, while tooling expense increased approximately $35,000, primarily related to new parts production. Labor costs were higher in the quarter and employee health insurance increased approximately $43,000 compared to last year. Fastener segment gross margin for the first three quarters of 2014 was $5,791,266 compared to $5,835,469 in 2013, a reduction of $44,203, or .8%. The increase in the year to date sales was offset by certain higher production costs in the current year, including depreciation, which has increased $125,000 and employee health insurance which has increased approximately $122,000. Additionally, labor costs have increased due to higher headcount associated with the greater volume of activity in the current year.

Assembly equipment segment revenues were $699,889 in the third quarter of 2014, a decline of $130,784 compared to the third quarter of 2013, when revenues were $830,673. Current year to date assembly equipment sales of $2,298,662 reflect an 8.7% decline compared to $2,517,620 reported for the first three quarters of 2013. The decline in third quarter and year to date sales was primarily related to a reduction in machines shipped compared to the year earlier periods, as sales of tools and parts increased during the third quarter and were relatively unchanged on a year to date basis. The reduction in assembly equipment segment sales in the third quarter resulted in a $74,209 decline in segment gross margin for the quarter and has resulted in a $138,200 reduction in the year to date segment margin.

Selling and administrative expenses for the third quarter of 2014 were $1,326,911, a reduction of $64,991, or 4.7%, compared to the year earlier quarter total of $1,391,902. The decrease is primarily due a $53,000 decline in profit sharing expense related to lower profitability in the quarter. Through the first three quarters of the year, selling and administrative expenses have increased $48,206, or 1.2%, from $4,072,643 in 2013 to $4,120,849 in 2014. Commissions have increased approximately $56,000 in the current year due to higher sales. Professional fees have increased approximately $34,000, primarily related to consulting incurred to achieve ISO/TS 16949:2009 quality certification at our H & L Tool facility. Partially offsetting these increases is a $38,000 reduction in profit sharing expense related to lower pretax profit in the current year. The remaining net difference is comprised of various smaller items of change. Selling and administrative expenses as a percentage of net sales for the first three quarters of 2014 declined to 14.5% from 14.6% in 2013.

Other income in the third quarter declined approximately $77,000 from the amount recorded in the third quarter of 2013 and has declined approximately $103,000 on a year to date basis, primarily due to gains on the sale of certain equipment reported in 2013.

The Company s effective tax rates were 29.7% and 33.0% for the third quarter of 2014 and 2013, respectively, and 32.8% and 32.5% for the nine months ended September 30, 2014 and 2013, 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 as of September 30, 2014 amounted to $15.8 million, an increase of approximately $.3 million from the beginning of the year. Working capital was positively impacted by a $.5 million increase in accounts receivable and a $.4 million increase in inventories, which were only partially offset by a $.4 million increase in accounts payable and a $.4 million increase in accrued expenses. These changes are typical based on the level of activity at this time of year compared to the end of the prior year. Capital expenditures for the first three quarters of 2014 were $1.3 million, which primarily consisted of equipment used in our fastener segment operations. Dividends paid in the first three quarters were $.9 million, including three regular quarterly payments of $.18 per share and an extra dividend of $.40 per share paid in the first quarter. The net result of these changes and other cash flow items on cash, cash equivalents and certificates of deposit was to leave such balances relatively unchanged from the beginning of the year at $6.7 million. 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 very respectable operating results for both the third quarter and current year to date. As our business is typically stronger in the first half of the year, the unusually strong results for the third quarter of 2013 provided for difficult comparison for this year. With low interest rates, improved consumer confidence and lower fuel prices providing favorable conditions in the automotive market, upon which we rely for the majority of our revenues, we believe that we remain well positioned to deliver positive results in the future. We will continue to pursue opportunities to profitably grow our revenues in all markets and will remain focused on controlling costs wherever possible, while continuing to supply products with the level of quality and performance our customers have come to expect.

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 expected 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.

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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.

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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 September 30, 2014 formatted in Extensible Business Reporting Language (XBRL): (1) Condensed Consolidated Balance Sheets, (2) Condensed Consolidated Statements of Operations, (3) Condensed Consolidated Statements of Retained Earnings, (4) Condensed Consolidated Statements of Cash Flows, and (5) Notes to Condensed Consolidated Financial Statements.

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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: November 7, 2014

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

Date: November 7, 2014

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

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CHICAGO RIVET & MACHINE CO.

EXHIBITS

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