

CHICAGO RIVET & MACHINE CO

Form 10-Q

May 11, 2009

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**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, 2009

OR

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

For the transition period from _____ to _____

Commission file number 000-01227

Chicago Rivet & Machine Co.

(Exact Name of Registrant as Specified in Its Charter)

Illinois

(State or Other Jurisdiction
of Incorporation or Organization)

36-0904920

(I.R.S. Employer
Identification No.)

901 Frontenac Road, Naperville, Illinois

(Address of Principal Executive Offices)

60563

(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☒.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated
filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if a smaller reporting company)

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

As of March 31, 2009, there were 966,132 shares of the registrant's common stock outstanding.

CHICAGO RIVET & MACHINE CO.
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PART I. FINANCIAL INFORMATION (Unaudited)

Item 1. Financial Statements.

CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Balance Sheets
March 31, 2009 and December 31, 2008

	March 31, 2009 (Unaudited)	December 31, 2008
Assets		
Current Assets:		
Cash and cash equivalents	\$ 640,859	\$ 1,553,226
Certificates of deposit	6,992,000	5,997,000
Accounts receivable, net of allowance of \$164,000 and \$165,000, respectively	3,044,673	3,315,748
Inventories	4,479,920	5,048,632
Deferred income taxes	508,191	504,191
Prepaid income taxes	482,696	355,788
Other current assets	298,350	234,412
 Total current assets	 16,446,689	 17,008,997
 Property, Plant and Equipment:		
Land and improvements	1,029,035	1,029,035
Buildings and improvements	6,391,952	6,391,952
Production equipment, leased machines and other	28,230,807	28,163,590
	35,651,794	35,584,577
Less accumulated depreciation	27,431,876	27,184,604
 Net property, plant and equipment	 8,219,918	 8,399,973
 Total assets	 \$ 24,666,607	 \$ 25,408,970

See Notes to the Condensed Consolidated Financial Statements

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CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Balance Sheets
March 31, 2009 and December 31, 2008

	March 31, 2009 (Unaudited)	December 31, 2008
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	\$ 838,652	\$ 509,657
Accrued wages and salaries	672,522	456,687
Accrued profit sharing plan contribution	25,000	110,000
Other accrued expenses	191,314	558,743
Total current liabilities	1,727,488	1,635,087
Deferred income taxes	828,275	865,275
Total liabilities	2,555,763	2,500,362
Commitments and contingencies (Note 4)		
Shareholders' Equity:		
Preferred stock, no par value, 500,000 shares authorized: none outstanding		
Common stock, \$1.00 par value, 4,000,000 shares authorized: 1,138,096 shares issued	1,138,096	1,138,096
Additional paid-in capital	447,134	447,134
Retained earnings	24,447,712	25,245,476
Treasury stock, 171,964 shares at cost	(3,922,098)	(3,922,098)
Total shareholders' equity	22,110,844	22,908,608
Total liabilities and shareholders' equity	\$ 24,666,607	\$ 25,408,970

See Notes to the Condensed Consolidated Financial Statements

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CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Statements of Operations
For the Three Months Ended March 31, 2009 and 2008
(Unaudited)

	2009	2008
Net sales	\$ 4,759,290	\$ 8,414,326
Cost of goods sold	4,486,679	7,102,362
Gross profit	272,611	1,311,964
Selling and administrative expenses	1,280,076	1,347,823
Operating loss	(1,007,465)	(35,859)
Other income and expenses:		
Interest income	50,004	75,922
Other income	3,600	3,600
Income (loss) before income taxes	(953,861)	43,663
Provision for income taxes	(330,000)	16,000
Net income (loss)	\$ (623,861)	\$ 27,663
Average common shares outstanding	966,132	966,132
Per share data:		
Net income (loss) per share	\$ (0.65)	\$ 0.03
Cash dividends declared per share	\$ 0.18	\$ 0.33

See Notes to the Condensed Consolidated Financial Statements

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CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Statements of Retained Earnings
For the Three Months Ended March 31, 2009 and 2008
(Unaudited)

	2009	2008
Retained earnings at beginning of period	\$ 25,245,476	\$ 26,911,493
Net income (loss) for the three months ended	(623,861)	27,663
Cash dividends declared in the period; \$.18 per share in 2009 and \$.33 per share in 2008	(173,903)	(318,823)
Retained earnings at end of period	\$ 24,447,712	\$ 26,620,333

See Notes to the Condensed Consolidated Financial Statements

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CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2009 and 2008
(Unaudited)

	2009	2008
Cash flows from operating activities:		
Net income (loss)	\$ (623,861)	\$ 27,663
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	250,147	266,613
Deferred income taxes	(41,000)	(43,000)
Changes in operating assets and liabilities:		
Accounts receivable, net	271,075	(33,401)
Inventories	568,712	(509,096)
Other current assets	(190,846)	204,803
Accounts payable	323,680	343,290
Accrued wages and salaries	215,835	103,025
Accrued profit sharing plan contribution	(85,000)	(186,000)
Other accrued expenses	(367,429)	(95,947)
Net cash provided by operating activities	321,313	77,950
Cash flows from investing activities:		
Capital expenditures	(64,777)	(114,740)
Proceeds from certificates of deposit	1,599,000	4,600,000
Purchases of certificates of deposit	(2,594,000)	(3,400,000)
Net cash (used in) provided by investing activities	(1,059,777)	1,085,260
Cash flows from financing activities:		
Cash dividends paid	(173,903)	(173,903)
Net cash used in financing activities	(173,903)	(173,903)
Net (decrease) increase in cash and cash equivalents	(912,367)	989,307
Cash and cash equivalents at beginning of period	1,553,226	665,072
Cash and cash equivalents at end of period	\$ 640,859	\$ 1,654,379
Supplemental schedule of non-cash investing activities:		
Capital expenditures in accounts payable	\$ 5,315	\$ 16,639
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 March 31, 2009 (unaudited) and December 31, 2008 (audited) and the results of operations and changes in cash flows for the indicated periods. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
2. The results of operations for the three month period ended March 31, 2009 are not necessarily indicative of the results to be expected for the year.
3. The Company extends credit on the basis of terms that are customary within our markets to various companies doing business primarily in the automotive industry. The Company has a concentration of credit risk primarily within the automotive industry and in the Midwestern United States.
4. The Company is, from time to time, involved in litigation, including environmental claims and contract disputes, in the normal course of business. While it is not possible at this time to establish the ultimate amount of liability with respect to contingent liabilities, including those related to legal proceedings, management is of the opinion that the aggregate amount of any such liabilities, for which provision has not been made, will not have a material adverse effect on the Company's financial position.
5. The Company's federal income tax returns for the 2006, 2007 and 2008 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 2006, 2007 and 2008 federal income tax returns will expire on September 15, 2010, 2011 and 2012, respectively. The Company's state income tax returns for the 2006 through 2008 tax years remain subject to examination by various state authorities with the latest closing period on October 31, 2012. 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.
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, 2009	December 31, 2008
Raw material	\$ 1,348,050	\$ 1,600,001
Work-in-process	1,573,084	1,628,664
Finished goods	2,117,786	2,399,967
	5,038,920	5,628,632
Valuation reserves	(559,000)	(580,000)
	\$ 4,479,920	\$ 5,048,632

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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, parts and tools for such machines and the leasing of automatic rivet setting machines. Information by segment is as follows:

	Fastener	Assembly Equipment	Other	Consolidated
Three Months Ended March 31, 2009:				
Net sales and lease revenue	\$ 3,629,430	\$ 1,129,860		\$ 4,759,290
Depreciation	214,303	16,458	19,386	250,147
Segment profit (loss)	(617,979)	145,179		(472,800)
Selling and administrative expenses			(531,065)	(531,065)
Interest income			50,004	50,004
Loss before income taxes				(953,861)
Capital expenditures	70,092			70,092
Segment assets:				
Accounts receivable, net	2,810,747	233,926		3,044,673
Inventories	3,271,621	1,208,299		4,479,920
Property, plant and equipment, net	6,429,946	1,045,964	744,008	8,219,918
Other assets			8,922,096	8,922,096
				24,666,607
Three Months Ended March 31, 2008:				
Net sales and lease revenue	\$ 7,326,127	\$ 1,088,199		\$ 8,414,326
Depreciation	226,650	18,522	21,441	266,613
Segment profit	326,878	202,105		528,983
Selling and administrative expenses			(561,242)	(561,242)
Interest income			75,922	75,922
Income before income taxes				43,663
Capital expenditures	131,379			131,379

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Segment assets:

Accounts receivable, net	4,942,192	420,622		5,362,814
Inventories	4,017,096	1,467,833		5,484,929
Property, plant and equipment, net	7,037,168	1,107,778	826,757	8,971,703
Other assets			8,090,334	8,090,334
				27,909,780

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CHICAGO RIVET & MACHINE CO.

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

Revenues for the first quarter of 2009 were \$4,759,290, a decline of \$3,655,036, or 43%, compared to the first quarter of last year. The dramatic reduction in automotive production, upon which we rely for the majority of our revenue, and the effects of the current recession on all the markets we serve, were the primary causes of the reduced sales activity. We have made significant reductions in our expenditures since last year in an attempt to bring expenses in line with customer demand, but the continued weak demand resulted in a net loss of \$623,861, or \$0.65 per share, in the first quarter of 2009 compared to net income of \$27,663, or \$0.03 per share, in 2008.

Fastener segment revenues declined \$3,696,697, or 51%, from \$7,326,127 in the first quarter of 2008 to \$3,629,430 in 2009. The percentage decline is similar to the drop in North American car and truck production which was at its lowest level of any quarter in 18 years. In response to the reduced demand, we have taken steps to reduce expenses where practicable, including reductions in staffing and work schedules. The elimination of contract labor resulted in \$87,000 in savings while an aggressive competitive bid process for various supplies contributed to a \$531,000 reduction in such expenses. Even though we reduced all major categories of manufacturing costs, these savings did not fully offset the decline in sales volume, resulting in a \$982,000 reduction in fastener segment gross margin.

Assembly equipment segment revenues increased \$41,661, or 4%, from \$1,088,199 in the first quarter of 2008 to \$1,129,860 in 2009. The increase was due to the shipment of certain large machine orders during the current year quarter which offset declines in sales of tools and machine parts. Segment margins were \$57,000 lower in the first quarter of 2009 compared to 2008 primarily due to higher material costs.

Selling and administrative expenses during the first quarter of 2009 were \$68,000 lower than the first quarter of 2008. Commissions account for approximately \$52,000 of the decline due to the lower sales activity in the current year quarter. The remaining net reduction is related to various items including reduced expenditures for office supplies and maintenance.

Working capital amounted to \$14.7 million at the end of the first quarter, a decline of \$.7 million from the beginning of the year. During the quarter, inventories were reduced by \$.6 million as raw material prices retreated from the high levels reached during the second half of 2008 and quantities were reduced. Accounts receivable declined \$.3 million during the first quarter primarily due to lower sales during the first three months of the current year compared to the fourth quarter of 2008. Although accounts payable and accrued salaries and wages increased by a combined \$.5 million since the beginning of the year, reflecting normal yearly patterns, a reduction in customer deposits and other accrued expenses of \$.4 million offset most of that amount. The net result of these changes and other cash flow items on cash and certificates of deposit was an increase of \$.1 million, to \$7.6 million, as of March 31, 2009. The Company has a \$1.0 million line of credit, which expires May 31, 2009. This line of credit remains unused. Management believes that current cash, cash equivalents and operating cash flow will provide adequate working capital for the foreseeable future.

The current economic crisis continues to be the most significant factor affecting our operations. The decline in revenues and the resultant loss in the first quarter of 2009 were primarily due to weak demand in our primary markets. As the largest market for the products we manufacture, the automotive industry greatly impacts our results. The industry is currently faced with many challenges, including excess inventories, that are likely to keep near-term demand restrained. However, even in these challenging times, we believe our sound financial condition leaves us well positioned to take advantage of new opportunities. We will continue to make adjustments to our activities where necessary, without sacrificing quality, in response to changing customer demand and will continue our cost control efforts while pursuing opportunities to improve results.

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

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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.

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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 Chief Financial Officer 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 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.

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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: May 11, 2009

/s/ John A. Morrissey

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

Date: May 11, 2009

/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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