CHICAGO RIVET & MACHINE CO
Form 10-Q
November 07, 2007

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, 2007

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 0-1227

Chicago Rivet & Machine Co.
(Exact Name of Registrant as Specified in Its Charter)

Illinois	36-0904920
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

901 Frontenac Road, Naperville, Illinois	60563
(Address of Principal Executive Offices)	(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 X No ___

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

Large accelerated filer ___ Accelerated filer ___ Non-accelerated filer 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 September 30, 2007, 966,132 shares of the registrant's common stock were outstanding.

CHICAGO RIVET & MACHINE CO.

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Item 1. Financial Statements.

CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Balance Sheets
September 30, 2007 and December 31, 2006

	September 30, 2007 (Unaudited)	December 31, 2006
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,645,425	$ 367,581
Certificates of deposit	4,880,000	5,405,000
Accounts receivable, net of allowance of $138,000 and $150,000, respectively	6,152,447	5,902,628
Inventories:		
Raw materials	1,373,218	1,333,857
Work in process	2,084,356	1,907,653

Finished goods	2,106,159	2,239,799
Total inventories	5,563,733	5,481,309
Deferred income taxes	496,191	499,191
Prepaid income taxes	--	118,914
Other current assets	379,091	294,593
Total current assets	19,116,887	18,069,216
Property, Plant and Equipment:		
Land and improvements	1,029,035	1,029,035
Buildings and improvements	6,373,387	6,321,609
Production equipment, leased machines and other	28,127,457	29,411,746
	35,529,879	36,762,390
Less accumulated depreciation	26,210,372	26,925,130
Net property, plant and equipment	9,319,507	9,837,260
Total assets	$28,436,394	$27,906,476

See Notes to the Condensed Consolidated Financial Statements

CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Balance Sheets
September 30, 2007 and December 31, 2006

	September 30, 2007	December 31, 2006
	(Unaudited)	
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 1,435,894	$ 1,431,468
Accrued wages and salaries	852,304	693,442
Contributions due profit sharing plan	195,000	225,000
Accrued plant closing expenses	1,840	217,443
Other accrued expenses	276,853	259,680
Total current liabilities	2,761,891	2,827,033
Deferred income taxes	987,275	1,076,275
Total liabilities	3,749,166	3,903,308
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	27,024,096	26,340,036
Treasury stock, 171,964 shares at cost	(3,922,098)	(3,922,098)
Total shareholders' equity	24,687,228	24,003,168
Total liabilities and shareholders' equity	$28,436,394	$27,906,476

See Notes to the Condensed Consolidated Financial Statements

CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Statements of Operations
For the Three and Nine Months Ended September 30, 2007 and 2006
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales	$9,020,453	$9,107,430	$29,051,926	$31,053,347
Lease revenue	23,150	25,033	69,573	77,433
	9,043,603	9,132,463	29,121,499	31,130,780
Cost of goods sold and costs related to lease revenue	7,142,436	7,352,636	23,070,223	24,517,941
Gross profit	1,901,167	1,779,827	6,051,276	6,612,839
Selling and administrative expenses	1,442,505	1,491,616	4,491,382	4,758,465
Plant closing expenses	(459)	8,204	20,337	408,605
Operating profit	459,121	280,007	1,539,557	1,445,769
Other income and expenses:				
Interest income	77,380	66,572	224,837	176,490
Other income	3,600	3,600	11,378	12,730
Income before income taxes	540,101	350,179	1,775,772	1,634,989
Provision for income taxes	168,000	112,000	570,000	539,000
Net income	$ 372,101	$ 238,179	$ 1,205,772	$ 1,095,989
Average common shares outstanding	966,132	966,132	966,132	966,132
Per share data:				
Net income per share	$ 0.39	$ 0.24	$ 1.25	$ 1.13
Cash dividends declared per share	$ 0.18	$ 0.18	$ 0.54	$ 0.54

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, 2007 and 2006
(Unaudited)

	2007	2006
Retained earnings at beginning of period	$26,340,036	$25,915,024
Net income for the nine months ended	1,205,772	1,095,989
Cash dividends declared in the period, $.54 per share in 2007 and 2006	(521,712)	(521,712)
Retained earnings at end of period	$27,024,096	$26,489,301

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, 2007 and 2006
(Unaudited)

	2007	2006
Cash flows from operating activities:		
Net income	$ 1,205,772	$ 1,095,989
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	845,896	1,234,514
Net gain on the sale of equipment	(25,022)	(10,330)
Deferred income taxes	(86,000)	(209,000)
Changes in operating assets and liabilities:		
Accounts receivable, net	(249,819)	(1,296,270)
Inventories	(82,424)	(243,297)
Other current assets	34,416	(116,521)
Accounts payable	4,426	159,361
Accrued wages and salaries	158,862	226,675
Accrued profit sharing contribution	(30,000)	127,000
Other accrued expenses	(198,430)	130,043
Net cash provided by operating activities	1,577,677	1,098,164

Cash flows from investing activities:		
Capital expenditures	(340,937)	(1,154,760)
Proceeds from the sale of equipment	37,816	16,500
Proceeds from certificates of deposit	13,405,000	6,275,000
Purchases of certificates of deposit	(12,880,000)	(10,275,000)
Net cash provided by (used in) investing activities	221,879	(5,138,260)
Cash flows from financing activities:		
Cash dividends paid	(521,712)	(521,712)
Net cash used in financing activities	(521,712)	(521,712)
Net increase (decrease) in cash and cash equivalents	1,277,844	(4,561,808)
Cash and cash equivalents at beginning of period	367,581	4,730,837
Cash and cash equivalents at end of period	$ 1,645,425	$ 169,029
Supplemental schedule of non-cash investing activities:		
Capital expenditures in accounts payable	$ --	$ 33,061

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, 2007 (unaudited) and December 31, 2006 (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 and nine-month period ending September 30, 2007 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 adopted the provisions of Financial Accounting Standards Board Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"), on January 1, 2007. There was no effect on retained earnings related to this adoption. Consistent with FIN 48, the Company classifies interest and penalties related to unrecognized tax benefits as a component of income tax expense.

The Company's federal income tax returns for the 2005 and 2006 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. The 2004 federal income tax return was examined by the IRS and no adjustments were made as a result of the examination.

No statutes have been extended on any of the Company's federal income tax filings. The statute of limitations on the Company's 2005 and 2006 federal income tax returns will expire on September 15, 2009 and 2010, respectively.

The Company's state income tax returns for the 2004 through 2006 tax years remain subject to examination by various state authorities with the latest closing period on October 31, 2010. 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. The Company recorded various charges during 2006 and 2007 related to the closure of its Jefferson, Iowa facility. The facility had been operating below capacity and after the transfer of production activities to Tyrone, Pennsylvania, operations ceased in December 2006. As a result of the closure, the Company recorded plant closing expenses of $422,934 in the year ended December 31, 2006, and $20,337 in the period ended September 30, 2007.

The following is a summary of liabilities recorded on the accompanying balance sheets as accrued plant closing expenses:

	Severance and Benefits	Facility Closure Costs	Total
Balance at December 31, 2006	$ 177,074	$ 40,369	$ 217,443
Charge	--	21,157	21,157
Payments	(174,414)	(61,526)	(235,940)
Non-cash reduction	(820)	--	(820)
Balance at September 30, 2007	$ 1,840	$ --	$ 1,840

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 September 30, 2007:				
Net sales and lease revenue	$7,905,111	$1,138,492	$ --	$ 9,043,603
Depreciation	238,782	21,250	23,616	283,648
Segment profit	797,182	171,559		968,741
Selling and administrative expenses			(506,479)	(506,479)
Plant closing expenses	459			459
Interest income			77,380	77,380
Income before income taxes				540,101
Capital expenditures	31,267	1,459	--	32,726
Segment assets:				
Accounts receivable, net	5,631,651	520,796		6,152,447
Inventories	4,034,745	1,528,988		5,563,733
Property, plant and equipment, net	7,305,274	1,142,874	871,359	9,319,507
Other assets			7,400,707	7,400,707
				28,436,394
Three Months Ended September 30, 2006:				
Net sales and lease revenue	$7,833,763	$1,298,700	$ --	$ 9,132,463
Depreciation	368,575	25,377	23,152	417,104
Segment profit	441,743	348,214		789,957
Selling and administrative expenses			(498,146)	(498,146)
Plant closing expenses	(8,204)			(8,204)
Interest income			66,572	66,572
Income before income taxes				350,179
Capital expenditures	194,275	--	58,174	252,449
Segment assets:				
Accounts receivable, net	5,907,432	759,449		6,666,881
Inventories	4,544,100	1,670,892		6,214,992
Property, plant and equipment, net	7,830,427	1,207,493	960,725	9,998,645
Other assets			6,051,883	6,051,883
				28,932,401

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

Assembly

	Fastener	Equipment	Other	Consolidated
Nine Months Ended September 30, 2007:				
Net sales and lease revenue	$25,491,263	$ 3,630,236	$ --	$29,121,499
Depreciation	711,539	63,509	70,848	845,896
Segment profit	2,456,158	712,971		3,169,129
Selling and administrative expenses			(1,597,857)	(1,597,857)
Plant closing expenses	(20,337)			(20,337)
Interest income			224,837	224,837
Income before income taxes				1,775,772
Capital expenditures	316,971	23,966	--	340,937
Nine Months Ended September 30, 2006:				
Net sales and lease revenue	$26,543,850	$ 4,586,930	$ --	$31,130,780
Depreciation	1,091,291	76,131	67,092	1,234,514
Segment profit	2,291,848	1,201,764	--	3,493,612
Selling and administrative expenses			(1,626,508)	(1,626,508)
Plant closing expenses	(408,605)			(408,605)
Interest income			176,490	176,490
Income before income taxes				1,634,989
Capital expenditures	1,115,104	--	72,717	1,187,821

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

Net revenues in the third quarter of 2007 were $9,043,603, a decline of one percent compared to 2006 when revenues were $9,132,463. While the fastener segment recorded an increase in revenues of $71,348 during the period, the decline in assembly equipment sales more than offset this improvement. Net income improved in the third quarter of 2007 to $.39 per share from $.24 per share in the year earlier period, despite lower revenues, primarily due to lower operating expenses. Net revenues for the first nine months of 2007 were $29,121,499, compared to $31,130,780 in 2006. Net income after three quarters this year was $1,205,772, or $1.25 per share, compared with $1,095,989, or $1.13 per share, in 2006. The improvement in net income was primarily due to higher plant closing expenses in the prior year and lower operating expenses in the current year.

Within the fastener segment, third quarter revenues increased to $7,905,111 in 2007 from $7,833,763 in the third quarter of 2006, or 1%. This increase was the result of improved sales to our non-automotive customers, as the domestic automotive market continues to see lower production levels compared to the year earlier period. The reduction of certain segment expenses in the current year quarter further improved our operating results. Tooling expenses declined $185,000 due to higher than normal tooling associated with new parts incurred in the third quarter of 2006. Segment depreciation in the third quarter was $130,000 lower than last year, as certain equipment became fully depreciated in 2006. Additionally, the transfer of production activities from Jefferson, Iowa to Tyrone, Pennsylvania that was begun in the third quarter of 2006 resulted in expense reductions due to the elimination of certain costs in the current year.

The combination of higher revenues and the overall reduction in operating expenses resulted in an improvement in segment gross margin to approximately $1,559,000 from $1,227,000 in the year earlier quarter.

For the first nine months of the year, fastener segment revenues were $25,491,263, a decline of $1,052,587, or 4%, from the $26,543,850 reported for 2006. Year to date sales have been more negatively impacted by reduced demand from automotive customers than third quarter results. However, the impact of lower net sales was offset by reductions in certain operating expenses. The drop in tooling expense during the third quarter has resulted in a year to date reduction of $154,000 compared to 2006. Fastener segment depreciation has declined $379,000 year to date. Due to a change in product mix, as well as investments in equipment that have expanded our capabilities during the last year, certain machining and parts sorting procedures that were formerly outsourced are now being performed internally, contributing to a $468,000 reduction in outside production costs compared to last year. Additionally, expediting and rejection expenses have declined $81,000. Lastly, the closing of our Jefferson plant has resulted in additional reductions as certain costs were eliminated. The net decline in operating expenses for the first nine months of 2007 effectively offset the revenue decline, leaving gross margins relatively unchanged at $4,818,000 through three quarters.

Assembly equipment segment revenues totaled $1,138,492 in the third quarter of 2007, a decline of $160,208, or 12%, compared to the third quarter of 2006, when revenues were $1,298,700. Demand for our products in this segment continues to be weak and the lower level of production activity, brought on by reduced demand, resulted in a $210,000 decline in gross margin compared to the third quarter of 2006. For the first nine months of 2007, revenues in this segment amounted to $3,630,236, a $956,694 decline, or 21%, compared to the first nine months of 2006 when net revenues totaled $4,586,930. In response to the lower level of sales activity in 2007, we have implemented steps to reduce and control expenses wherever possible, including reductions in both staffing levels and work schedules. The cumulative effect of these actions has not been sufficient to fully offset the effects of reduced volume and, as a result, gross margins declined to $1,234,000 from $1,795,000 last year.

Selling and administrative expenses for the third quarter of 2007 were $49,111 lower than during the third quarter of 2006. Salaries and related benefits account for approximately $38,000 of the net decline due to reduced headcount. The remaining net decrease in the quarter relates to various items with smaller changes. On a year to date basis, selling and administrative expenses have declined $267,083 compared with the first nine months of 2006. The largest components of the year to date decline are salaries and wages of $99,000, profit sharing expense, which declined $57,000 as a result of lower profits in the current year after taking the plant closing expenses into consideration, and legal fees which have declined $45,000, primarily due to services in 2006 related to the Jefferson plant closing. The balance of the net reduction is made up of a variety of smaller expense items.

Third quarter results include a net reduction in plant closing expenses of $459, as certain health insurance obligations were lower than originally estimated. This compares with a charge of $8,204 in the third quarter of 2006. Total 2007 charges for the previously disclosed Jefferson, Iowa plant closing amounted to $20,337. The first nine months of 2006 included charges totaling $408,605. No further expenses related to the closing are expected.

Working capital at September 30, 2007 was approximately $16.3 million, an improvement of $1.1 million from the beginning of the year. Holdings in cash, cash equivalents and certificates of deposit at the end of the third quarter totaled $6.5 million and account for $.8 million of the improvement in net working capital, as capital outlays in the current year have declined a like amount compared with 2006. Accounts receivable balances have increased by $.2 million this year, due to seasonal sales patterns where sales at the end of the third quarter are typically greater than near the end of the year. Lastly, the decline in accrued plant closing expenses of $.2 million was only partially offset by the increase in other accrued expense items.

The Company has a $1.0 million line of credit, which expires May 31, 2008. This line of credit remains unused. Management believes that current cash, cash equivalents, operating cash flow and the available line of credit will provide adequate working capital for the foreseeable future.

The increase in third quarter fastener segment sales, due to growth in our non-automotive customer sales, was not enough to offset the sales decline for that segment recorded in the first half of the year, as reductions in domestic automotive production continue to constrain our sales growth. At the same time, the assembly equipment segment continues to be weak as a result of the overall decline in domestic manufacturing activity. Although the consolidation of our Jefferson plant activities has resulted in cost savings related to better utilization of plant capacity, these improvements are somewhat obscured by the overall sales decline in 2007. While the markets in which we operate continue to provide significant challenges, we will continue to make adjustments to our activities while maintaining an emphasis on providing quality products along with the technical expertise and customer service necessary to differentiate our Company in the marketplace.

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.

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 Chief 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.

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.

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, 2007

/s/ John A. Morrissey

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

Date: November 7, 2007

/s/ Michael J. Bourg

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

CHICAGO RIVET & MACHINE CO.

EXHIBITS

INDEX TO EXHIBITS