CHICAGO RIVET & MACHINE CO
Form 10-Q
May 04, 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 March 31, 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 (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 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 March 31, 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
March 31, 2007 and December 31, 2006

	March 31, 2007 (Unaudited)	December 31, 2006
Assets		
Current Assets:		

Cash and cash equivalents	$ 464,060	$ 367,581
Certificates of deposit	5,380,000	5,405,000
Accounts receivable, net of allowance of $147,000 and $150,000, respectively	6,244,565	5,902,628
Inventories:		
Raw materials	1,380,169	1,333,857
Work in process	2,229,968	1,907,653
Finished goods	2,322,355	2,239,799
Total inventories	5,932,492	5,481,309
Deferred income taxes	503,191	499,191
Prepaid income taxes	--	118,914
Other current assets	294,084	294,593
Total current assets	18,818,392	18,069,216
Property, Plant and Equipment:		
Land and improvements	1,029,035	1,029,035
Buildings and improvements	6,321,609	6,321,609
Production equipment, leased machines and other	29,395,488	29,411,746
	36,746,132	36,762,390
Less accumulated depreciation	27,029,837	26,925,130
Net property, plant and equipment	9,716,295	9,837,260
Total assets	$28,534,687	$27,906,476

See Notes to the Condensed Consolidated Financial Statements

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

	March 31, 2007 (Unaudited)	December 31, 2006
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 1,930,778	$ 1,431,468
Accrued wages and salaries	861,164	693,442
Contributions due profit sharing plan	54,244	225,000
Accrued plant closing expenses	140,715	217,443
Other accrued expenses	356,974	259,680
Total current liabilities	3,343,875	2,827,033
Deferred income taxes	1,051,275	1,076,275
Total liabilities	4,395,150	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	26,476,405	26,340,036
Treasury stock, 171,964 shares at cost	(3,922,098)	(3,922,098)
Total shareholders' equity	24,139,537	24,003,168
Total liabilities and shareholders' equity	$28,534,687	$27,906,476

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, 2007 and 2006
(Unaudited)

	2007	2006
Net sales	$9,924,333	$10,913,902
Lease revenue	23,243	27,049
	9,947,576	10,940,951
Cost of goods sold and costs related to lease revenue	8,016,515	8,785,781
Gross profit	1,931,061	2,155,170
Selling and administrative expenses	1,528,346	1,629,803
Plant closing expenses	18,074	--
Operating profit	384,641	525,367
Other income and expenses:		
Interest income	74,431	55,964
Other income	1,200	4,953
Income before income taxes	460,272	586,284
Provision for income taxes	150,000	197,000
Net Income	$ 310,272	$ 389,284
Average common shares outstanding	966,132	966,132
Per share data:		
Net income per share	$ 0.32	$ 0.40
Cash dividends declared per share	$ 0.18	$ 0.18

See Notes to the Condensed Consolidated Financial Statements

CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Statements of Retained Earnings
For the Three Months Ended March 31, 2007 and 2006
(Unaudited)

	2007	2006
Retained earnings at beginning of period	$26,340,036	$25,915,024
Net income for the three months ended	310,272	389,284
Cash dividends declared in the period;		
$.18 per share in 2007 and 2006	(173,903)	(173,903)
Retained earnings at end of period	$26,476,405	$26,130,405

See Notes to the Condensed Consolidated Financial Statements

CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2007 and 2006
(Unaudited)

	2007	2006
Cash flows from operating activities:		
Net income	$ 310,272	$ 389,284
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	280,583	408,177
Net gain on the sale of equipment	(8,020)	--
Deferred income taxes	(29,000)	(44,000)
Changes in operating assets and liabilities:		
Accounts receivable, net	(341,937)	(1,671,998)
Inventories	(451,183)	49,788
Other current assets	119,423	(15,190)
Accounts payable	342,739	301,313
Accrued wages and salaries	167,722	176,700
Accrued profit sharing contribution	(170,756)	(60,000)
Other accrued expenses	20,566	(37,419)
Net cash provided by (used in) operating activities	240,409	(503,345)

Cash flows from investing activities:		
Capital expenditures	(3,047)	(44,078)
Proceeds from the sale of equipment	8,020	--
Proceeds from certificates of deposit	5,255,000	775,000
Purchases of certificates of deposit	(5,230,000)	(3,075,000)
Net cash provided by (used in) investing activities	29,973	(2,344,078)
Cash flows from financing activities:		
Cash dividends paid	(173,903)	(173,903)
Net cash used in financing activities	(173,903)	(173,903)
Net increase (decrease) in cash and cash equivalents	96,479	(3,021,326)
Cash and cash equivalents at beginning of period	367,581	4,730,837
Cash and cash equivalents at end of period	$ 464,060	$ 1,709,511
Supplemental schedule of non-cash investing activities:		
Capital expenditures in accounts payable	$ 156,571	$ 18,292

See Notes to the Condensed Consolidated Financial Statements

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

1. In the opinion of the Company, the accompanying financial statements contain all adjustments necessary to present fairly the financial position of the Company as of March 31, 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-month period ended March 31, 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 $18,074 in the quarter ended March 31, 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	--	18,074	18,074
Payments	(36,359)	(58,443)	(94,802)
Non-cash reduction	--	--	--
Balance at March 31, 2007	$140,715	$ --	$140,715

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, 2007:				
Net sales and lease revenue	$8,725,371	$1,222,205		$ 9,947,576
Depreciation	235,898	21,069	23,616	280,583
Segment profit	726,469	235,097		961,566
Selling and administrative expenses			(557,651)	(557,651)
Plant closing expenses	(18,074)			(18,074)
Interest income			74,431	74,431
Income before income taxes				460,272
Capital expenditures	159,618	--		159,618
Segment assets:				
Accounts receivable, net	5,692,469	552,096		6,244,565
Inventories	4,282,783	1,649,709		5,932,492
Property, plant and equipment, net	7,636,359	1,161,345	918,591	9,716,295
Other assets			6,641,335	6,641,335
				28,534,687
Three Months Ended March 31, 2006:				
Net sales and lease revenue	$9,180,723	$1,760,228		$10,940,951
Depreciation	361,230	25,377	21,570	408,177
Segment profit	648,135	450,772		1,098,907
Selling and administrative expenses			(568,587)	(568,587)
Interest income			55,964	55,964
Loss before income taxes				586,284
Capital expenditures	62,370	--		62,370
Segment assets:				
Accounts receivable, net	6,436,087	606,522		7,042,609
Inventories	4,227,711	1,694,196		5,921,907
Property, plant and equipment, net	7,508,851	1,258,247	938,603	9,705,701
Other assets			5,793,034	5,793,034
				28,463,251

CHICAGO RIVET & MACHINE CO.

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

Revenues for the first quarter of 2007 were $9,947,576, a decline of $993,375, or 9.1%, compared to the first quarter of last year. Reduced demand in the domestic automotive market resulted in lower fastener segment sales, while equipment segment sales weakened further. Despite the lower revenues in the current year, the reduction in certain expenses and continued cost controls allowed us to achieve net income of $310,272, or $0.32 per share, compared to

$389,284, or $0.40 per share in 2006.

In the first quarter, fastener segment revenues declined $455,352, or 5%, from $9,180,723 in 2006 to $8,725,371 in 2007. Despite lower sales volume, gross margins within this segment improved by approximately $12,000 compared with the first quarter of 2006 due to reductions in certain expense items. Depreciation in the current year is $125,000 lower than last year as certain equipment became fully depreciated in 2006. This favorable change is expected to be present throughout the year. Expediting and rejection expenses declined $83,000 during the quarter due in part to investments in inspection equipment made since last year. Outside machining declined $142,000, primarily due to a change in product mix. The transfer of production activities from Jefferson, Iowa to Tyrone, Pennsylvania in 2006 resulted in further improvement as certain expenses were eliminated.

Demand within the assembly equipment segment weakened considerably in the first quarter of 2007, resulting in revenues of only $1,222,205, a reduction of $538,023 compared to 2006. While manufacturing costs declined due to the lower level of production activity, the reduction was not sufficient to offset the lower volume, resulting in a $236,000 decline in gross margin compared to the first quarter of 2006.

Selling and administrative expenses during the first quarter of 2007 were $101,000 lower than the first quarter of 2006. Payroll and payroll related expenses account for approximately $45,000 of the decline, due to turnover and headcount reductions since the first quarter of last year. Profit sharing expense has declined $11,000 due to the lower level of profitability. The remaining net decrease relates to various other expenses.

First quarter 2007 results also include $18,074 for expenses related to the previously disclosed Jefferson, Iowa plant closing. These expenses relate to preparing the building for sale and the transfer of assets to our Tyrone, Pennsylvania location. Further expenses related to the closing are not expected to be material.

Working capital increased by $.2 million from the beginning of the year and amounted to $15.4 million at the end of the first quarter. Accounts receivable balances increased by $.3 million during the quarter as a result of first quarter 2007 sales being higher than fourth quarter 2006 sales. In support of the higher level of operating activity in the first quarter, compared with the fourth quarter of last year, inventory increased by $.5 million and accounts payable increased by a like amount. Similarly, the increase in accrued wages and salaries of $.2 million and the decline in accrued profit sharing of $.2 million, reflect normal annual changes. The net result of these changes and other cash flow items on cash and certificates of deposit was an increase of $.1 million, to $5.8 million, as of March 31, 2007. The Company has a $1.0 million line of credit, which expires May 31, 2007. 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 decline in revenues and net income in the first quarter of 2007 is indicative of the lower level of production activity in our primary markets. Fastener segment sales reflect the reduced production in the domestic automotive market as manufacturers adjust their activities due to reduced demand. While weakness in this market continues to be a concern, our fastener segment sales decline is actually less than the decline in domestic automotive production during the first quarter, as we were able to increase sales to certain non-automotive customers. The assembly equipment segment reflects the continuing decline in manufacturing activity overall in the United States. We have adjusted our work schedules in response to changing customer demand and will continue to do so. The decline in assembly equipment activity is significant not only due to the historically greater margins achieved on such sales, but also due to the anticipated difficulty in recovering such losses. In the near-

term, we do not anticipate any significant changes in the markets in which we are active. In response to this difficult environment, we will continue our efforts to increase revenues while also controlling costs.

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, and the loss of the services of our key employees. 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 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.

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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 4, 2007 /s/ John A. Morrissey

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

Date: May 4, 2007 /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

INDEX TO EXHIBITS

Exhibit