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CHICAGO RIVET & MACHINE CO

Form 10-Q

November 13, 2006

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 September 30, 2006

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)  
Identification No.)

36-0904920  
(I.R.S. Employer

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

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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

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

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As of September 30, 2006, 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, 2006 and December 31, 2005

	September 30, 2006	December 31, 2005
	-----	-----
	(Unaudited)	
Assets		
Current Assets:		

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Cash and cash equivalents	\$ 169,029	\$ 4,730,837
Certificates of deposit	5,005,000	1,005,000
Accounts receivable, net of allowance of \$178,000 and \$210,000, respectively	6,666,881	5,370,611
Inventories:		
Raw materials	1,442,751	1,586,744
Work in process	2,309,076	2,218,774
Finished goods	2,463,165	2,166,177
	-----	-----
Total inventories	6,214,992	5,971,695
	-----	-----
Deferred income taxes	529,191	560,191
Other current assets	348,663	232,142
	-----	-----
Total current assets	18,933,756	17,870,476
	-----	-----
Property, Plant and Equipment:		
Land and improvements	1,029,035	1,029,035
Buildings and improvements	6,323,931	6,251,144
Production equipment, leased machines and other	29,597,136	29,163,667
	-----	-----
	36,950,102	36,443,846
Less accumulated depreciation	26,951,457	26,392,338
	-----	-----
Net property, plant and equipment	9,998,645	10,051,508
	-----	-----
Total assets	\$28,932,401	\$27,921,984
	=====	=====

See Notes to the Condensed Consolidated Financial Statements

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CHICAGO RIVET & MACHINE CO.  
Condensed Consolidated Balance Sheets  
September 30, 2006 and December 31, 2005

	September 30, 2006	December 31, 2005
	-----	-----
	(Unaudited)	
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	\$ 1,644,736	\$ 1,452,314
Accrued wages and salaries	907,644	680,969
Contributions due profit sharing plan	252,000	125,000
Accrued plant closing expenses	399,746	--

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Other accrued expenses	502,567	772,270
	-----	-----
Total current liabilities	3,706,693	3,030,553
Deferred income taxes	1,073,275	1,313,275
	-----	-----
Total liabilities	4,779,968	4,343,828
	-----	-----
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	26,489,301	25,915,024
Treasury stock, 171,964 shares at cost	(3,922,098)	(3,922,098)
	-----	-----
Total shareholders' equity	24,152,433	23,578,156
	-----	-----
Total liabilities and shareholders' equity	\$ 28,932,401	\$ 27,921,984
	=====	=====

See Notes to the Condensed Consolidated Financial Statements

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CHICAGO RIVET & MACHINE CO.  
Condensed Consolidated Statements of Operations  
For the Three and Nine Months Ended September 30, 2006 and 2005  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net sales	\$ 9,107,430	\$ 9,691,683	\$ 31,053,347	\$ 31,053,347
Lease revenue	25,033	26,678	77,433	77,433
	-----	-----	-----	-----
Cost of goods sold and costs related to lease revenue	9,132,463	9,718,361	31,130,780	31,130,780
	-----	-----	-----	-----
Gross profit	1,779,827	1,459,759	6,612,839	6,612,839
Selling and administrative expenses	1,491,616	1,759,263	4,758,465	4,758,465

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Plant closing expenses	8,204	--	408,605	
	-----	-----	-----	-----
Operating profit (loss)	280,007	(299,504)	1,445,769	
Other income and expenses:				
Interest income	66,572	41,124	176,490	
Other income	3,600	3,600	12,730	
	-----	-----	-----	-----
Income (loss) before income taxes	350,179	(254,780)	1,634,989	
Provision (benefit) for income taxes	112,000	(85,000)	539,000	
	-----	-----	-----	-----
Net income (loss)	\$ 238,179	\$ (169,780)	\$ 1,095,989	\$
	=====	=====	=====	=====
Average common shares outstanding	966,132	966,132	966,132	
	=====	=====	=====	=====
Per share data:				
Net income (loss) per share	0.24	\$ (0.17)	\$ 1.13	\$
	=====	=====	=====	=====
Cash dividends declared per share	\$ 0.18	\$ 0.18	\$ 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, 2006 and 2005  
(Unaudited)

	2006	2005
	-----	-----
Retained earnings at beginning of period	\$ 25,915,024	\$ 27,154,171
Net income (loss) for the nine months ended	1,095,989	(399,032)
Cash dividends declared in the period, \$ .54 and \$.69 per share in 2006 and 2005, respectively	(521,712)	(666,632)
	-----	-----
Retained earnings at end of period	\$ 26,489,301	\$ 26,088,507
	=====	=====

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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, 2006 and 2005  
 (Unaudited)

	2006	2005
Cash flows from operating activities:		
Net income (loss)	\$ 1,095,989	\$ (399,032)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	1,234,514	1,270,532
Net (gain) loss on the sale of equipment	(10,330)	8,003
Deferred income taxes	(209,000)	(133,000)
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,296,270)	(1,929,881)
Inventories	(243,297)	318,433
Other current assets	(116,521)	(75,266)
Accounts payable	159,361	560,267
Other accrued expenses	483,718	(105,966)
Net cash provided by (used in) operating activities	1,098,164	(485,910)
Cash flows from investing activities:		
Capital expenditures	(1,154,760)	(573,924)
Proceeds from the sale of equipment	16,500	500
Proceeds from held-to-maturity securities	6,275,000	805,000
Purchases of held-to-maturity securities	(10,275,000)	(1,005,000)
Net cash used in investing activities	(5,138,260)	(773,424)
Cash flows from financing activities:		
Cash dividends paid	(521,712)	(666,632)
Net cash used in financing activities	(521,712)	(666,632)
Net decrease in cash and cash equivalents	(4,561,808)	(1,925,966)
Cash and cash equivalents at beginning of period	4,730,837	5,464,368
Cash and cash equivalents at end of period	\$ 169,029	\$ 3,538,402
Supplemental schedule of non-cash investing activities:		
Capital expenditures in accounts payable	\$ 33,061	\$ 27,401

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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, 2006 (unaudited) and December 31, 2005 (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, 2006 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. On May 30, 2006 the Board of Directors of Chicago Rivet & Machine Co. determined that the Company would close its fastener operation in Jefferson, Iowa and transfer production activities to its facility in Tyrone, Pennsylvania. The Jefferson, Iowa facility had been operating below capacity, and the Company determined to close the facility as part of its cost savings efforts. While the exact timing is unknown at this time, it is expected that the transfer will be substantially complete by December 31, 2006.

The Company has recorded \$408,605, through September 30, 2006, relating to termination benefits and equipment moving expenses in connection with the closing of the Jefferson facility. The Company does not anticipate that it will record a material charge related to asset impairment as a result of this closing. Additional costs associated with the relocation of equipment and closing and disposal of the facility are anticipated, but the amount and timing

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of such costs are not known at this time.

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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 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	
<b>Three Months Ended September 30, 2006:</b>				
Net sales and lease revenue	\$ 7,833,763	\$ 1,298,700	\$ --	\$
Depreciation	368,575	25,377	23,152	
Segment profit	441,743	348,214		
Selling and administrative expenses			(498,146)	
Plant closing expenses	(8,204)			
Interest income			66,572	
Income before income taxes				
Capital expenditures	194,275	--	58,174	
Segment assets:				
Accounts receivable, net	5,907,432	759,449		
Inventories	4,544,100	1,670,892		
Property, plant and equipment, net	7,830,427	1,207,493	960,725	
Other assets			6,051,883	
<b>Three Months Ended September 30, 2005:</b>				
Net sales and lease revenue	\$ 8,488,640	\$ 1,229,721	\$ --	\$
Depreciation	384,206	26,404	20,096	
Segment profit	118,115	202,214		
Selling and administrative expenses			(616,233)	
Interest income			41,124	
Loss before income taxes				

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Capital expenditures	39,155	33,169	30,062
Segment assets:			
Accounts receivable, net	6,245,497	551,999	
Inventories	4,030,738	1,893,299	
Property, plant and equipment, net	8,179,240	1,311,511	977,855
Other assets			5,378,356

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

	Fastener -----	Assembly Equipment -----	Other -----	C
Nine Months Ended September 30, 2006:				
Net sales and lease revenue	\$ 26,543,850	\$ 4,586,930	\$ --	\$
Depreciation	1,091,291	76,131	67,092	
Segment profit	2,291,848	1,201,764		
Selling and administrative expenses			(1,626,508)	
Plant closing expenses	(408,605)			
Interest income			176,490	
Income before income taxes				
Capital expenditures	1,115,104	--	72,717	
Nine Months Ended September 30, 2005:				
Net sales and lease revenue	\$ 25,281,006	\$ 4,584,609	\$ --	\$
Depreciation	1,136,246	78,616	55,670	
Segment profit	230,607	984,762	--	
Selling and administrative expenses			(1,916,562)	
Interest income			101,161	
Loss before income taxes				
Capital expenditures	411,720	34,689	154,916	

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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 third quarter of 2006 declined \$585,898, or 6%, compared to the third quarter of 2005, as an increase in assembly equipment segment sales was more than offset by reduced fastener segment demand; however, year to date revenues remain ahead of 2005, reflecting an increase of \$1,265,165, or 4%. The decrease in revenues during the quarter was more than offset by reductions in certain manufacturing costs and administrative expenses, which resulted in net income for the quarter of \$238,179, or \$.24 per share, compared to a loss of \$169,780, or \$.17 per share, for the third quarter of 2005. This brings the current year to date net income to \$1,095,989, or \$1.13 per share, compared to a net loss of \$399,032, or \$.41 per share, for the first nine months of 2005.

Third quarter revenues within the fastener segment totaled \$7,833,763, a decrease of \$654,877, or 7.7%, compared to the third quarter of 2005. The reduction in fastener segment sales was due to lower demand from automotive industry customers. Despite the lower sales, we realized a net improvement in gross margin of approximately \$156,000 during the quarter due primarily to a reduction in tooling costs of \$132,000 and lower average material prices during the quarter. Additionally, labor costs declined in the quarter by approximately \$113,000, as work schedules were adjusted to match production needs, and expediting costs declined \$56,000 as such costs returned to more normal levels compared to the third quarter of 2005. The balance of the improvement in gross margin was the net result of a variety of overhead components. Fastener segment revenues have increased \$1,262,844, or 5%, in the first nine months of 2006 compared with 2005, totaling \$26,543,850. Gross margins have improved by approximately \$1,946,000 in the current year. The combination of higher sales and a \$670,000 reduction in tooling expense were the primary factors in this improvement. The reduction in tooling expense is attributed to a higher than normal number of parts being designed during 2005, and the overall longer life of certain tools during the current year. The increased manufacturing volume in the current year has also allowed for greater utilization of plant resources, further contributing to the improvement in margins in 2006.

Revenues within the assembly equipment segment increased by \$68,979, or 5.6%, during the third quarter of 2006, compared with the third quarter of 2005. The improvement was primarily due to an increase in the number of machines shipped during the quarter. The third quarter increase brings year to date revenues for this segment to \$4,586,930, fractionally ahead of 2005. Gross margins for the third quarter of 2006 increased \$164,000, benefiting not only from the increase in sales during the quarter, but also a reduction in labor costs and labor related expenses, due to turnover and headcount reductions. Similarly, the results for the first nine months of 2006 also reflect the aforementioned changes, resulting in an increase in gross margin of \$187,000 compared with 2005.

Selling and administrative expenses for the third quarter of 2006 declined by \$268,000 compared with the third quarter of 2005. Professional fees were \$72,000 lower in the third quarter of 2006 due to initial procedures performed in 2005 related to compliance with the Sarbanes-Oxley Act of 2002. Expenses were further reduced by \$149,000 due to the settlement of a litigation matter in 2005. Bad debt expense was \$63,000 lower in the quarter due to the bankruptcy of a certain customer in the third quarter of 2005, and salaries declined \$38,000 due to headcount reductions. Partially offsetting these lower expense items is an increase in profit sharing expense of \$62,000, related to

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higher profits for the third quarter of 2006. For the first nine months of 2006, selling and administrative expenses have declined \$434,000 compared to 2005. Professional fees have declined \$289,000 due to initial consulting incurred in 2005 related to Sarbanes-Oxley compliance. Selling and administrative expenses incurred in 2005 also included \$312,000 to resolve a litigation matter. The absence of a bankruptcy filing of a certain customer in the current year has resulted in a net decline in bad debt expense of \$73,000. The reduction in these expense items on a year to date basis is partially offset by the increase in profit sharing of \$252,000, due to more profitable operating results in 2006.

During May of the current year, a decision was made to close our Jefferson, Iowa fastener operation and transfer production activities of that location to our facility in Tyrone, Pennsylvania, to better utilize manufacturing capacity. We continue to make progress in that effort, and expect the transfer to be completed before December 31, 2006. As of September 30, 2006, a charge of \$408,605 has been recorded related to the plant closing. Additional costs associated with the relocation of equipment and disposal of the facility are expected, but the amount and timing of such costs are not known at this time.

Working capital at September 30, 2006 amounted to \$15.2 million, an increase of \$.4 million from the beginning of the year. Accounts receivable balances have increased \$1.3 million since the beginning of the year due to higher sales volumes. Offsetting this amount is an increase in current liabilities of nearly \$.7 million, of which \$.4 million relates to the accrual for termination benefits for the Jefferson, Iowa plant closing. Holdings in cash, cash equivalents and certificates of

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deposit amounted to \$5.2 million at the end of the third quarter, a year to date decline of \$.5 million. In the current year, almost \$1.2 million has been spent for capital items, primarily to expand our fastener segment production capabilities.

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, operating cash flow and the available line of credit will provide adequate working capital for the foreseeable future.

Although we are pleased to report a return to profitability for the third quarter and the first nine months of the year, the decline in sales for the third quarter is a matter of concern. News accounts related to the automotive sector, upon which we rely for revenue, continue to be dominated by reports on the challenging conditions in the domestic market. Given the current environment, we do not foresee significant improvements in that market in the short term. Competition from foreign sources also continues to be a significant factor, as domestic manufacturers struggle to deal with higher legacy costs, while their share of the automotive market continues to decline. In response, we will continue our efforts to develop relationships with foreign manufacturers to supplement our existing customer base. We will also continue to work to control costs and make the most of available resources while actively pursuing new business from both new and existing customers.

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

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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 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.

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## PART II -- OTHER INFORMATION

### Item 5. Other Information.

On November 9, 2006, the Company entered into a Consulting Agreement with John C. Osterman, the Company's former President, Chief Operating Officer and Treasurer. Mr. Osterman retired from the Company on May 9, 2006. Under the terms of the consulting agreement, Mr. Osterman will receive a quarterly consulting fee of \$15,000. The consulting agreement is effective as of July 1, 2006, and unless terminated earlier by either party, the term of the agreement is through June 30, 2007. A copy of the consulting agreement is attached hereto as Exhibit 10.1.

### Item 6. Exhibits.

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- 10.1 Consulting Agreement, dated November 9, 2006, between the Company and John C. Osterman
  
- 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: November 13, 2006

/s/ John A. Morrissey

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

Date: November 13, 2006

/s/ Michael J. Bourg

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

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CHICAGO RIVET & MACHINE CO.

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EXHIBITS

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