CHICAGO RIVET & MACHINE CO
Form 10-Q
November 10, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

OR

o **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 þ No o

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 o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company þ

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

As of September 30, 2008, 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, 2008 and December 31, 2007

	September 30, 2008 (Unaudited)	December 31, 2007
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,582,189	$ 665,072
Certificates of deposit	5,799,000	6,880,000
Accounts receivable, net of allowance of $103,000 and $95,000, respectively	4,525,798	5,329,413
Inventories	5,574,925	4,975,833
Deferred income taxes	464,191	451,191
Prepaid income taxes	58,481	211,025
Other current assets	373,560	287,542
Total current assets	18,378,144	18,800,076
Property, Plant and Equipment:		
Land and improvements	1,029,035	1,029,035
Buildings and improvements	6,391,952	6,385,831
Production equipment, leased machines and other	28,182,062	28,124,007
	35,603,049	35,538,873
Less accumulated depreciation	26,989,924	26,431,936
Net property, plant and equipment	8,613,125	9,106,937
Total assets	$ 26,991,269	$ 27,907,013

See Notes to the Condensed Consolidated Financial Statements

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CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Balance Sheets
September 30, 2008 and December 31, 2007

	September 30, 2008 (Unaudited)	December 31, 2007
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	$ 1,059,990	$ 1,147,014
Accrued wages and salaries	749,933	679,233
Accrued profit sharing plan contribution	80,000	201,000
Other accrued expenses	486,235	319,866
Total current liabilities	2,376,158	2,347,113
Deferred income taxes	894,275	985,275
Total liabilities	3,270,433	3,332,388
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	26,057,704	26,911,493
Treasury stock, 171,964 shares at cost	(3,922,098)	(3,922,098)
Total shareholders equity	23,720,836	24,574,625
Total liabilities and shareholders equity	$ 26,991,269	$ 27,907,013

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, 2008 and 2007
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net sales	$ 6,641,826	$ 9,020,453	$ 23,058,976	$ 29,051,926
Lease revenue	20,195	23,150	64,383	69,573
	6,662,021	9,043,603	23,123,359	29,121,499
Cost of goods sold and costs related to lease revenue	5,759,070	7,172,837	19,674,065	23,166,992
Gross profit	902,951	1,870,766	3,449,294	5,954,507
Selling and administrative expenses	1,250,338	1,373,104	3,923,055	4,300,613
Plant closing expenses		(459)		20,337
Operating profit (loss)	(347,387)	498,121	(473,761)	1,633,557
Other income and expenses:				
Interest income	48,378	77,380	178,225	224,837
Other income	3,600	3,600	11,378	11,378
Income (loss) before income taxes	(295,409)	579,101	(284,158)	1,869,772
Provision (benefit) for income taxes	(100,000)	207,000	(97,000)	664,000
Net income (loss)	$ (195,409)	$ 372,101	$ (187,158)	$ 1,205,772
Average common shares outstanding	966,132	966,132	966,132	966,132
Per share data:				
Net income (loss) per share	$ (0.20)	$ 0.39	$ (0.19)	$ 1.25
Cash dividends declared per share	$ 0.18	$ 0.18	$ 0.69	$ 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, 2008 and 2007
(Unaudited)

	2008	2007
Retained earnings at beginning of period	$ 26,911,493	$ 26,340,036
Net income (loss) for the nine months ended	(187,158)	1,205,772
Cash dividends declared in the period, $.69 and $.54 per share in 2008 and 2007, respectively	(666,631)	(521,712)
Retained earnings at end of period	$ 26,057,704	$ 27,024,096

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, 2008 and 2007
(Unaudited)

	2008	2007
Cash flows from operating activities:		
Net income (loss)	$ (187,158)	$ 1,205,772
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	803,352	845,896
Net gain on the sale of equipment	(22,753)	(25,022)
Deferred income taxes	(104,000)	(86,000)
Changes in operating assets and liabilities:		
Accounts receivable, net	803,615	(249,819)
Inventories	(599,092)	(82,424)
Other current assets	66,526	34,416
Accounts payable	(93,598)	4,426
Accrued wages and salaries	70,700	158,862
Accrued profit sharing contribution	(121,000)	(30,000)
Other accrued expenses	166,369	(198,430)
Net cash provided by operating activities	782,961	1,577,677
Cash flows from investing activities:		
Capital expenditures	(307,317)	(340,937)
Proceeds from the sale of equipment	27,104	37,816
Proceeds from certificates of deposit	11,180,000	13,405,000
Purchases of certificates of deposit	(10,099,000)	(12,880,000)
Net cash provided by investing activities	800,787	221,879

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 unaudited interim financial statements contain all adjustments necessary to present fairly the financial position of the Company as of September 30, 2008 (unaudited) and December 31, 2007 (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.

Certain items in 2007 have been reclassified to conform to the presentation in 2008. These changes have no effect on the results of operations or the financial position of the Company.

2. The results of operations for the three and nine-month period ending September 30, 2008 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 2005, 2006 and 2007 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, 2006 and 2007 federal income tax returns will expire on September 15, 2009, 2010 and 2011, respectively.

The Company s state income tax returns for the 2005 through 2007 tax years remain subject to examination by various state authorities with the latest closing period on October 31, 2011. 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:

	September 30, 2008	December 31, 2007
Raw material	$ 1,738,455	$ 1,275,595
Work-in-process	1,901,981	1,597,483
Finished goods	2,498,489	2,577,755
	6,138,925	5,450,833
Valuation reserves	(564,000)	(475,000)
	$ 5,574,925	$ 4,975,833

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, 2008:				
Net sales and lease revenue	$ 5,729,633	$ 932,388	$	$ 6,662,021
Depreciation	228,894	18,402	21,510	268,806
Segment profit	(33,995)	164,928		130,933
Selling and administrative expenses			(474,720)	(474,720)
Interest income			48,378	48,378
Loss before income taxes				(295,409)
Capital expenditures	129,492			129,492
Segment assets:				
Accounts receivable, net	4,036,269	489,529		4,525,798
Inventories	4,185,094	1,389,831		5,574,925
Property, plant and equipment, net	6,761,755	1,066,503	784,867	8,613,125
Other assets			8,277,421	8,277,421
				26,991,269
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	836,182	171,559		1,007,741
Selling and administrative expenses			(506,479)	(506,479)
Plant closing expenses	459			459
Interest income			77,380	77,380
Income before income taxes				579,101
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

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

	Fastener	Assembly Equipment	Other	Consolidated
Nine Months Ended September 30, 2008:				
Net sales and lease revenue	$ 20,095,316	$ 3,028,043	$	$ 23,123,359
Depreciation	683,514	55,446	64,392	803,352
Segment profit	562,399	538,645		1,101,044
Selling and administrative expenses			(1,563,427)	(1,563,427)
Interest income			178,225	178,225
Loss before income taxes				(284,158)
Capital expenditures	313,891			313,891
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	2,550,158	712,971		3,263,129
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				1,869,772
Capital expenditures	316,971	23,966		340,937

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CHICAGO RIVET & MACHINE CO.

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

Results for the third quarter of 2008, as well as the current year to date, continued to be negatively impacted by the decline in domestic automotive production compared to the year earlier periods, as well as worsening overall economic conditions. Net revenues in the third quarter of 2008 were $6,662,021, a decline of 26.3% compared to 2007, when revenues were $9,043,603. Year to date revenues total $23,123,359, a decline of 20.6% compared to the $29,121,499 recorded for the first three quarters of 2007. Although we have reduced expenses, cost reductions were not sufficient to offset the effects of the decline in sales. The net result was a net loss of $195,409, or $0.20 per share, in the third quarter of 2008 compared to net income of $372,101, or $0.39 per share, in 2007. The year to date net loss is $187,158, or $0.19 per share, compared to net income of $1,205,772, or $1.25 per share, for 2007.

Within the fastener segment, third quarter revenues declined by $2,175,478, or 27.5%, from $7,905,111 in 2007, to $5,729,633 in 2008. On a year to date basis, 2008 fastener segment revenues have declined by $5,395,947, or 21.2%, from $25,491,263 in 2007 to $20,095,316 in 2008. Demand among automotive sector customers, which has been down since late last year due to slumping U.S. auto sales, weakened further during the quarter as U.S. auto sales near a two-decade low. The spreading economic crisis further negatively impacted most other markets we serve. Along with the drop in demand, we have seen a dramatic increase in the cost of certain items we purchase, most notably steel and natural gas. While the price of steel has risen dramatically this year, our overall raw material costs are down due to the reduction in production activity. The increase in material prices results in raw materials accounting for a larger percentage of cost of sales compared to last year. In addition to natural gas, which increased by $14,000 during the third quarter and $49,000 year to date, the only significant increase in overhead during 2008 was tooling expense, which increased $65,000 through three quarters of 2008, down from $105,000 for the first half of the year, as certain design work was performed in an attempt to improve production efficiency. The closing of the Jefferson, Iowa plant in 2007 has resulted in approximately $106,000 in overhead cost reductions during 2008 compared to 2007. The net result of these factors was a $927,000 reduction in fastener segment gross margin during the third quarter and a $2,237,000 reduction in the year to date amount.

Assembly equipment segment revenues totaled $932,388 in the third quarter of 2008, a decline of $206,104, or 18.1%, compared to the third quarter of 2007, when revenues were $1,138,492. 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 $41,000 decline in gross margin compared to the third quarter of 2007. For the first nine months of 2008, revenues in this segment amounted to $3,028,043, a $602,193 decline, or 16.6%, compared to the first nine months of 2007 when net revenues totaled $3,630,236. In response to the lower level of sales activity in 2008, we have implemented steps t