CHICAGO RIVET & MACHINE CO
Form 10-Q
August 11, 2006

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 June 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)	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 June 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
June 30, 2006 and December 31, 2005

	June 30, 2006 (Unaudited)	December 31, 2005
Assets		
Current Assets:		
Cash and cash equivalents	$ 304,008	$ 4,730,837

Certificates of deposit	4,505,000	1,005,000
Accounts receivable, net of allowance of $203,000 and $210,000, respectively	7,264,111	5,370,611
Inventories:		
Raw materials	1,515,930	1,586,744
Work in process	2,248,468	2,218,774
Finished goods	2,030,419	2,166,177
Total inventories	5,794,817	5,971,695
Deferred income taxes	555,191	560,191
Other current assets	165,352	232,142
Total current assets	18,588,479	17,870,476
Property, Plant and Equipment:		
Land and improvements	1,029,035	1,029,035
Buildings and improvements	6,264,144	6,251,144
Production equipment, leased machines and other	29,838,234	29,163,667
	37,131,413	36,443,846
Less accumulated depreciation	26,968,113	26,392,338
Net property, plant and equipment	10,163,300	10,051,508
Total assets	$28,751,779	$27,921,984

See Notes to the Condensed Consolidated Financial Statements

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

	June 30, 2006	December 31, 2005
	(Unaudited)	
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	1,478,252	1,452,314
Accrued wages and salaries	871,164	680,969
Contributions due profit sharing plan	190,000	125,000
Accrued plant closing expenses	399,746	--
Other accrued expenses	656,184	772,270
Total current liabilities	3,595,346	3,030,553
Deferred income taxes	1,068,275	1,313,275
Total liabilities	4,663,621	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	26,425,026	25,915,024
Treasury stock, 171,964 shares at cost	(3,922,098)	(3,922,098)
Total shareholders' equity	24,088,158	23,578,156
Total liabilities and shareholders' equity	$28,751,779	$27,921,984

See Notes to the Condensed Consolidated Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net sales	$11,032,015	$10,036,880	$21,945,917	$20,091,999
Lease revenue	25,351	27,512	52,400	55,255
	11,057,366	10,064,392	21,998,317	20,147,254
Cost of goods sold and costs related to lease revenue	8,379,524	8,646,641	17,165,305	17,127,064
Gross profit	2,677,842	1,417,751	4,833,012	3,020,190
Selling and administrative expenses	1,637,046	1,683,491	3,266,849	3,433,257
Plant closing expenses	400,401	--	400,401	--
Operating profit (loss)	640,395	(265,740)	1,165,762	(413,067)
Other income and expenses:				
Interest income	53,954	33,275	109,918	60,037
Other income	4,177	2,978	9,130	7,778
Income (loss) before income taxes	698,526	(229,487)	1,284,810	(345,252)
Provision (benefit) for income taxes	230,000	(77,000)	427,000	(116,000)
Net income (loss)	$ 468,526	$ (152,487)	$ 857,810	$ (229,252)
Average common shares outstanding	966,132	966,132	966,132	966,132
Per share data:				

Net income (loss) per share	$ 0.49	$ (0.16)	$ 0.89	$ (0.24)
Cash dividends declared per share	$ 0.18	$ 0.18	$ 0.36	$ 0.51

See Notes to the Condensed Consolidated Financial Statements

CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Statements of Retained Earnings
For the Six Months Ended June 30, 2006 and 2005
(Unaudited)

	2006	2005
Retained earnings at beginning of period	$25,915,024	$27,154,171
Net income (loss) for the six months ended	857,810	(229,252)
Cash dividends declared in the period,		
$.36 and $.51 per share in 2006 and 2005, respectively	(347,808)	(492,727)
Retained earnings at end of period	$26,425,026	$26,432,192

See Notes to the Condensed Consolidated Financial Statements

CHICAGO RIVET & MACHINE CO.
Condensed Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2006 and 2005
(Unaudited)

	2006	2005
Cash flows from operating activities:		
Net income (loss)	$ 857,810	$ (229,252)
Adjustments to reconcile net income (loss) to net cash		
provided by (used in) operating activities:		
Depreciation	817,410	839,826
Net gain on the sale of equipment	(2,830)	(300)
Deferred income taxes	(240,000)	(215,000)
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,893,500)	(1,571,266)
Inventories	176,878	399,071
Other current assets	66,790	52,337
Accounts payable	(2,445)	483,562
Accrued wages and salaries	190,195	142,240
Accrued profit sharing	65,000	--

Other accrued expenses	283,660	73,487
Net cash provided by (used in) operating activities	318,968	(25,295)
Cash flows from investing activities:		
Capital expenditures	(906,989)	(269,878)
Proceeds from the sale of equipment	9,000	300
Proceeds from held-to-maturity securities	2,475,000	405,000
Purchases of held-to-maturity securities	(5,975,000)	(405,000)
Net cash used in investing activities	(4,397,989)	(269,578)
Cash flows from financing activities:		
Cash dividends paid	(347,808)	(492,727)
Net cash used in financing activities	(347,808)	(492,727)
Net decrease in cash and cash equivalents	(4,426,829)	(787,600)
Cash and cash equivalents at beginning of period	4,730,837	5,464,368
Cash and cash equivalents at end of period	$ 304,008	$ 4,676,768
Supplemental schedule of noncash investing activities:		
Capital expenditures in accounts payable	$ 28,383	$ 229,061

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 June 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 six-month period ending June 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 recorded a one-time charge of $400,401 relating to termination benefits 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 of such costs are not known at this time.

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	Consolidated
Three Months Ended June 30, 2006:				
Net sales and lease revenue	$ 9,529,364	$1,528,002		$11,057,366
Depreciation	361,486	25,377	22,370	409,233
Segment profit	1,201,970	402,778		1,604,748
Plant closing expenses	(400,401)			(400,401)
Selling and administrative expenses			(559,775)	(559,775)
Interest income			53,954	53,954
Income before income taxes				698,526
Capital expenditures	858,459	--	14,543	873,002
Segment assets:				
Accounts receivable, net	6,552,671	711,440		7,264,111
Inventories	4,185,252	1,609,565		5,794,817
Property, plant and equipment, net	8,004,727	1,232,870	925,703	10,163,300
Other assets			5,529,551	5,529,551
				28,751,779

Three Months Ended June 30, 2005:				
Net sales and lease revenue	$ 8,444,808	$1,619,584		$10,064,392
Depreciation	376,125	26,106	17,787	420,018
Segment profit	37,349	359,887		397,236
Selling and administrative expenses			(659,998)	(659,998)
Interest income			33,275	33,275
Income (loss) before income taxes				(229,487)
Capital expenditures	351,785	--	122,245	474,030
Segment assets:				
Accounts receivable, net	5,654,635	784,246		6,438,881
Inventories	3,972,629	1,870,770		5,843,399
Property, plant and equipment, net	8,532,793	1,304,745	967,891	10,805,429
Other assets			6,220,119	6,220,119
				29,307,828

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

	Fastener	Assembly Equipment	Other	Consolidated
Six Months Ended June 30, 2006:				
Net sales and lease revenue	$18,710,087	$3,288,230		$21,998,317
Depreciation	722,716	50,754	43,940	817,410
Segment profit	1,850,105	853,550		2,703,655
Plant closing expenses	(400,401)			(400,401)
Selling and administrative expenses			(1,128,362)	(1,128,362)
Interest income			109,918	109,918
Income before income taxes				1,284,810
Capital expenditures	920,829		14,543	935,372
Six Months Ended June 30, 2005:				
Net sales and lease revenue	$16,792,366	$3,354,888		$20,147,254
Depreciation	752,040	52,212	35,574	839,826
Segment profit	112,492	782,548		895,040

Selling and administrative expenses			(1,300,329)	(1,300,329)
Interest income			60,037	60,037
Income (loss) before income taxes				(345,252)
Capital expenditures	372,565	1,520	124,854	498,939

CHICAGO RIVET & MACHINE CO.

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

Results for the second quarter of 2006, as well as the current year to date, reflect continued improvement over the results for the same periods last year. For the quarter, sales have increased $993,000, bringing the increase for the year to $1,851,000. The combination of improved sales volume and the reduction in certain expenses has helped the Company to report net income of $469,000 in the quarter and $858,000 for the first half of the year, compared to net losses in the year earlier periods.

Within the fastener segment, revenues increased from $8,445,000 to $9,529,000, or 12.8%, during the second quarter of 2006. The increase in sales, combined with a reduction in tooling expense of $353,000, contributed to an increase in gross margin of approximately $1,234,000 compared to the second quarter of 2005. Two factors contributed to the tooling reduction in 2006: the first was the greater than normal expenditure for tool development during 2005 when parts were being designed prior to shipment to customers, the second was the overall longer life on certain tools during the current year. Margins were further improved due to higher production volume in the current year that has allowed for greater utilization of labor and overhead costs compared to 2005.

For the first six months, fastener segment revenues increased by $1,918,000, or 11.4%, from $16,792,000 to $18,710,000. Gross margins for the first six months of 2006 increased $1,790,000 compared to the first half of 2005. Higher sales volume was the primary factor behind the improvement in margins. Tooling expense has declined $537,000 year to date for the reasons outlined above.

Revenues within the assembly equipment segment totaled $1,528,000 in the second quarter of 2006, a decline of $92,000, or 5.7%, compared to the second quarter of 2005, when revenues were $1,620,000. Demand for our products in this segment continues to show weakness after rebounding slightly in the first quarter. Gross margins for this segment improved approximately $27,000 in the quarter, however, as headcount reductions that took place during the second quarter of 2005 have resulted in lower payroll and related benefits in the current year. For the first six months of 2006, revenues in this segment amounted to $3,288,000, a decline of approximately $67,000, or 2%, compared to the first six months of 2005. The current year to date reduction in payroll and related benefits offset the year to date decline in revenues and resulted in an improvement in gross margin of approximately $23,000.

Selling and administrative expenses for the second quarter of 2006 were approximately $46,000 lower than during the second quarter of 2005. Professional services were $85,000 lower in the quarter primarily due to procedures performed in 2005 related to compliance with the Sarbanes-Oxley Act of 2002, while legal fees declined $35,000 due to litigation and other matters resolved in 2005.

Further, salaries and wages declined $42,000 during the second quarter due to reduced headcount. These decreases were partially offset by an increase in profit sharing expense of $125,000 resulting from more profitable operations in the current year. On a year to date basis, selling and administrative expenses declined $166,000 compared to the first six months of 2005. Professional services were $217,000 lower, legal fees declined $108,000 and salaries and wages declined by $29,000, for the reasons stated above. These reductions were partially offset by profit sharing expense which has increased by $190,000 due to the return to profitability in the current year.

During May of the current year, a decision was made to close our fastener operation located in Jefferson, Iowa and transfer production activities to our facility in Tyrone, Pennsylvania to better utilize manufacturing capacity. Approximately $400,000 was accrued during the quarter for one-time termination benefits related to the closing. While the exact timing is unknown, the process of transferring activities is underway and is expected to be substantially completed by December 31, 2006. Additional costs associated with the relocation of equipment and closing and disposal of the facility are anticipated, but the amount and timing of such costs are not known at this time.

Working capital at June 30, 2006 amounted to $15 million, an increase of $.2 million from the beginning of the year. Holdings in cash, cash equivalents and certificates of deposit amounted to $4.8 million at the end of the second quarter, a year to date decline of $.9 million, which is approximately equal to capital outlays in 2006 that have been primarily to expand our fastener segment production capabilities. Offsetting this decline, accounts receivable balances have increased by $1.9 million this year. This increase is expected as sales in the latter portion of the second quarter typically exceed those towards the end of the calendar year. Current liabilities are $.6 million higher than at the beginning of the year, primarily due to the accrual of termination benefits related to the Jefferson, Iowa plant closing.

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.

The second quarter of 2006 reflects the continued improvement in customer demand that began in the first quarter. Along with the 9.9% improvement in sales, we were able to once again realize improved gross margins on a comparable quarter basis due to a significant reduction in tooling expense and greater utilization of plant capacity. However, we rely on the domestic automotive industry for revenue, and that reliance keeps us cautious as we look ahead. The domestic automotive industry has been declining for some time as it faces challenges related to labor issues, over-capacity and lower-cost foreign competition. Overall, raw material costs in the first half of 2006 receded slightly compared to the first half of 2005. However, some prices have increased again recently, and they remain significantly higher than historical levels. Competition for available market share continues to restrict our ability to raise prices. Although costs associated with Sarbanes-Oxley compliance have been lower thus far in 2006, final regulations as they relate to companies our size may change, resulting in further expenses that cannot be estimated at this time. While we are pleased with the return to profitability we have achieved in the first six months of 2006, the competitive landscape remains challenging, and we must continue to focus on controlling costs while investing wisely for the future.

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. Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Stockholders was held on May 9, 2006. The only proposal voted upon was the election of nine directors for a term ending at the Annual Meeting in 2007. The nine persons nominated by the Company's Board of Directors received the following votes and were elected:

NAME	VOTES FOR	VOTES WITHHELD
Michael J. Bourg	793,426	84,369
Edward L. Chott	791,114	85,294
Kent H. Cooney	791,849	84,844
Nirendu Dhar	791,040	85,444
William T. Divane, Jr.	792,975	84,269
George P. Lynch	791,078	85,314
John R. Madden	788,756	87,529
John A. Morrissey	792,339	84,739
Walter W. Morrissey	789,717	86,794

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: August 11, 2006

/s/ John A. Morrissey

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

Date: August 11, 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.

EXHIBITS

INDEX TO EXHIBITS