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CHICAGO RIVET & MACHINE CO

Form 10-K

March 21, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT
PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended December 31, 2006

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission file number 0-1227

CHICAGO RIVET & MACHINE CO.
(Exact name of registrant as specified in its charter)

ILLINOIS 36-0904920
(State of incorporation) (I.R.S. Employer Identification Number)

901 FRONTENAC ROAD, NAPERVILLE, ILLINOIS 60563
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (630) 357-8500

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class ----- | Name of Each Exchange on Which Registered ----- |
|--|--|
| Common Stock - \$1.00 Par Value (including Preferred Stock Purchase Rights) | American Stock Exchange (Trading privileges only, not registered) |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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 Act). Yes [] No [X]

The aggregate market value of common stock held by non-affiliates of the Company as of June 30, 2006 was \$18,104,818.

As of March 19, 2007 966,132 shares of the Company's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the Company's Annual Report to Shareholders for the year ended December 31, 2006 (the "2006 Report") are incorporated by reference in Parts I and II of this report.

(2) Portions of the Company's definitive Proxy Statement which is to be filed with the Securities and Exchange Commission in connection with the Company's 2007 Annual Meeting of Shareholders are incorporated by reference in Part III of this report.

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CHICAGO RIVET & MACHINE CO.

PERIOD ENDING DECEMBER 31, 2006

Item
No.

Part I

1. Business
- 1A. Risk Factors
- 1B. Unresolved Staff Comments
2. Properties
3. Legal Proceedings
4. Submission of Matters to a Vote of Security Holders

Part II

5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
6. Selected Financial Data

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- 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
- 7A. Quantitative and Qualitative Disclosures About Market Risk
- 8. Financial Statements and Supplementary Data
- 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
- 9A. Controls and Procedures

Part III

- 10. Directors, Executive Officers and Corporate Governance
- 11. Executive Compensation
- 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
- 13. Certain Relationships and Related Transactions, and Director Independence
- 14. Principal Accountant Fees and Services

Part IV

- 15. Exhibits and Financial Statement Schedules

2

PART I

ITEM 1 - BUSINESS

Chicago Rivet & Machine Co. (the "Company") was incorporated under the laws of the State of Illinois in December 1927, as successor to the business of Chicago Rivet & Specialty Co. The Company operates in two segments of the fastener industry: fasteners and assembly equipment. The fastener segment consists of the manufacture and sale of rivets, cold-formed fasteners and parts and screw machine products. The assembly equipment segment consists primarily of the manufacture of automatic rivet setting machines, automatic assembly equipment, parts and tools for such machines, and the leasing of automatic rivet setting machines. For further discussion regarding the Company's operations and segments, see Note 8 of the financial statements which appears on page 10 of the Company's 2006 Annual Report to Shareholders. The 2006 Annual Report is filed as an exhibit to this report.

The principal market for the Company's products is the North American automotive industry. Sales are solicited by employees and by independent sales representatives.

The segments in which the Company operates are characterized by active and substantial competition. No single company dominates the industry. The Company's competitors include both larger and smaller manufacturers, and segments or divisions of large, diversified companies with substantial financial resources. Principal competitive factors in the market for the Company's products are price, quality and service.

The Company serves a variety of customers. Revenues are primarily derived from sales to customers involved, directly or indirectly, in the manufacture of automobiles and automotive components. Information concerning backlog of orders is not considered material to the understanding of the Company's business due to relatively short production cycles. The level of business activity for the Company is closely related to the overall level of industrial activity in the United States. During 2006, sales to two customers exceeded 10% of the Company's consolidated revenues. Sales to Fisher & Company accounted for approximately 28%, 24% and 22% of the Company's consolidated revenues in 2006, 2005, and 2004, respectively. Sales to TI Group Automotive Systems Corporation accounted for approximately 13% of the Company's consolidated revenues in 2006, 2005 and 2004.

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The Company's business has historically been stronger during the first half of the year.

The Company purchases raw material from a number of sources, primarily within the United States. There are numerous sources of raw material, and the Company does not have to rely on a single source for any of its requirements. Beginning early in 2004, the cost of raw materials used in the manufacture of fasteners escalated sharply due to increased global demand, primarily in Asia. While prices for ferrous materials declined slightly in 2006, the price of non-ferrous materials continued to increase significantly during the year.

Patents, trademarks, licenses, franchises and concessions are not of significant importance to the business of the Company.

The Company does not engage in significant research activities, but rather in ongoing product improvement and development. The amounts spent on product development activities in the last three years were not material.

At December 31, 2006, the Company employed 261 people.

3

The Company has no foreign operations, and sales to foreign customers represent only a minor portion of the Company's total sales.

ITEM 1A - RISK FACTORS

Our business is subject to a number of risks and uncertainties. If any of the events contemplated by the following risks actually occur, then our business, financial condition or results of operations could be materially adversely affected. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business, financial condition and results of operations.

WE ARE DEPENDENT ON THE DOMESTIC AUTOMOTIVE INDUSTRY.

Demand for our products is directly related to conditions in the domestic automotive industry, which is highly cyclical and is affected by a variety of factors, including regulatory requirements, international trade policies, and consumer spending and preferences. The domestic automotive industry is characterized by significant overcapacity, fierce competition and significant pension and health care liabilities, and automotive production in the United States has declined between 1999 and 2006. Certain domestic automakers and component suppliers, including several of our customers, are financially distressed or may become financially distressed. In recent years, our gross margins have been negatively impacted in part due to the declines in domestic automotive production, and we have experienced increased accounts receivable write-offs as a result of bankruptcy filings by some of our customers. Any further decline in the domestic automotive industry could have a material adverse effect on our business, results of operations and financial condition.

WE FACE INTENSE COMPETITION.

We compete with a number of other manufacturers and distributors that produce and sell products similar to ours. Price, quality, and service are the primary elements of competition. Our competitors include a large number of independent domestic and international suppliers. We are not as large as a number of these companies and do not have as many financial or other resources. The competitive environment has also changed dramatically over the past several years as our customers, faced with intense international competition and

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pressure to reduce costs, have expanded their worldwide sourcing of components. As a result, we have experienced competition from suppliers in other parts of the world that enjoy economic advantages, such as lower labor costs and lower health care costs. There can be no assurance that we will be able to compete successfully with existing or new competitors. Increased competition could have a material adverse effect on our business, results of operations and financial condition.

WE RELY ON SALES TO TWO MAJOR CUSTOMERS.

Our sales in 2006 to two customers constituted approximately 41% of our consolidated revenues. Sales to Fisher & Company accounted for approximately 28%, 24% and 22% of the Company's consolidated revenues in 2006, 2005, and 2004, respectively. Sales to TI Group Automotive Systems Corporation accounted for approximately 13% of the Company's consolidated revenues in 2006, 2005 and 2004. The loss of any significant portion of our sales to these customers could have a material adverse effect on our business, results of operations and financial condition.

4

INCREASES IN OUR RAW MATERIAL COSTS OR DIFFICULTIES WITH OUR SUPPLIERS COULD NEGATIVELY AFFECT US.

While we currently maintain alternative sources for raw materials, our business is subject to the risk of price fluctuations and periodic delays in the delivery of certain raw materials. In recent years, we have been adversely impacted by increased costs for steel, our principal raw material, which we have been unable to wholly mitigate. Any continued fluctuation in the price or availability of our raw materials could have a material adverse impact on our business, results of operations and financial condition.

WE MAY BE ADVERSELY AFFECTED BY LABOR RELATIONS ISSUES.

Although none of our employees are unionized, the domestic automakers and many of their suppliers, including many of our customers, have unionized work forces. Work stoppages or slow-downs experienced by automakers or their suppliers could result in slow-downs or closures of assembly plants where our products are included in assembled components. In the event that one or more of our customers or their customers experiences a material labor relations issue, our business, results of operations and financial condition could be materially adversely affected.

WE MAY INCUR LOSSES AS A RESULT OF PRODUCTS LIABILITY, WARRANTY OR OTHER CLAIMS THAT MAY BE BROUGHT AGAINST US.

We face risk of exposure to warranty and product liability claims in the event that our products fail to perform as expected or result, or are alleged to have resulted, in bodily injury, property damage or other losses. In addition, if any of our products are or are alleged to be defective, then we may be required to participate in a product recall. We may also be involved from time to time in legal proceedings and commercial or contractual disputes. Any losses or other liabilities related to these exposures could have a material adverse effect on our business, results of operations and financial condition.

WE COULD BE ADVERSELY IMPACTED BY ENVIRONMENTAL LAWS AND REGULATIONS.

Our operations are subject to environmental laws and regulations. Currently, environmental costs and liabilities with respect to our operations are not material, but there can be no assurance that we will not be adversely

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impacted by these costs and liabilities in the future either under present laws and regulations or those that may be adopted or imposed in the future.

WE COULD BE ADVERSELY IMPACTED BY THE LOSS OF THE SERVICES OF KEY EMPLOYEES.

Successful operations depend, in part, upon the efforts of executive officers and other key employees. Our future success will depend, in part, upon our ability to attract and retain qualified personnel. Loss of the services of any of our key employees, or the inability to attract or retain employees could have a material adverse affect upon our business, financial condition and results of operations.

WE COULD BE ADVERSELY IMPACTED BY OUR FAILURE TO COMPLY WITH SECTION 404 OF THE SARBANES-OXLEY ACT

As a public company we are required to comply with the reporting obligations of the Exchange Act and will be required to comply with Section 404 of the Sarbanes-Oxley Act of 2002. If we fail to comply with the reporting obligations of the Exchange Act and Section 404 of the Sarbanes-Oxley Act for our fiscal year ending December 31, 2007, or if we fail to achieve and maintain adequate internal controls over financial reporting, our business, results of operations and financial condition, and investors' confidence in us, could be materially adversely affected.

5

THE PRICE OF OUR COMMON STOCK IS SUBJECT TO VOLATILITY, AND OUR STOCK IS THINLY TRADED.

Various factors, such as general economic changes in the financial markets, announcements or significant developments with respect to the automotive industry, actual or anticipated variations in our or our competitors' quarterly or annual financial results, the introduction of new products or technologies by us or our competitors, changes in other conditions or trends in our industry or in the markets of any of our significant customers, changes in governmental regulation, or changes in securities analysts' estimates of our competitors or our industry, could cause the market price of our common stock to fluctuate substantially.

Our common stock is traded on the American Stock Exchange (not registered, trading privileges only). The average daily trading volume for our common stock on the American Stock Exchange is currently less than 1,000 shares per day, and on some days we have zero volume. As a result, you may have difficulty selling shares of our common stock, and the price of our common stock may vary significantly based on trading volume.

ITEM 1B - UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2 - PROPERTIES

The Company's headquarters is located in Naperville, Illinois. It conducts its manufacturing and warehousing operations at four additional facilities. All of these facilities are described below. Each facility is owned by the Company and considered suitable and adequate for its present use. The Company also currently maintains a small sales and engineering office in Norwell, Massachusetts in a leased facility.

Of the properties described below, the Jefferson, Iowa and the Madison Heights, Michigan facilities are used entirely in the fastener segment. The

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Albia, Iowa facility is used exclusively in the assembly equipment segment. The Tyrone, Pennsylvania and the Naperville, Illinois facilities are utilized in both operating segments.

Plant Locations and Descriptions

| | |
|---------------------------|---|
| Naperville, Illinois | Brick, concrete block and partial metal construction with metal roof. |
| Tyrone, Pennsylvania | Concrete block with small tapered beam type |
| Jefferson, Iowa | Steel tapered beam construction. |
| Albia, Iowa | Concrete block with prestressed concrete roof |
| Madison Heights, Michigan | Concrete, brick and partial metal construction roof. |

6

ITEM 3 - LEGAL PROCEEDINGS

The Company is, from time to time involved in litigation, including environmental claims, 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.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of the Company's shareholders during the fourth quarter of 2006.

7

Executive Officers of the Registrant

The names, ages and positions of all executive officers of the Company, as of March 21, 2007, are listed below. Officers are elected annually by the Board of Directors at the meeting of the directors immediately following the Annual Meeting of Shareholders. There are no family relationships among these officers, nor any arrangement or understanding between any officer and any other person pursuant to which the officer was selected.

| Name and Age of Officer ----- | | Position ----- | Years an Officer ----- |
|----------------------------------|----|---|---------------------------|
| John A. Morrissey | 71 | Chairman, Chief Executive Officer | 26 |
| Michael J. Bourg | 44 | President, Chief Operating Officer and Treasurer | 8 |

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| | | | |
|----------------------|----|--|----|
| Kimberly A. Kirhofer | 48 | Secretary | 16 |
| Nirendu Dhar | 65 | General Manager, H & L Tool Company, Inc. | 6 |

- Mr. Morrissey has been Chairman of the Board of Directors of the Company since November 1979, and Chief Executive Officer since August 1981. He has been a director of the Company since 1968.
- Mr. Bourg has been President, Chief Operating Officer and Treasurer of the Company since May 2006. He was Corporate Controller from December 1998 to November 2005. He became Vice President - Finance in November 2005 and was named Executive Vice President in February 2006. He has been a director of the Company since May 2006.
- Mrs. Kirhofer has been Secretary of the Company since August 1991, and was Assistant Secretary of the Company from February 1991 through August 1991. Prior to that, she held various administrative positions with the Company since May 1983.
- Mr. Dhar has been employed as General Manager of the Company's subsidiary, H & L Tool Company, Inc., since 1996. Mr. Dhar was employed as Plant Manager and Chief Engineer of H & L Tool Company, Inc. prior to the Company's acquisition of H & L Tool Company, Inc. for more than five years. He has been a director of the Company since May 2001.

8

PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is traded on the American Stock Exchange (trading privileges only, not registered). As of February 14, 2007 there were approximately 250 shareholders of record of such stock. The information on the market price of, and dividends paid with respect to, the Company's common stock, set forth in the section entitled "Information on Company's Common Stock" which appears on page 12 of the 2006 Annual Report is incorporated herein by reference. The 2006 Annual Report is filed as an exhibit to this report. See Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations - Dividends," for additional information about the Company's dividend policy.

Under the terms of a stock repurchase authorization originally approved by the Board of Directors of the Company in February of 1990, as amended, the Company is authorized to repurchase up to an aggregate of 200,000 shares of its common stock, in the open market or in private transactions, at prices deemed reasonable by management. Cumulative purchases under the repurchase authorization have amounted to 162,996 shares at an average price of \$15.66 per share. The Company has not purchased any shares of its common stock since 2002.

ITEM 6 - SELECTED FINANCIAL DATA

The section entitled "Selected Financial Data" which appears on page 12 of the 2006 Annual Report is incorporated herein by reference. The 2006 Annual Report is filed as an exhibit to this report.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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FORWARD-LOOKING STATEMENTS

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 above under "Risk Factors" and elsewhere in this Form 10-K. As stated elsewhere in this filing, such 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.

RESULTS OF OPERATIONS

The past year began on a positive note, as net sales for the first six months increased 9% over the first half of 2005. This growth in sales contributed to the return to profitability in the first two quarters of 2006. However, the second half of the year proved to be more challenging. Net sales in the third and fourth

9

quarters each reflected declines of approximately 6% compared to the same period a year earlier. This resulted in a total net sales increase for 2006 of less than 2% compared to 2005. Despite the lower sales in the second half of the year, we were able to maintain profitability due in part to reductions in various expenditures throughout the year, finishing 2006 with net income per share of \$1.16, compared to a year earlier loss. Results in 2006 were adversely impacted by costs related to closing our Jefferson, Iowa fastener manufacturing facility.

2006 COMPARED TO 2005

Net sales within the fastener segment increased \$472,000, or 1.4%, during 2006 compared with 2005. The fastener segment started the year relatively strong and reflected an increase in net sales of 11.4% after the second quarter. However, the second half of the year was particularly weak, as sales in the third and fourth quarter declined 8.4% compared to the prior year. The up and down results were tied to changes in demand from our larger automotive customers. Production cuts by domestic automotive companies, in response to high inventory levels and reduced sales forecasts, were largely responsible for the weakness we experienced in the second half of the year. Gross margins within this segment improved by approximately \$1,920,000 during 2006, aided by the net increase in sales and the decline of two expense items that had large increases in 2005. Tooling expense declined by more than \$1 million during 2006, as cost controls were emphasized and better tool life was achieved during the year, and expediting costs declined by \$130,000, returning to more normal levels. Additionally, material cost of sales declined \$396,000, primarily due to lower average steel prices during 2006 compared with 2005.

Revenues within the assembly equipment segment increased by \$137,116, or 2.4%, to \$5,948,579 in 2006, compared with \$5,811,463 in 2005. Most of the increase was the result of an improved fourth quarter when net sales increased

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11% compared with the fourth quarter of 2005. The improvement was primarily due to an increase in the number of specialty machines shipped during the current year and not the result of an overall improvement in the marketplace. Gross margins for 2006 increased approximately \$220,000, benefiting not only from the increase in sales, but also a reduction in labor costs and labor related expenses, due to headcount reductions.

Selling and administrative expenses declined \$689,687 during 2006 compared with 2005. Professional fees declined \$334,000 in 2006 due to initial procedures performed in 2005 related to compliance with the Sarbanes-Oxley Act of 2002. Selling and administrative expenses incurred in 2005 also included \$315,000 to resolve a litigation matter. Expenses were further reduced by \$103,000 due to the absence of bankruptcy filings of certain customers in the current year. Finally, salaries and related benefits declined by \$84,000, primarily due to turnover and headcount reductions during the year. The reduction in these expense items was partially offset by the increase in profit sharing expense of \$100,000, due to the profitable operating results in 2006.

In May of 2006, a decision was made to close our Jefferson, Iowa fastener operation and transfer production activities to our facility in Tyrone, Pennsylvania, to better utilize manufacturing capacity. During the fourth quarter, manufacturing activities in Jefferson concluded. We are currently in the process of selling and or transferring the remaining assets of that location, and anticipate having the building ready for sale in the first quarter of 2007. As of December 31, 2006, a charge of \$422,934 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, nor are they expected to be material.

10

2005 COMPARED TO 2004

During 2005, revenues within the fastener segment increased by nearly \$1.5 million, or 4.5%, compared with the prior year. However, a change in product mix, combined with ongoing competitive pressures within our markets, which adversely impacted selling prices, contributed to a decline in gross margins within this segment. Change in product mix was the primary factor causing material costs to increase \$1.3 million compared to 2004 and was also the main factor contributing to a \$757,000 increase in outside processing services. Labor and fringe benefit costs increased approximately \$350,000. Tooling costs increased by approximately \$518,000 compared to 2004, primarily due to costs related to the manufacture of new parts used in a number of new automotive platform launches. The Company also incurred an increase of \$253,000 related to costs associated with expedited delivery due to shortened customer lead-time requirements.

Weak demand continued to characterize the assembly equipment segment of our business in 2005, contributing to a decline in revenues of \$944,000, or 14%, compared to the prior year. We were able to reduce most manufacturing costs in direct proportion to the decline in revenues. Labor and fringe benefit costs declined by \$305,000, while raw material costs were \$91,000 lower than the prior year. Additionally, most other elements of cost declined as a result of lower volumes. However, the net effect of lower volume was a decline of \$491,000 in gross margins.

Selling and administrative expenses increased by \$682,000 in 2005 compared to 2004. The single largest factor affecting the change in total expenses in this category between the two years is that during 2004, the Company received a refund of the Michigan single business tax that amounted to \$330,000. This refund was the result of a successful appeal of the tax calculation for the

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prior four years. Professional fees and expenses incurred, primarily related to compliance with the Sarbanes-Oxley Act of 2002, increased by \$359,000 during 2005. Legal fees increased approximately \$140,000 in 2005, primarily due to protracted litigation that was resolved that year. Bad debt expense increased \$73,000, primarily in connection with the bankruptcy of certain customers. These increases were partially offset by reductions in a variety of other expenses; the most significant being a reduction in profit sharing expense of \$127,000, due to the decrease in profitability, and lower depreciation of office equipment of \$57,000.

During the fourth quarter of 2005, the Company realized a gain of \$256,660 from proceeds received due to the demutualization of an insurance provider.

DIVIDENDS

In determining to pay dividends, the Board considers current profitability, the outlook for longer-term profitability, known and potential cash requirements and the overall financial condition of the Company. The Company paid four regular quarterly dividends of \$.18 per share during 2006, for a total dividend distribution of \$.72 per share for the year. On February 19, 2007, your Board of Directors declared a regular quarterly dividend of \$.18 per share, payable March 20, 2007 to shareholders of record on March 5, 2007. This continues the uninterrupted record of consecutive quarterly dividends paid by the Company to its shareholders that extends over 73 years.

PROPERTY, PLANT AND EQUIPMENT

Capital expenditures during 2006 totaled \$1,451,756, of which \$1,374,009 was invested in equipment for our fastener operations. Approximately \$680,000 was spent on cold-heading equipment that will expand our capabilities to make larger parts and approximately \$233,000 was spent on equipment for performing secondary operations, such as grinding and shaving of parts. Additionally, approximately \$346,000 was spent on inspection equipment. The remaining additions were for computer hardware and other equipment not specifically assigned to a single segment.

11

Total capital expenditures in 2005 were \$647,162. Of the total, \$460,000 was invested in building improvements, including \$422,495 for new roofs at two facilities. Fastener segment equipment additions amounted to \$91,000, primarily for equipment related to plating of parts and quality control. Assembly equipment segment additions totaled \$36,000, with approximately \$32,000 expended for equipment used to manufacture perishable tooling. The remaining additions related primarily to computer equipment and other miscellaneous equipment benefiting both operating segments.

Capital investments totaled \$1.4 million during 2004. Capital expenditures were concentrated within the fastener segment, where investment totaled \$1.3 million. Of this total, \$1.1 million was invested to purchase cold-heading machinery and related equipment used in the manufacture of fasteners. The remainder of the expenditures within the fastener segment was for various building improvements, additional waste treatment equipment required to meet environmental requirements, and material handling equipment. The balance of the Company's 2004 capital expenditures covered a variety of smaller items, including computers and other office equipment.

Depreciation expense amounted to \$1,659,834 in 2006, \$1,703,382 in 2005, and \$1,757,962 in 2004.

LIQUIDITY AND CAPITAL RESOURCES

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The Company's working capital increased approximately \$.4 million between December 31, 2005 and December 31, 2006. The Company's holdings in cash, cash equivalents and certificates of deposit amounted to approximately \$5.7 million at the end of 2006, a slight increase compared with the prior year-end. Inventories were reduced by nearly \$.5 million, as higher than normal quantities on hand during the last two years to guard against supply shortages were further reduced. Accounts receivable increased \$.5 million compared with the prior year-end, primarily due to a change in the regular payment schedule for a certain customer and not due to any specific collection concern. The accrual for profit sharing contribution increased \$.1 million compared to the prior year, due to more profitable operations in 2006, while the remaining accrued expenses decreased \$.3 million as accrued plant closing expenses as of December 31, 2006 were offset by reductions in the liability for income taxes and customer deposits. The Company's investing activities in 2006 primarily consisted of capital expenditures of \$1.3 million and the net investment in certificates of deposit of \$4.4 million. The only financing activity during 2006 was the payment of \$.7 million in dividends. The Company has a \$1.0 million line of credit, which expires May 31, 2007. This line of credit remains unused.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into, and has no current plans to enter into, any off-balance sheet financing arrangements.

The following table presents a summary of the Company's contractual obligations as of December 31, 2006:

| Contractual Obligation | Payments Due By Period | | | | |
|---------------------------|------------------------|---------------------|----------------|----------------|----------------------|
| | Total | Less Than 1 Year | 1 - 3 Years | 4 - 5 Years | More Than 5 Years |
| Long-term Debt | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |
| Capital Lease Obligations | -- | -- | -- | -- | -- |
| Operating Leases | 39,934 | 29,830 | 10,104 | -- | -- |
| Purchase Obligations | 286,884 | 257,605 | 28,163 | 1,116 | -- |
| Total | \$326,818 | \$ 287,435 | \$ 38,267 | \$ 1,116 | \$ -- |

12

Management believes that current cash, cash equivalents, operating cash flow and available line of credit will be sufficient to provide adequate working capital for the foreseeable future.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2006, the Company did not have any outstanding debt. The Company did not use any derivative financial instruments during 2006.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of revenue and expenses during the reporting period. A summary of

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critical accounting policies can be found in Note 1 of the financial statements.

NEW ACCOUNTING STANDARDS

The Company's financial statements and financial condition were not, and are not expected to be, materially impacted by new, or proposed, accounting standards.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The firm of PricewaterhouseCoopers LLP served as the Company's independent registered public accounting firm for the year ended December 31, 2004.

On February 28, 2005, the Company was notified by PricewaterhouseCoopers LLP that they would not stand for re-election as the Company's independent registered public accounting firm for the year ending December 31, 2005. PricewaterhouseCoopers LLP agreed, however, to continue to serve as the Company's independent registered public accounting firm until completion of its procedures on the financial statements of the Company for the year ended December 31, 2004. On March 21, 2005, PricewaterhouseCoopers LLP completed its procedures on the financial statements of the Company for the year ended December 31, 2004, and ceased serving as the Company's independent registered public accounting firm.

On March 23, 2005, the Audit Committee engaged Grant Thornton LLP to serve as the Company's independent registered public accounting firm for the year ended December 31, 2005.

The report of PricewaterhouseCoopers LLP on the Company's financial statements for the year ended December 31, 2004 did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principle. During the year ended December 31, 2004 and through March 21, 2005, there were no disagreements with PricewaterhouseCoopers LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of PricewaterhouseCoopers LLP, would have caused PricewaterhouseCoopers LLP to make reference thereto in its report on the Company's financial statements for that year. During the year ended December 31, 2004 and through March 21, 2005, there were no "reportable events" (as defined in SEC Regulation S-K Item 304(a)(1)(v)).

Between January 1, 2003 and the engagement of Grant Thornton LLP on March 23, 2005, neither the Company nor anyone acting on behalf of the Company consulted with Grant Thornton LLP regarding either (i) the application of accounting principles to a specified completed or contemplated transaction or the type of audit opinion that might be rendered on the Company's financial statements; as such, no written or oral

13

advice was provided or (ii) any matter that was either the subject of a disagreement with PricewaterhouseCoopers LLP or a "reportable event."

PERSONNEL

On May 9, 2006, the Board of Directors elected Michael J. Bourg to the positions of President, Chief Operating Officer and Treasurer of the Company, replacing John C. Osterman who had announced on November 21, 2005 his intention to retire from the Company.

OUTLOOK FOR 2007

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While we are certainly pleased to report a return to profitable operations in 2006, many challenges are evident as we begin the new year. Automotive industry conditions continue to be challenging domestically due to overcapacity, high retiree benefits costs and intense competition. Due to our heavy reliance upon the domestic auto market we are impacted by these conditions. We expect these conditions to continue for the foreseeable future as end-users of our products continue to look for cost savings in their own operations. The domestic "Big Three" automakers are at varying stages of well-publicized restructurings and the effects of these restructurings on their suppliers remain unclear. At the same time, customer demand for higher quality and lower prices continues unabated. While we have obtained sales from customers that supply the import brands, we will need to further penetrate that market to offset production cuts of the domestic brands. Our ability to increase revenues as well as diversifying our customer base will be a significant factor in our future growth.

Although we reported higher revenues and profits in the assembly equipment segment during 2006, our volume of activity measured in units sold actually declined. Given industrial output data currently available, we have no reason to expect any significant improvement in this segment in the near-term. The increase reported in 2006 was primarily due to specialty equipment sales, which although providing higher revenue opportunities, are also less predictable in nature.

We will continue our efforts to increase our sales revenues in all markets by emphasizing value over price and will focus on more complex products used by customers for which our expertise, service and unsurpassed quality are important factors in making purchasing decisions. At the same time, we will continue to pursue solutions that help improve our operations at all levels while continuing our efforts to control operating costs.

Our future success is dependent on how we anticipate, and respond to, many ever-changing factors. We believe that the valuable contributions of our employees, whose dedicated efforts allowed for the turnaround achieved in 2006, and our sound financial condition, will help us face the challenges ahead in 2007. We also wish to thank our customers and our shareholders for their continued support.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2006, the Company did not have any outstanding debt. During 2006 the Company did not use derivative financial instruments.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the sections entitled "Consolidated Financial Statements" and "Financial Statement Schedule" which appear on pages 19 through 22 of this report.

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On February 28, 2005, the Company was notified by PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm that it declined to stand for re-election as the Company's independent registered public accounting firm for the year ending December 31, 2005, as reported on the Form 8-K filed on March 4, 2005. On March 21, 2005, PricewaterhouseCoopers LLP completed its procedures on the financial statements of the Company for the year ended December 31, 2004, and PricewaterhouseCoopers LLP ceased serving as the

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Company's independent registered public accounting firm, as reported on the Form 8-K/A filed on March 23, 2005.

On March 23, 2005, the Company engaged Grant Thornton LLP as its independent registered public accounting firm for the year ending December 31, 2005, as reported on the Form 8-K filed on March 25, 2005.

ITEM 9A - 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 quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

15

PART III

ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information in the Company's 2007 Proxy Statement (i) with respect to the Board of Directors' nominees for directors that is not related to security ownership in "Security Ownership of Management" (ii) in the third paragraph in "Additional Information Concerning the Board of Directors and Committees" and (iii) in "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference. The 2007 Proxy Statement is to be filed with the Securities and Exchange Commission in connection with the Company's 2007 Annual Meeting of Shareholders. The information called for with respect to executive officers of the Company is included in Part I of this Report on Form 10-K under the caption "Executive Officers of the Registrant."

The Company has adopted a code of ethics for its principal executive officer, chief operating officer and senior financial officers. A copy of this code of ethics was filed as Exhibit 14 to the Company's Annual Report on Form 10-K dated March 29, 2005.

ITEM 11 - EXECUTIVE COMPENSATION

The information set forth in the Company's 2007 Proxy Statement in "Compensation of Directors and Executive Officers" is incorporated herein by reference.

The Compensation Committee of the Board of Directors currently consists of Directors Edward L. Chott, William T. Divane, Jr., George P. Lynch and John R. Madden.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND

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RELATED STOCKHOLDER MATTERS

The information set forth in the Company's 2007 Proxy Statement in "Principal Shareholders" and the information with respect to security ownership of the Company's directors and officers set forth in "Security Ownership of Management" is incorporated herein by reference.

The Company does not have any equity compensation plans or arrangements.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information set forth the Company's 2007 Proxy Statement in (i) "Additional Information Concerning the Board of Directors and Committees - Policy Regarding Related Person Transactions" and (ii) the first paragraph under "Additional Information Concerning the Board of Directors and Committees" is incorporated herein by reference.

ITEM 14 - PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information set forth in the Company's 2007 Proxy Statement in (i) "Independent Registered Public Accounting Firm - Fee Table" and (ii) the last paragraph under "Independent Registered Public Accounting Firm" is incorporated herein by reference.

16

PART IV

ITEM 15 - EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this report:

1. Financial Statements:

See the section entitled "Consolidated Financial Statements" which appears on page 19 of this report.

2. Financial statement schedule and supplementary information required to be submitted:

See the section entitled "Financial Statement Schedule" which appears on pages 20 through 22 of this report.

3. Exhibits:

See the section entitled "Exhibits" which appears on page 23 of this report.

17

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Chicago Rivet & Machine Co. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Chicago Rivet & Machine Co.

By /s/ Michael J. Bourg

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Michael J. Bourg
President and Chief Operating Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| | |
|--|---|
| /s/ John A. Morrissey ----- John A. Morrissey | Chairman of the Board of Directors, Chief Executive Officer (Principal Executive Officer) and Member of the Executive Committee March 21, 2007 |
| /s/ Michael J. Bourg ----- Michael J. Bourg | President, Chief Operating Officer, Treasurer (Principal Financial and Accounting Officer), Member of the Executive Committee and Director March 21, 2007 |
| /s/ Edward L. Chott ----- Edward L. Chott | Director, Member of the Audit Committee March 21, 2007 |
| /s/ Kent H. Cooney ----- Kent H. Cooney | Director, Member of the Audit Committee March 21, 2007 |
| /s/ Nirendu Dhar ----- Nirendu Dhar | Director March 21, 2007 |
| /s/ William T. Divane, Jr. ----- William T. Divane | Director, Member of the Audit Committee March 21, 2007 |
| /s/ George P. Lynch ----- George P. Lynch | Director March 21, 2007 |
| /s/ John R. Madden ----- John R. Madden | Director, Member of the Executive Committee and the Audit Committee March 21, 2007 |
| /s/ Walter W. Morrissey ----- Walter W. Morrissey | Director, Member of Executive Committee March 21, 2007 |

18

CHICAGO RIVET & MACHINE CO.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements, together with the notes thereto and the reports thereon of Grant Thornton LLP dated March 20, 2007 and PricewaterhouseCoopers LLP dated March 21, 2005, appearing on pages 5 to 11 of the accompanying 2006 Annual Report, and the section entitled "Quarterly

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Financial Data (Unaudited)" appearing on page 12 of the accompanying 2006 Annual Report are incorporated herein by reference. With the exception of the aforementioned information and the information incorporated in Items 1, 5, 6 and 8 herein, the 2006 Annual Report is not to be deemed filed as part of this Form 10-K Annual Report.

Consolidated Financial Statements from 2006 Annual Report (Exhibit 13 hereto):

Consolidated Balance Sheets (page 5 of 2006 Annual Report)

Consolidated Statements of Income (page 6 of 2006 Annual Report)

Consolidated Statements of Retained Earnings (page 6 of 2006 Annual Report)

Consolidated Statements of Cash Flows (page 7 of 2006 Annual Report)

Notes to Consolidated Financial Statements (pages 8, 9, and 10 of 2006 Annual Report)

Reports of Independent Registered Public Accounting Firms (page 11 of 2006 Annual Report)

Quarterly Financial Data (Unaudited) (page 12 of 2006 Annual Report)

19

FINANCIAL STATEMENT SCHEDULE

2006, 2005 AND 2004

The following financial statement schedule should be read in conjunction with the consolidated financial statements and the notes thereto in the 2006 Annual Report. Financial statement schedules not included herein have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

| | Page |
|--|------|
| | ---- |
| Financial Statement Schedule: | |
| Valuation and Qualifying Accounts (Schedule II) | 21 |
| Reports of Independent Registered Public Accounting Firms on Financial Statement Schedule | 22 |

20

CHICAGO RIVET & MACHINE CO. SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

| Classification | Balance at Beginning of Year | Additions Charged to Expenses | Deducti |
|----------------|------------------------------------|-------------------------------------|---------|
|----------------|------------------------------------|-------------------------------------|---------|

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| | | | |
|---|-----------|------------|--------|
| ----- | ----- | ----- | ----- |
| 2006 | | | |
| Allowance for doubtful accounts, returns and allowances | \$210,000 | \$ (5,688) | \$ 54, |
| 2005 | | | |
| Allowance for doubtful accounts, returns and allowances | \$130,000 | \$ 97,487 | \$ 17, |
| 2004 | | | |
| Allowance for doubtful accounts, returns and allowances | \$220,000 | \$ 24,670 | \$114, |

(1) Accounts receivable written off, net of recoveries.

21

Report of Independent Registered Public Accounting Firm on Financial Statement Schedule

To the Board of Directors
of Chicago Rivet & Machine Co.

Our audits of the consolidated financial statements referred to in our report dated March 20, 2007 appearing in the 2006 Annual Report to Shareholders of Chicago Rivet & Machine Co. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

Grant Thornton LLP
Chicago, Illinois
March 20, 2007

Report of Independent Registered Public Accounting Firm on Financial Statement Schedule

To the Board of Directors
of Chicago Rivet & Machine Co.

Our audit of the consolidated financial statements referred to in our report dated March 21, 2005 appearing in the 2006 Annual Report to Shareholders of Chicago Rivet & Machine Co. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule as of and for the year ended December 31, 2004 listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP
Chicago, Illinois
March 21, 2005

22

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CHICAGO RIVET & MACHINE CO.

EXHIBITS

INDEX TO EXHIBITS

Exhibit
Number

- 3.1 Articles of Incorporation, as last amended August 18, 1997. Incorporated by reference to the Company's report on Form 10-K, dated March 27, 1998. File number 0000-01227
- 3.2 Amended and Restated By-Laws, as amended February 16, 2004. Incorporated by reference to the Company's report on Form 10-K, dated March 29, 2004. File number 0000-01227
- 4.1 Rights Agreement, dated November 22, 1999, between the Company and First Chicago Trust Company of New York as Rights Agent. Incorporated by reference to the Company's report on Form 10-K, dated March 29, 2000. File number 0000-01227
- 13* Annual Report to Shareholders for the year ended December 31, 2006.
- 14 Code of Ethics for Principal Executive and Senior Financial Officers. Incorporated by reference to the Company's report on Form 10-K, dated March 29, 2005. File number 0000-01227
- 21 Subsidiaries of the Registrant.
- 31.1 Certification of CEO 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 of CFO Pursuant to Rule 13a-14(a) or 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- * Only the portions of this exhibit which are specifically incorporated herein by reference shall be deemed to be filed herewith.