RIVIERA TOOL CO
Form 10-Q
July 16, 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10 - Q

Quarterly Report Under Section 13 or 15 (d) of the
Securities Exchange Act of 1934

For The Quarter Ended May 31, 2001
Commission File Number 001 - 12673

RIVIERA TOOL COMPANY

A Michigan Corporation
I.R.S. Employer Identification No. 38- 2828870
5460 Executive Parkway S.E., Grand Rapids, Michigan 49512
Telephone: (616) 698 - 2100

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

The number of Common Shares outstanding at July 12, 2001 was 3,379,609.

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PART I
FINANCIAL INFORMATION

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PART II
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Item 1.	Legal Proceedings - The Company is involved in legal proceedings which are ordinary or routine to its operations. In the opinion of management, no existing proceedings would have a significant effect on the financial condition, results of operations and cash flows of the Company, if determined against the Company.
Item 2.	Changes in Securities - None.
Item 3.	Default Upon Senior Securities - None
Item 4.	Submission of Matters to a Vote of Security Holders - None
Item 5.	Other Information - None

Item 6. Exhibits and Reports on Form 8 - K.
6(a) Exhibits - None
6(b) Reports on Form 8-K - None

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RIVIERA TOOL COMPANY
FINANCIAL STATEMENTS

BALANCE SHEETS

ASSETS	NOTE	MAY 31, 2001 (UNAUDITED)
CURRENT ASSETS		
Cash		$ 34,3
Accounts receivable		5,594,1
Costs and estimated gross profit in excess of billings on contracts in process	2	2,711,7
Inventories		306,6
Federal income tax refundable		
Prepaid expenses and other current assets		81,9
Total current assets		8,728,8
PROPERTY, PLANT AND EQUIPMENT, NET	3	16,571,4
PERISHABLE TOOLING		575,1
OTHER ASSETS		135,7
Total assets		$ 26,011,2

LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt	4	$ 1,983,9
Accounts payable		515,7

Accrued liabilities		593,1
Total Current liabilities		3,092,8
LONG-TERM DEBT	4	5,781,7
DEFERRED TAX LIABILITY		243,1
ACCRUED LEASE EXPENSE		691,5
Total liabilities		9,809,2
PREFERRED STOCK - no par value, $100 mandatory redemption value: Authorized - 5,000 shares Issued and outstanding - None		
STOCKHOLDERS' EQUITY:		
Preferred Stock - no par value, Authorized - 200,000 shares Issued and outstanding - None		
Common stock - No par value: Authorized - 9,785,575 shares Issued and outstanding - 3,379,609 shares at May 31, 2001 and August 31, 2000		15,115,4
Retained earnings		1,086,5
Total stockholders' equity		16,202,0
Total liabilities and stockholders' equity		$ 26,011,2

SEE NOTES TO FINANCIAL STATEMENTS

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RIVIERA TOOL COMPANY
STATEMENTS OF OPERATIONS
(UNAUDITED)

	FOR THE THREE MONTHS ENDED	FOR

	MAY 31, 2001	MAY 31, 2000	MA 2
SALES	$ 2,301,545	$ 6,674,923	$ 9,
COST OF SALES	3,149,592	5,364,041	11,
GROSS INCOME/(LOSS)	(848,047)	1,310,882	(1,
SELLING AND ADMINISTRATIVE EXPENSES	427,070	457,895	1,
INCOME/(LOSS) FROM OPERATIONS	(1,275,117)	852,987	(3,
OTHER INCOME/(EXPENSE)			
INTEREST EXPENSE	(146,882)	(248,591)	(
OTHER EXPENSE	-	13,211	
GAIN (LOSS) ON ASSET DISPOSALS	-	(50,201)	
TOTAL OTHER EXPENSE - NET	(146,882)	(285,581)	(
INCOME/(LOSS) BEFORE TAXES ON INCOME	(1,421,999)	567,406	(3,
INCOME TAX (CREDIT)/EXPENSE	(483,480)	198,018	(1,
NET INCOME/(LOSS) AVAILABLE FOR COMMON SHARES	$ (938,519)	$ 369,388	$ (2,
BASIC AND DILUTED INCOME/(LOSS) PER COMMON SHARE	(.28)	$ .11	$
BASIC AND DILUTED COMMON SHARES OUTSTANDING	3,379,609	3,379,609	3,

SEE NOTES TO FINANCIAL STATEMENTS

RIVIERA TOOL COMPANY
STATEMENTS OF CASH FLOWS
(UNAUDITED)

		FOR THE NI
		MAY 31, 2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income/(loss)	$	(2,513,609)
Adjustments to reconcile net income(loss)to net cash from operating activities:		
Depreciation		1,428,632
Loss on disposal of assets		-
Deferred taxes		(1,294,890)
(Increase) decrease in assets:		
Accounts receivable		1,458,004
Federal income tax receivable		673,897
Costs and estimated gross profit in excess of billings on contracts in process		5,852,881
Inventory		-
Perishable tooling		(36,424)
Prepaid expenses and other current assets		88,234
Increase (decrease) in liabilities:		
Accounts payable		(895,099)
Accrued lease expense		1,752
Accrued liabilities		158,498
Net Cash provided by operating activities	$	4,921,876
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of assets		-
Increase (Decrease) in other assets		75,000
Additions to property, plant and equipment		(554,810
Net cash used in investing activity	$	(479,810
CASH FLOWS FROM FINANCING ACTIVITIES		
(Payments on) Proceeds from revolving credit line		(3,072,429
Principal payments on long-term debt		(1,449,032
Net cash (used in) provided by financing activities	$	(4,521,461
NET DECREASE IN CASH	$	(79,395
CASH - Beginning of Period		113,699
CASH - End of Period	$	34,304

SEE NOTES TO FINANCIAL STATEMENTS

RIVIERA TOOL COMPANY
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2001

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited interim financial statements (the "Financial Statements") of Riviera Tool Company (the "Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, the Financial Statements do not include all the information and footnotes normally included in the annual financial statements prepared in accordance with generally accepted accounting principles.

In the opinion of management, the Financial Statements reflect all adjustments (consisting only of normal recurring adjustments) necessary to present fairly such information in accordance with generally accepted accounting principles. These Financial Statements should be read in conjunction with the financial statements and footnotes thereto included in the Company's Form 10-K dated November 20, 2000, for the fiscal year ended August 31, 2000.

The results of operations for the three and nine month periods ended May 31, 2001 are not indicative of the results to be expected for the full year.

NOTE 2 - COSTS AND BILLINGS ON CONTRACTS IN PROCESS

Costs and billings on contracts in process are as follows:

	MAY 31, 2001
Costs incurred on contracts in process under the percentage of completion method....................................	$ 7,900,893
Estimated gross profit/(loss)..	(278,000
Total..	7,622,893
Less progress payments received and progress billings to date..	4,911,123
Plus costs incurred on contracts in process under the completed contract method......................................	-
Costs and estimated gross profit in excess of billings on contracts in process..........................	$ 2,711,770

Included in estimated gross profit for May 31, 2001 and August 31, 2000 are jobs with losses accrued of $865,024 and $1,407,405, respectively.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	MAY 31, 2001
Lease and leasehold improvements	$ 1,41
Office furniture and fixtures	19
Machinery and equipment	22,58
Construction in Process	36
Computer equipment and software	2,14
Transportation equipment	12
Total cost	26,83
Accumulated depreciation and amortization	(10,25
Net carrying amount	$ 16,57

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RIVIERA TOOL COMPANY
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2001

NOTE 4 - LONG-TERM DEBT

The Company's long-term debt, which is subject to certain covenants discussed below, consists of the following:

MAY 31, 2001

REVOLVING WORKING CAPITAL CREDIT LINE

The revolving working capital credit line is collateralized by substantially all assets of the Company and provides for borrowing, subject to certain collateral requirements of up to $10.0 million. The agreement requires a commitment fee of .25% per annum on the average daily unused portion of the revolving credit line. The credit line is due September 1, 2001, and bears interest, payable monthly, at either London Interbank Offered Rate ("LIBOR") plus 2.25% or at .25% below the bank's prime rate, at the election of the Company, as follows:

- LIBOR plus 2.25%..	$ -
- The bank's prime rate less .25% (as of May 31,2001, an effective rate of 6.75%)..	2,007,590

NOTES PAYABLE TO BANK

Note payable to bank, collateralized by substantially all assets of the Company, is due July 19, 2002, and is payable in monthly installments of $54,167 plus interest, payable monthly, at either LIBOR plus 2.25% or at .25% below the bank's prime rate, at the election of the Company, as follows:

- LIBOR plus 2.25%..	-
- The bank's prime rate less .25% (as of May 31, 2001, an effective rate of 6.75%)..	704,170
Note payable to bank, collateralized by specific assets of the Company, payable in monthly installments of $55,556, plus simple interest of 7.26%, due December 31, 2003...	2,444,432
Note payable to bank, collateralized by specific assets of the Company, payable in monthly installments of $16,666 plus simple interest of 8.04%, due September 1, 2004..	666,663

NON-REVOLVING EQUIPMENT LINE OF CREDIT

$3,271,000 equipment line of credit is collateralized by specific assets of the Company, is due November 1, 2004, and is payable in monthly installments of $38,941 plus interest as follows:

- LIBOR plus 2.25%..	-
- The bank's prime rate less .25% (as of May 31, 2001, an effective rate of 6.75%)..	1,942,845
Total long-term debt..	7,765,700
Less current portion..	1,983,964
Long-term debt-- Net..	5,781,736

The debt agreements require the Company to maintain certain ratios/levels of tangible net worth, working capital, liabilities to tangible net worth, earnings before interest, taxes, depreciation and amortization to debt service

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and prohibit the payment of common stock cash dividends. The Company was not in compliance with the earnings before interest, taxes, depreciation and amortization to debt service ratio and the working capital as of May 31, 2001. On April 9, 2001, the Company's lender agreed to waive the earnings before interest, taxes, depreciation and amortization to debt service ratio covenant violation for a period of not less than twelve months. The Company anticipates that their lender will waive the working capital covenant violation until June 1, 2002.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The following table presents, for the periods indicated, the components of the Company's Statement of Operations as a percentage of sales.

	FOR THE THREE MONTHS ENDED		
	MAY 31, 2001	MAY 31, 2000	MAY 2
SALES	100.0%	100.0%	
COST OF SALES	136.8%	80.4%	
GROSS INCOME/(LOSS)	(36.8%)	19.6%	
SELLING AND ADMINISTRATIVE EXPENSE	18.6%	6.8%	
INCOME/(LOSS) FROM OPERATIONS	(55.4%)	12.8%	
OTHER INCOME (EXPENSE)			
INTEREST EXPENSE	(6.4%)	(3.7%)	
OTHER	-	(0.6%)	

TOTAL OTHER EXPENSE - NET..........................	(6.4%)	(4.3%)	
INCOME/(LOSS) BEFORE TAXES ON INCOME......................	(61.8%)	8.5%	
INCOME TAX EXPENSE/(CREDIT)...............................	(21.0%)	3.0%	
NET INCOME/(LOSS)............................	(40.8%)	5.5%	

THE MATTERS DISCUSSED IN THIS QUARTERLY REPORT ON FORM 10-Q CONTAIN CERTAIN FORWARD-LOOKING STATEMENTS. FOR THIS PURPOSE, ANY STATEMENTS CONTAINED IN THIS REPORT THAT ARE NOT STATEMENTS OF HISTORICAL FACT MAY BE DEEMED TO BE FORWARD-LOOKING STATEMENTS. WITHOUT LIMITING THE FOREGOING, WORDS SUCH AS "MAY," "WILL," "EXPECT," BELIEVE," "ANTICIPATE," OR "CONTINUE," THE NEGATIVE OR OTHER VARIATION THEREOF, OR COMPARABLE TERMINOLOGY, ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. THESE STATEMENTS BY THEIR NATURE INVOLVE SUBSTANTIAL RISKS AND UNCERTAINTIES, AND ACTUAL RESULTS MAY DIFFER MATERIALLY DEPENDING UPON A VARIETY OF FACTORS, INCLUDING CONTINUED MARKET DEMAND FOR THE TYPES OF PRODUCTS AND SERVICES PRODUCED AND SOLD BY THE COMPANY.

COMPARISON OF THE THREE MONTHS ENDED MAY 31, 2001 TO THE THREE MONTHS ENDED MAY 31, 2000.

REVENUES - Revenues for the three months ended May 31, 2001 totaled $2.3 million as compared to $6.7 million for the three months ended May 31, 2000, a decrease of $4.4 million or 65.6%.

This decrease has been a result of the Company not securing additional contracts during the recent nine-month period. Although the Company has been involved in significant contract quoting activity during this period, its customers have been tentative in releasing contracts to tooling manufacturers. This lack of contract releases has created very competitive pricing on those tooling contracts that have been released during this period. Although the Company has been successful in securing contracts during this period, the Company has been very selective in the bidding process to ensure that those contracts have contribution margin. This market has negatively impacted both the Company and the tooling industry as a whole. It is the Company's belief that based upon quoting activity, the release of orders is imminent. However, such delays could continue as the OEM's focus on the recent decline in unit sales as well as the effects of global mergers during the past year. The Company believes that the OEM's are reviewing their various product platforms and plans, on a global basis, in order to maximize and streamline model offerings within their global platforms. As a result of these market conditions, the Company has instituted specific cost containment measures. These containments include direct labor layoffs of approximately 100 employees or 61% of the workforce. The Company anticipates the decline in contract releases will also negatively effect the Company's financial results at least through 2001.

The Company incurred 40,031 shop floor hours during the third quarter of 2001 as compared to 89,299 during the same period of 2000. The decrease was 49,268 hours or 55.2%. This decrease was a direct result of lower contract levels during the third quarter of 2001.

COST OF SALES - Cost of sales were $3.1 million or 136.8% of sales for the three months ended May 31, 2001 as compared to $5.4 million or 80.4% of sales for the three months ended May 31, 2000.

The gross margin decrease was largely due to the decrease in shop floor hours and resulting revenue, despite cost containment measures taken by the Company during this period. Cost of sales for the quarter ended May 31, 2001, as compared to the same period last year, included decreases in the Company's direct cost expense of $1,820,000, engineering expenses of $150,000 and manufacturing overhead of $245,000. However, due to the decrease in revenue during the third quarter of 2001, these expenses increased as a percent of sales by 11.8%, 5.8% and 38.8%, respectively, as compared to the same period last year.

The decrease in direct cost expense was primarily due to decreases of $940,000 in labor expense and $707,000 in outside services expense for the three months ended May 31, 2001 over the same period last year. The decrease in labor expense was due to the Company incurring less labor hours during the quarter ended May 31, 2001 over the same period last year, as a result of the Company's decreased contract levels. The decrease in contract levels also lowered the Company's outside services expense requirements.

The decrease in engineering expense was primarily due to decreases in wages and salaries. As a result, the Company experienced a decrease in wages and salaries of $160,000 or 39.3% during the third quarter of 2001 as compared to the same period last year.

Manufacturing overhead expense decreased from $1,739,000 for the three months ended May 31, 2000 to $1,495,000 for the three months ended May 31, 2001. This change was due to decreases in wages and salaries of $161,000, manufacturing supplies of $73,000, perishable tooling expense of $57,000, health insurance expense of $41,000, machinery repairs and maintenance expense of $32,000, and workers compensation insurance expense of $13,000. Increases included rent expense of $80,000 and property tax expense of $54,000.

SELLING & ADMINISTRATIVE EXPENSES - Selling and administrative expenses decreased from approximately $458,000 or 6.9% of sales for the three months ended May 31, 2000 to approximately $427,000 or 18.6% of sales for the three months ended May 31, 2001. This change was due to decreases in wages and salaries of $151,000 and 401(k) expense of $11,000. Increases include $93,000 in legal and professional expense and $50,000 in State of Michigan Single Business Tax.

INTEREST EXPENSE - Interest expense for the three months ended May 31, 2001 was approximately $147,000 as compared to approximately $249,000 for the same period last year. As a percentage of sales, interest expense increased from 3.7% in the quarter ended May 31, 2000 as compared to 6.4% for the quarter ended May 31, 2001.

The decrease in interest expense was a result of the Company carrying lower debt levels as well as lower interest rates during the third quarter of 2001 as compared to 2000.

COMPARISON OF THE NINE MONTHS ENDED MAY 31, 2001 TO THE NINE MONTHS ENDED MAY 31, 2000

REVENUES - Revenues for the nine months ended May 31, 2001 totaled $9.3 million as compared to $17.7 million for the nine months ended May 31, 2000, an decrease of $8.4 million or 47.6%.

The Company incurred 165,946 shop floor hours during the three quarters of 2001 as compared to 255,179 during the same period of 2000. The decrease was 89,233 hours or 35.0%. This decrease was a direct result of lower contract levels during the three quarters of 2001 as compared to the same period of 2000.

COST OF SALES - Cost of sales were $11.2 million or 120.8% of sales for the nine months ended May 31, 2001 as compared to $15.2 million or 85.7% of sales for the nine months ended May 31, 2000.

The gross margin decrease was largely due to the decrease in shop floor hours and resulting revenue, despite cost containment measures taken by the Company during this period. Cost of sales for the nine months ended May 31, 2001, as compared to the same period last year, included decreases in the Company's direct cost expense of $3,414,000, engineering expenses of $386,000 and manufacturing overhead of $162,000. However, due to the decrease in revenue, these expenses increased as a percent of sales by 8.4%, 2.4% and 24.3%, respectively, as compared to the same period last year.

The decrease in direct cost expense was primarily due to a decrease of $1,671,000 in labor expense and $1,609,000 in outside services expense for the nine months ended May 31, 2001 over the same period last year. The decrease in labor was due to the Company incurring less labor hours during the nine months ended May 31, 2001 over the same period last year, as a result of the Company's decreased contract levels. The decrease in contract levels also lowered the Company's outside services expense requirements.

The decrease in engineering expense was due to wages and salaries expense. As a result of the Company's cost containment measures, the Company experienced a 32.4% decrease in wages and salaries during the first three quarters of 2001 as compared to the same period last year.

Manufacturing overhead expense decreased from $5,081,000 for the nine months ended May 31, 2000 to $4,919,000 for the nine months ended May 31, 2001. The largest decreases were $143,000 in wages, $140,000 in manufacturing supplies expense, $94,000 in perishable tooling expense and $43,000 in medical insurance expense. Increases included $175,000 in facility rent expense and $125,000 in property tax expense.

SELLING & ADMINISTRATIVE EXPENSES - Selling and administrative expenses increased from approximately $1,691,000 or 9.6% of sales for the nine months ended May 31, 2000 to approximately $1,276,818 or 13.8% of sales for the nine months ended May 31, 2001. This decrease was primarily due to decreases of $315,000 in officer and office wages and salaries, $79,000 in State of Michigan Single Business Tax expense, $28,000 in public company expense and $22,000 in 401(k) expense. The primary increase was $50,000 in legal and professional fee expense.

INTEREST EXPENSE - Interest expense for the nine months ended May 31, 2001 was approximately $603,000 as compared to approximately $657,000 for the same period last year. As a percentage of sales, interest expense increased from 3.7% for the nine months ended May 31, 2000 as compared to 6.5% for the nine months ended May 31, 2001.

FEDERAL INCOME TAXES

The effective federal income tax rate was 34% and 39% for the nine months ended May 31, 2001 and May 31, 2000, respectively. As of August 31, 2000, the Company had approximately $542,000 of a net operating loss carryforward which will expire in fiscal 2020, if unused, as well as $155,000 of alternative minimum tax credits that do not expire.

LIQUIDITY AND CAPITAL RESOURCES

During the nine months ended May 31, 2001, the Company's cash from operating activities was $4,921,876, primarily from the decrease in account receivables of $1.5 million, a $5.9 million decrease in contracts in process, a $1.3 million decrease in deferred tax liabilities, and a $0.7 million decrease in accounts payable and accrued liabilities. The Company invested in additional machinery and equipment of $0.6 million and reduced its long-term debt obligations by $1.5 million. The Company utilized the remainder of the cash flows to reduce its revolving bank working capital credit line by $3.1 million. The Company believes that the unused portion of the revolving bank working capital credit line and the funds generated from operations will be sufficient to cover anticipated cash needs through fiscal 2001. However, depending on the level of future sales, an expanded credit line may be necessary to finance increases in trade accounts receivable and contracts in process. The Company believes it will be able to obtain such expanded credit line, if required, on generally the same terms as the existing credit line.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: July 12, 2001

Riviera Tool Company

/s/ Kenneth K. Rieth	/s/ Peter C. Canepa
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Kenneth K. Rieth	Peter C. Canepa
President and Chief Executive Officer	Chief Financial Officer,
(Principal Executive Officer)	Treasurer and Secretary
	(Principal Financial and
	Accounting Officer)