RIVIERA TOOL CO
Form 10-Q
April 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 February 28, 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 April 16, 2001 was 3,379,609.

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PART I
FINANCIAL INFORMATION

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Item 1. Legal Proceedings - The Company is involved in legal proceedings which are ordinar the opinion of management, no existing proceedings would have a significant effect results of operations and Cash Flows of the Company if determined against the Comp

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

RIVIERA TOOL COMPANY
FINANCIAL STATEMENTS

BALANCE SHEETS

FEBRUARY 28,

ASSETS	NOTE	2001 (UNAUDITED)
CURRENT ASSETS		
Cash		$ 21,7
Accounts receivable		1,956,8
Costs and estimated gross profit in excess of billings on contracts in process	2	8,916,7
Inventories		306,6
Federal income tax refundable		
Prepaid expenses and other current assets		120,7
Total current assets		11,322,8
PROPERTY, PLANT AND EQUIPMENT, NET	3	16,957,2
PERISHABLE TOOLING		568,3
OTHER ASSETS		210,7
Total assets		$ 29,059,1
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt	4	$ 1,983,9
Accounts payable		576,7
Accrued liabilities		444,9
Total Current liabilities		3,005,7
LONG-TERM DEBT	4	7,495,4
DEFERRED TAX LIABILITY		726,5
ACCRUED LEASE EXPENSE		690,9
Total liabilities		11,918,6
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	1	
Issued and outstanding - 3,379,609 shares at February 28, 2001 and August 31, 2000		15,115,4
Retained earnings	1	2,025,0
Total stockholders' equity		17,140,5
Total liabilities and stockholders' equity		$ 29,059,1

SEE NOTES TO FINANCIAL STATEMENTS

RIVIERA TOOL COMPANY
STATEMENTS OF OPERATIONS
(UNAUDITED)

	FOR THE THREE MONTHS ENDED	
	FEBRUARY 28, 2001	FEBRUARY 29, 2000
SALES	$ 2,386,136	$ 5,175,600
COST OF SALES	3,732,166	5,148,571
GROSS (LOSS)/INCOME	(1,346,030)	27,029
SELLING AND ADMINISTRATIVE EXPENSES	321,445	778,445
LOSS FROM OPERATIONS	(1,667,475)	(751,416)
OTHER INCOME (EXPENSE)		
INTEREST EXPENSE	(215,407)	(203,479)
OTHER EXPENSE	83	--
GAIN (LOSS) ON ASSET DISPOSALS	--	(50,691)
TOTAL OTHER EXPENSE - NET	(215,324)	(254,170)
LOSS BEFORE TAXES ON INCOME	(1,882,799)	(1,005,586)
INCOME TAX CREDIT	(640,152)	(341,899)
NET LOSS AVAILABLE FOR COMMON SHARES	$ (1,242,647)	$ (663,687)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (.37)	$ (.20)
BASIC AND DILUTED COMMON SHARES OUTSTANDING	3,379,609	3,379,609

SEE NOTES TO FINANCIAL STATEMENTS

RIVIERA TOOL COMPANY
STATEMENTS OF CASH FLOWS
(UNAUDITED)

		FOR THE S
		FEBRUARY 28, 2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$	(1,575,089
Adjustments to reconcile net income(loss)to net cash from operating activities:		
Depreciation and amortization		952,424
Loss on disposal of assets		--
Deferred taxes		(811,410
(Increase) decrease in assets:		
Accounts receivable		5,095,346
Federal income tax receivable		673,897
Costs and estimated gross profit in excess of billings on contracts in process		(352,108
Inventory		--
Perishable tooling		(29,590
Prepaid expenses and other current assets		49,387
Increase (decrease) in liabilities:		
Accounts payable		(834,093
Accrued lease expense		1,168
Accrued liabilities		(10,306
Net Cash provided by(used in)operating activities	$	3,180,238
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in other assets		--
Additions to property, plant and equipment		(464,408
Net cash used in investing activity	$	(464,408
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds/(payments) from revolving credit line		(1,854,722
Principal payments on long-term debt		(953,041
Net cash (used in) provided by financing activities	$	(2,807,763
NET DECREASE IN CASH	$	(91,933
CASH - Beginning of Period		113,699

CASH - End of Period...	$	21,766

SEE NOTES TO FINANCIAL STATEMENTS

RIVIERA TOOL COMPANY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 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 six month periods ended February 28, 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:

		FEBRUARY 28, 2001
Costs incurred on contracts in process under the percentage of completion method....................................	$	15,174,935
Estimated gross profit/(loss)..		(107,437
Total...		15,067,498
Less progress payments received and progress billings to date..		(6,150,739)
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.........................	$	8,916,759

Included in estimated gross profit for February 28, 2001 and August 31, 2000 are jobs with losses accrued of $1,278,425 and $1,407,405, respectively.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

		FEBRUARY 2 2001
Lease and leasehold improvements	$	1,41
Office furniture and fixtures		19
Machinery and equipment		22,53
Construction in Process		32
Computer equipment and software		2,14
Transportation equipment		12
Total cost		26,74
Accumulated depreciation and amortization		(9,78
Net carrying amount	$	16,95

RIVIERA TOOL COMPANY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2001

NOTE 4 - LONG-TERM DEBT

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

	FEBRUARY 28 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 February 28, 2001, an effective rate of 8.25%)..	3,225
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 February 28, 2001, an effective rate of 8.25%)..	866
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..	2,611
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...	716
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 February 28, 2001, an effective rate of 8.25%)...	2,059
Total long-term debt...	9,479
Less current portion...	1,983
Long-term debt-- Net...	$ 7,495

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 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 February 28, 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 March 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		
	FEB. 28, 2001	FEB. 29, 2000	FEB 2
SALES	100.0%	100.0%	
COST OF SALES	156.4%	99.5%	
GROSS LOSS	(56.4%)	0.5%	(
SELLING AND ADMINISTRATIVE EXPENSE	13.5%	15.0%	
LOSS FROM OPERATIONS	(69.9%)	(14.5%)	(
OTHER INCOME (EXPENSE)			
INTEREST EXPENSE	(9.0%)	(3.9%)	
OTHER	--	--	
LOSS ON ASSET DISPOSALS	--	(1.0%)	
TOTAL OTHER EXPENSE - NET	(9.0%)	(4.9%)	
LOSS BEFORE TAXES ON INCOME	(78.9%)	(19.4%)	(
INCOME TAX CREDIT	(26.8%)	(6.6%)	(
NET LOSS	(52.1%)	(12.8%)	(

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 FEBRUARY 28, 2001 TO THE THREE MONTHS ENDED FEBRUARY 29, 2000.

REVENUES - Revenues for the three months ended February 28, 2001 totaled $2.4 million as compared to $5.2 million for the three months ended February 29,

2000, a decrease of $2.8 million or 54%. This decrease has been a result of the Company not securing additional contracts during the recent six-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 62 employees or 38% of the workforce, a 20% pay-cut for all salaried employees and a 10% pay-cut for all hourly employees. The Company anticipates the decline in contract releases will also negatively effect the Company's financial results at least through 2001.

The Company incurred 52,741 shop floor hours during the second quarter of 2001 as compared to 85,428 during the same period of 2000. The decrease was 32,687 hours or 38.3%. This decrease was a direct result of lower contract levels during the second quarter of 2001.

COST OF SALES - Cost of sales were $3.7 million or 156.4% of sales for the three months ended February 28, 2001 as compared to $5.1 million or 99.5% of sales for the three months ended February 29, 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 February 28, 2001, as compared to the same period last year, included decreases in the Company's direct cost expense of $1,089,000, engineering expenses of $164,000 and $163,000 in manufacturing overhead. However, due to the decrease in revenue during the second quarter of 2001, these expenses increased as a percent of sales by 20.4%, 3.0% and 33.7%, respectively, as compared to the same period last year.

The decrease in direct cost expense was primarily due to decreases of $564,000 in labor expense and $488,000 in outside services expense for the three months ended February 28, 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 February 28, 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 part of the Company's cost containment measures, including lay-offs and pay-cuts, the Company experienced a decrease in wages and salaries of $161,000 or 39.1% during the second quarter of 2001 as compared to the same period last year.

Manufacturing overhead expense decreased from $1,792,000 for the three months ended February 29, 2000 to $1,629,000 for the three months ended February 28, 2001. This change was due to decreases in wages and salaries of $100,000, perishable tooling expense of $90,700, manufacturing supplies of $44,400. Increases included rent expense of $58,400 and property tax expense of $50,900.

SELLING & ADMINISTRATIVE EXPENSES - Selling and administrative expenses decreased from approximately $778,000 or 15.0% of sales for the three months ended February 29, 2000 to approximately $321,000 or 13.5% of sales for the three months ended February 28, 2001. This change was due to decreases in wages and salaries of $146,700, State of Michigan Single Business Tax obligation of $130,000, public company expense of $85,500, and legal/professional fee expenses of $76,900.

INTEREST EXPENSE - Interest expense for the three months ended February 28, 2001 was approximately $215,400 as compared to approximately $203,500 for the same period last year. The Company's total average interest-bearing debt for the second quarter of 2001 was comparable with the same period last year.

COMPARISON OF THE SIX MONTHS ENDED FEBRUARY 28, 2001 TO THE SIX MONTHS ENDED FEBRUARY 29, 2000

REVENUES - Revenues for the six months ended February 28, 2001 totaled approximately $7.0 million as compared to $11.0 million for the same period last year, a decrease of $4.0 million or 36%. The Company incurred 125,915 shop floor hours during the first two quarters of 2001 as compared to 165,880 during the same period of 2000. The decrease was 39,965 hours or 24.1%. This decrease was a direct result of lower contract levels during the first and second quarter of 2001 as compared to the same period of 2000.

COST OF SALES - Cost of sales were $8.1 million or 115.5% of sales for the six months ended February 28, 2001 as compared to $9.8 million or 88.9% of sales for the six months ended February 29, 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 six months ended February 28, 2001, as compared to the same period last year, included decreases in the Company's direct cost expense of $1,594,700, engineering expenses of $235,500 and an increase of $82,000 in manufacturing overhead. However, due to the decrease in revenue during the second quarter of 2001, these expenses increased as a percent of sales by 6.7%, 1.1% and 18.8%, respectively, as compared to the same period last year.

The decrease in direct cost expense was primarily due to a decrease of $731,000 in labor expense and $941,600 in outside services expense for the six months ended February 28, 2000 over the same period last year. The decrease in labor was due to the Company incurring less labor hours during the six months ended February 28, 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 28.9% decrease in wages and salaries during the first and second quarter of 2001 as compared to the same period last year.

Manufacturing overhead expense increased from $3,342,000 for the six months ended February 29, 2000 to $3,424,000 for the six months ended February 28, 2001. The largest increases were $95,000 in facility rent expense, $70,000 in property tax expense, $28,000 in utilities expenses, and $26,000 in machinery repairs and maintenance expense. Decreases included $67,000 in manufacturing supplies expense, $37,000 in perishable tooling expense and $18,000 in employee welfare expense.

SELLING & ADMINISTRATIVE EXPENSES - Selling and administrative expenses decreased from approximately $1,233,000 or 11.2% of sales for the six months ended February 29, 2000 to approximately $850,000 or 12.2% of sales for the six months ended February 28, 2001. This change was due to decreases in wages and salaries of $164,000, State of Michigan Single Business Tax obligation of $129,000, public company expense of $30,500, legal/professional fee expenses of $43,300, travel and entertainment expenses of $16,000.

INTEREST EXPENSE - Interest expense for the six months ended February 28, 2001 was approximately $456,000 as compared to approximately $408,000 for the same period last year. As a percentage of sales, interest expense increased from 3.7% for the six months ended February 29, 2000 to 6.5% for the six months ended February 28, 2001 as a result of the decrease in revenue during the first and second quarters of 2001.

FEDERAL INCOME TAXES
The effective federal income tax rate was 34% for the six months ended February 28, 2001 and February 29, 2000. 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 six months ended February 28, 2001, the Company's cash from operating activities was $3,180,236, primarily from the decrease in account receivables of $5.1 million, a $0.4 million increase in contracts in process, a $0.8 million decrease in deferred tax liabilities, and a $0.8 million decrease in accounts payable and accrued liabilities. The Company invested in additional machinery and equipment of $464,408 and reduced its long-term debt obligations by $953,041. The Company utilized the remainder of the cash flows to reduce its revolving bank working capital credit line by $1,854,722. 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: April 16, 2001

Riviera Tool Company

/s/ Kenneth K. Rieth
Kenneth K. Rieth
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Peter C. Canepa
Peter C. Canepa
Chief Financial Officer,
Treasurer and Secretary
(Principal Financial and
Accounting Officer)