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RIVIERA TOOL CO
Form 10-Q
January 15, 2002

U.S. 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 November 30, 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 January 11, 2002 was 3,379,609.

1.

PART I
FINANCIAL INFORMATION
INDEX

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- Item 1. Financial Statements
 - Balance Sheets as of November 30, 2001 and August 31, 2001.....
 - Statements of Operations for the Three Months Ended November 30, 2001 and 2000...
 - Statements of Cash Flows for the Three Months Ended November 30, 2001 and 2000...
 - Notes to Financial Statements.....
- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operat
- Item 3. Quantitative and Qualitative Disclosures about Market Risk - None.....

PART II
OTHER INFORMATION
INDEX

- 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 - The following matters were submitted to a vote of the Company's common shareholders at its annual shareholders meeting on December 18, 2001:
 - a. The following directors were elected to serve until the meeting of shareholders in 2004 and until their successors are elected (amounts shown in parentheses represent the number of votes cast for, against or withheld, and abstentions, respectively):
 - (i) Leonard H. Wood (2,884,911 / 198,983)
 - (ii) Daniel W. Terpsma (3,055,211 / 28,683)

The following directors of the Company continued until the annual meeting of shareholders in the year indicated parenthetically and until their successors are elected:

 - Thomas H. Highley (2003) John C. Kennedy (2003)
 - Kenneth K. Rieth (2002)
 - b. Ratification of Selection of Independent Auditors-(amounts shown in parentheses represent the number of votes cast for, against or withheld, and abstentions, respectively): (3,061,420 / 22,254 / 220)
- Item 5. Other Information - None
- Item 6. Exhibits and Reports on Form 8 - K.
 - 6(a) Exhibits - None

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6(b) Reports on Form 8-K - None.

2.

RIVIERA TOOL COMPANY
FINANCIAL STATEMENTS

BALANCE SHEETS

| ASSETS | | NOVEMBER 2001 |
|--|-------|--------------------------|
| ----- | NOTE | (UNAUDITED) |
| ----- | ----- | ----- |
| CURRENT ASSETS | | |
| Cash..... | | \$ 4, |
| Accounts receivable..... | | 4, |
| Costs and estimated gross loss in excess of billings on contracts in process..... | 2 | 4, |
| Inventories..... | | |
| Prepaid expenses and other current assets..... | | |
| Total current assets..... | | ----- 9, |
| PROPERTY, PLANT AND EQUIPMENT, NET..... | 3 | 15, |
| PERISHABLE TOOLING..... | | |
| OTHER ASSETS..... | | |
| Total assets..... | | ----- \$ 25, ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Current portion of long-term debt..... | 4 | \$ 7, |
| Accounts payable..... | | |
| Accrued liabilities..... | | |
| Total Current liabilities..... | | ----- 8, |
| LONG-TERM DEBT..... | 4 | 3, |
| ACCRUED LEASE EXPENSE..... | | |
| Total liabilities..... | | ----- 11, ----- |
| PREFERRED STOCK - no par value, \$100 mandatory redemption value: | | |
| Authorized - 5,000 shares | | |
| Issued and outstanding - no shares..... | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock - no par value, | | |
| Authorized - 200,000 shares | | |
| Issued and outstanding - no shares..... | | |
| Common stock - No par value: | | |

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| | | |
|--|---|--------|
| Authorized - 9,785,575 shares | 1 | |
| Issued and outstanding - 3,379,609 shares at November 30, 2001 and August 31, 2001..... | | 15, |
| Retained deficit..... | 1 | (1,1 |
| | | ----- |
| Total stockholders' equity..... | | 13, |
| | | ----- |
| Total liabilities and stockholders' Equity..... | | \$ 25, |
| | | ===== |

See notes to financial statements

3.

RIVIERA TOOL COMPANY
STATEMENTS OF OPERATIONS
(UNAUDITED)

| | FOR THE THREE MONTHS ENDING NOVEMBER 30, | |
|--|---|-------|
| | 2001 | |
| | ----- | ----- |
| SALES..... | \$ 3,363,674 | \$ |
| COST OF SALES..... | 3,545,576 | |
| | ----- | |
| GROSS PROFIT (LOSS)..... | (181,902) | |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES..... | 465,867 | |
| | ----- | |
| LOSS FROM OPERATIONS..... | (647,769) | |
| OTHER (EXPENSE) | | |
| INTEREST EXPENSE..... | (167,779) | |
| OTHER EXPENSE..... | (237) | |
| | ----- | |
| TOTAL OTHER EXPENSE..... | (168,016) | |
| LOSS BEFORE INCOME TAX BENEFIT..... | (815,785) | |
| | ----- | |

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| | | | |
|--|----|-----------|----|
| INCOME TAX BENEFIT..... | | -- | |
| | | ----- | |
| NET LOSS AVAILABLE FOR COMMON SHARES | \$ | (815,785) | \$ |
| | | ===== | |
| BASIC AND DILUTED LOSS PER COMMON SHARE..... | \$ | (.24) | \$ |
| | | ===== | |
| BASIC AND DILUTED COMMON SHARES OUTSTANDING..... | | 3,379,609 | |
| | | ===== | |

See notes to financial statements

4.

RIVIERA TOOL COMPANY
STATEMENT OF CASH FLOWS
(UNAUDITED)

FOR THE TH
NOV

2001

| | | | |
|---|----|-----------|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net loss..... | \$ | (815,785) | |
| Adjustments to reconcile net income to net cash from operating activities: | | | |

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| | |
|--|----------------|
| Depreciation and amortization..... | 477,441 |
| Deferred taxes..... | -- |
| (Increase) decrease in assets: | |
| Accounts receivable..... | (1,007,426) |
| Costs and estimated gross profit/loss in excess of billings on contracts in process..... | (494,438) |
| Perishable tooling..... | 26,080 |
| Prepaid expenses and other current assets..... | (33,208) |
| Increase (decrease) in liabilities: | |
| Accounts payable..... | (434,170) |
| Accrued lease expense..... | (4,090) |
| Accrued liabilities..... | 143,236 |
| Net cash provided by/(used in) operating activities..... | \$ (2,142,360) |
| ----- | |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Additions to property, plant and equipment..... | (14,097) |
| Net cash used in investing activity..... | \$ (14,097) |
| ----- | |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Net borrowings (repayments) on revolving credit line..... | 2,369,728 |
| Principal payments on notes payable to bank and non-revolving equipment line of credit..... | (495,992) |
| Net cash provided by/(used in) financing activities..... | \$ 1,873,736 |
| ----- | |
| NET DECREASE IN CASH..... | \$ (282,721) |
| ----- | |
| CASH - Beginning of Period..... | 282,721 |
| ----- | |
| CASH - End of Period..... | \$ -- |
| ===== | |

See notes to financial statements

5.

RIVIERA TOOL COMPANY
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 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.

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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 12, 2001, for the fiscal year ended August 31, 2001.

The results of operations for the three-month period ended November 30, 2001 is 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:

| | NOVEMBER 30, 2001 |
|---|----------------------|
| | ----- |
| Costs incurred on contracts in process under the percentage of completion method..... | \$ 6,668,019 |
| Estimated gross loss..... | (800,000) |
| | ----- |
| Total..... | 5,868,019 |
| Less progress payments received and progress billings to date..... | 1,220,012 |
| Plus costs incurred on contracts in process under the completed contract method..... | -- |
| | ----- |
| Costs and estimated gross loss in excess of billings on contracts in process..... | \$ 4,648,007 |
| | ===== |

Included in estimated gross loss for November 30, 2001 and August 31, 2001 are jobs with losses accrued of \$944,126 and \$763,980, respectively.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consist of the following:

| | NOVEMBER 30, 2001 |
|---------------------------------------|----------------------|
| | ----- |
| Lease and leasehold improvements..... | \$ 1,500 |
| Office furniture and fixtures..... | 19 |
| Machinery and equipment..... | 22,860 |
| Construction in Process..... | 2 |

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| | |
|--|----------|
| Computer equipment and software..... | 2,21 |
| Transportation equipment..... | 13 |
| | ----- |
| Total cost..... | 26,94 |
| Accumulated depreciation and amortization..... | 11,26 |
| | ----- |
| Net carrying amount..... | \$ 15,68 |
| | ===== |

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RIVIERA TOOL COMPANY
 NOTES TO FINANCIAL STATEMENTS
 NOVEMBER 30, 2001

NOTE 4 - LONG-TERM DEBT

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

NOVEMBER 30
 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 \$6.5 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, 2002, and bears interest, payable monthly, at 1.0% above the bank's prime rate (as of November 30, 2001, an effective rate of 6.5%)..... \$ 5,512,

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 (as of November 30, 2001, an effective rate of 5.25%), at the election of the Company..... 379,

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..... 2,111,

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..... 566,

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, payable monthly, at either LIBOR plus 2.25% or at .25%

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below the bank's prime rate (as of November 30, 2001, an effective rate of 5.25%), at the election of the Company.....

| | | |
|---------------------------|----|---------|
| | | 1,706, |
| | | |
| Total long-term debt..... | \$ | 10,276, |
| Less current portion..... | | 7,225, |
| | | |
| Long-term debt-- Net..... | \$ | 3,050, |
| | | |

In accordance with the third amended loan agreement, the Company is required to maintain certain levels of tangible net worth, ratio of total liabilities to tangible net worth, and earnings before interest, taxes, depreciation and amortization and prohibit the payment of common stock cash dividends. At November 30, 2001, the Company was in compliance with the earnings before interest, taxes, depreciation and amortization covenants. The Company was not in compliance with the tangible net worth and ratio of total liabilities to tangible net worth covenants as of November 30, 2001. The Company anticipates that their lender will waive these covenant violations through December 1, 2002.

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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 NOVEMBER |
|--|--|---------------------------|
| | | 2001 |
| | | |
| SALES..... | | 100.0% |
| COST OF SALES..... | | 105.4% |
| | | |
| GROSS PROFIT / (LOSS)..... | | (5.4%) |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSE..... | | 13.8% |
| | | |
| LOSS FROM OPERATIONS..... | | (19.2%) |

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| | |
|-------------------------------------|---------|
| INTEREST EXPENSE..... | (5.0%) |
| | |
| TOTAL INTEREST EXPENSE | |
| LOSS BEFORE INCOME TAX BENEFIT..... | (24.2%) |
| INCOME TAXES BENEFIT..... | -- |
| | |
| NET LOSS..... | (24.2%) |
| | |

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," "UNDERSTANDING," 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 NOVEMBER 30, 2001 TO THE THREE MONTHS ENDED NOVEMBER 30, 2000.

REVENUES - Revenues for the three months ended November 30, 2001 totaled \$3.4 million as compared to \$4.6 million for the three months ended November 30, 2000, a decrease of \$1.2 million or 27%. This was a result of the decrease in market demand for automotive tooling systems during the past eighteen months. In addition, limited contracts have been released during this period and of those contracts that were released, most were competitively bid and resulted in extreme erosion of contract pricing. These factors continue to lower contract revenue as well as contract margins during fiscal 2002. The Company, in securing new contracts during fiscal 2001 and the first quarter of 2002, utilized a strategy of bidding on contracts at rates that would maintain contribution margin if such was awarded to the Company.

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As a result of these market conditions, the Company has instituted specific cost containment measures. These containments include direct labor layoffs of approximately 75 employees or 45% of the normal workforce and suspension of the Company's matching contribution to the Company 401(K) Plan for all employees. The Company anticipates the decline in contract releases will also negatively effect the Company's financial results at least through 2002.

COST OF SALES - Cost of sales was \$3.5 million or 105% of sales for the three months ended November 30, 2001 as compared to \$4.3 million or 94% of sales for the three months ended November 30, 2000. The decrease in gross margin was largely due to the decrease in revenue as well as erosion of contract pricing during the past eighteen months. The Company continues to review and lower all fixed expenses where applicable in order to maintain the lowest possible cost rate.

Direct costs expense decreased from \$2.2 million in 2000 to \$1.6 million in 2001, however as a percent of sales it increased from 47.6% to 48.3%. Direct

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labor expense was \$0.9 million in 2001 as compared to \$1.3 million in 2000, however as a percent of sales, direct labor expense remained consistent at 28%. The Company incurred 41,400 shop floor hours during the first quarter of 2002 as compared to 63,600 during the same period of 2001, a decrease of 22,200 hours or 35%. This decrease was a direct result of lower contract levels during the first quarter of 2002. Other direct cost decreases included \$181,000 in direct material expense and \$40,000 in outside service expenses.

Engineering expense decreased from \$343,000 for the three months ended November 30, 2000 to \$322,000 for the same period this year, however as a percent of sales engineering expense increased from 7.5% to 9.6% as a result of the decrease in revenues in the first quarter ended November 30, 2001. The largest decrease in engineering expense was \$19,500 in engineering salaries as a result of the Company decreasing its engineering headcount.

Manufacturing overhead expense decreased from \$1,795,000 or 39.1% of sales for the three months ended November 30, 2000 to \$1,600,000 or 47.6% of sales for the three months ended November 30, 2001. The largest increase in the first three months of 2001 as compared to 2000 was the increase of \$32,000 in building rent and property taxes expense. This increase was a result of the expiration of a sublease for space in the Company's facility in 2001. This increase was offset by decreases of \$127,000 in labor and payroll taxes, \$39,000 in medical insurance expense, \$38,000 in manufacturing supplies and perishable tooling expense.

SELLING & ADMINISTRATIVE EXPENSES - Selling and administrative expenses decreased from \$528,000 or 11.5% of sales for the three months ended November 30, 2000 to \$466,000 or 13.8% of sales for the three months ended November 30, 2001. This decrease was largely due to decreases of \$58,000 in State of Michigan Single Business Tax, \$34,000 in public company costs, \$30,000 in charitable contributions, and \$15,000 in director fees. These decreases were offset by increases of \$45,000 in legal and professional fees, \$18,000 in technology expense, and \$9,000 in selling travel expenses.

INTEREST EXPENSE - Interest expense for the three months ended November 30, 2001 was approximately \$168,000 as compared to approximately \$241,000 for the three months ended November 30, 2000. As a percentage of sales, interest expense decreased from 5.2% in the quarter ended November 30, 2000 to 5.0% for the quarter ended November 30, 2001. This was a result of lower debt levels as well as lower interest rates during the quarter ended November 30, 2001 as compared to the same period last year.

FEDERAL INCOME TAXES

For the three months ended November 30, 2001, the Company recorded a valuation allowance of \$277,367 to offset the income tax benefit. As of November 30, 2001, the Company had approximately \$3,091,000 of net operating loss

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carryforwards which will expire in fiscal 2020 through 2022, if unused, as well as \$155,000 of alternative minimum tax credits that do not expire.

LIQUIDITY AND CAPITAL RESOURCES

During the three months ended November 30, 2001, the Company's cash used in operating activities was \$2,142,000. This largely resulted from increases of \$1,007,000 in accounts receivable and \$494,000 in contracts in process. From investing activities, the Company acquired additional machinery and equipment of \$14,000. From financing activities, the Company used \$496,990 to reduce

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long-term debt and borrowed an additional \$2,370,000 on the revolving working capital credit line. 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 2002. 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: January 14, 2002

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)