RIVIERA TOOL CO
Form 10-Q
January 14, 2004

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 30, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to___________________

Commission file no. 001-12673

RIVIERA TOOL COMPANY
(Exact name of registrant as specified in its charter)

Michigan	38-2828870
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5460 Executive Parkway S.E., Grand Rapids, Michigan 49512
(Address of principal executive offices) (Zip Code)

(616) 698-2100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

There were 3,379,609 shares of the Registrant's common stock outstanding as of January 11, 2004.

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RIVIERA TOOL COMPANY
FINANCIAL STATEMENTS

BALANCE SHEETS

ASSETS	NOTE	NOVEMBER 2003 (UNAUDIT
CURRENT ASSETS		
Cash..		$
Accounts receivable...		3,4
Costs in excess of billings on contracts in process....................	2	11,3
Inventories...		2
Prepaid expenses and other current assets..............................		2
Total current assets..		15,2

PROPERTY, PLANT AND EQUIPMENT, NET	3	12,7
PERISHABLE TOOLING		6
OTHER ASSETS		3
Total assets		$ 28,9

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Current portion of long-term debt	4	$ 6
Accounts payable		3,2
Accrued outsourced contracts payable		6,7
Accrued liabilities		6
Total current liabilities		11,3
LONG-TERM DEBT	4	4,0
ACCRUED LEASE EXPENSE		6
Total liabilities		16,0
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:		
Authorized - 9,785,575 shares		
Issued and outstanding - 3,379,609 shares		
at November 30 and August 31, 2003		15,1
Retained deficit		(2,16
Total stockholders' equity		12,9
Total liabilities and stockholders' equity		$ 28,9

See notes to financial statements

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RIVIERA TOOL COMPANY
STATEMENTS OF OPERATIONS
(UNAUDITED)

FOR THE THREE MONT
NOVEMBER 3

2003

SALES	$	8,310,761	$
COST OF SALES		7,460,817	
GROSS PROFIT		849,944	
SELLING AND ADMINISTRATIVE EXPENSES		403,487	
INCOME/(LOSS) FROM OPERATIONS		446,457	
OTHER EXPENSE			
INTEREST EXPENSE		208,528	
OTHER EXPENSE		--	
TOTAL OTHER EXPENSE		208,528	
INCOME/(LOSS) BEFORE INCOME TAX EXPENSE/(BENEFIT)		237,929	
INCOME TAX EXPENSE		--	
NET INCOME/(LOSS) AVAILABLE FOR COMMON SHARES	$	237,929	$
BASIC AND DILUTED INCOME/(LOSS) PER COMMON SHARE	$	.07	$
BASIC AND DILUTED COMMON SHARES OUTSTANDING		3,379,609	

See notes to financial statements

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RIVIERA TOOL COMPANY
STATEMENT OF CASH FLOWS
(UNAUDITED)

		FOR THE T NO
		2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss)	$	237,929
Adjustments to reconcile net income/(loss) to net		

cash from operating activities:	
Depreciation and amortization	421,600
(Increase) decrease in assets:	
Accounts receivable	3,564,092
Costs in excess of billings on contracts in process	898,997
Perishable tooling	(5,933)
Prepaid expenses and other current assets	23,396
Increase (decrease) in liabilities:	
Accounts payable	(1,748,091)
Accrued outsourced contracts payable	826,411
Accrued lease expense	25,050
Accrued liabilities	232,210
Net cash provided from/(used in) operating activities	$ 4,475,661
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in other assets	(22,462)
Additions to property, plant and equipment	(124,794)
Net cash used in investing activities	$ (147,256)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net repayments on revolving credit line	(4,170,053)
Principal payments on notes payable to bank and non-revolving equipment line of credit	(157,152)
Net cash used in financing activities	$ (4,327,205)
NET INCREASE/(DECREASE) IN CASH	$ 1,200
CASH - Beginning of Period	--
CASH - End of Period	$ 1,200

See notes to financial statements

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RIVIERA TOOL COMPANY
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2003

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited interim financial statements (the "Financial Statements") of Riviera Tool Company (the "Company") have been prepared by the Company 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 December 1, 2003, for the fiscal year ended August 31, 2003.

The results of operations for the three-month period ended November 30, 2003 may not be 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, 2003
Costs incurred on contracts in process under the percentage of completion method	$ 31,313,135
Estimated gross profit	3,700,000
Total	35,013,135
Less progress payments received and progress billings to date	(23,715,583)
Plus costs incurred on contracts in process under the completed contract method	12,117
Costs in excess of billings on contracts in process	$ 11,309,669

Included in estimated gross profit for November 30, 2003 and August 31, 2003 are jobs with losses accrued of $1,569,279 and $532,665, respectively.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT, NET

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

	NOVEMBER 30 2003
Leasehold improvements	$ 1,367,9
Office furniture and fixtures	166,0
Machinery and equipment	22,376,2
Construction in Process	276,4
Computer equipment and software	2,352,1
Transportation equipment	61,9
Total cost	26,600,6
Accumulated depreciation and amortization	13,851,1
Net carrying amount	$ 12,749,4

RIVIERA TOOL COMPANY
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2003

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, 2003
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 up to $10 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 December 1, 2004, and bears interest, payable monthly, at 1.0% above the bank's prime rate (as of November 30 and August 31, 2003, an effective rate of 5.0%)..	$ 1,812,30
NOTES PAYABLE TO BANKS	
Note payable to bank, payable in monthly installments of $33,334, plus interest at the bank's prime rate plus 1.25% (as of November 30 and August 31, 2003, an effective rate of 5.25%), due December 1, 2004.................................	1,666,66
Subordinated note payable to bank, payable in monthly installments of $31,000, including interest at 11%, due January 1, 2008.........................	1,232,91
Total debt..	4,711,88
Less current portion of long-term debt..............................	657,03
Long-term debt-- Net..	$ 4,054,85

On November 24, 2003, the Company executed a new loan agreement with its primary lender. Under such agreement the existing financing was extended to December 1, 2004 and the Revolving Line of Credit was increased from $7.5 million to $10.0 million. Under the new loan agreement, the Company is required to maintain certain levels of Tangible Effective Net Worth, Debt to Tangible Net Worth and Debt Service Coverage. At November 30, 2003, the Company was in compliance with these new covenants.

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 Thr Nove
	2003
SALES	100.0%
COST OF SALES	89.8%
GROSS PROFIT	10.2%
SELLING, GENERAL AND ADMINISTRATIVE EXPENSE	4.8%
INCOME/(LOSS) FROM OPERATIONS	5.4%
INTEREST EXPENSE	2.5%
OTHER EXPENSE	--
TOTAL OTHER EXPENSE	2.9%
INCOME/(LOSS) BEFORE INCOME TAX EXPENSE/(BENEFIT)	2.9%
INCOME TAX EXPENSE	--
NET INCOME/(LOSS)	2.9%

FORWARD-LOOKING STATEMENT; RISKS AND UNCERTAINTIES
CERTAIN INFORMATION INCLUDED IN THIS QUARTERLY REPORT ON FORM 10-Q AND OTHER MATERIALS FILED OR TO BE FILED BY THE COMPANY WITH THE SECURITIES AND EXCHANGE COMMISSION CONTAIN CERTAIN STATEMENTS THAT MAY BE CONSIDERED FORWARD-LOOKING. 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. IN ADDITION, FROM TIME TO TIME, THE COMPANY MAY RELEASE OR PUBLISH FORWARD-LOOKING STATEMENTS RELATING TO SUCH MATTERS AS ANTICIPATED FINANCIAL PERFORMANCE, BUSINESS PROSPECTS, TECHNOLOGICAL DEVELOPMENTS AND SIMILAR MATTERS. THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 PROVIDES A SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS. IN ORDER TO

COMPLY WITH THE TERMS OF THE SAFE HARBOR, THE COMPANY NOTES THAT A VARIETY OF FACTORS COULD CAUSE THE COMPANY'S ACTUAL RESULTS AND EXPERIENCE TO DIFFER MATERIALLY FROM THE ANTICIPATED RESULTS OR OTHER EXPECTATIONS EXPRESSED IN THE COMPANY'S 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, 2003 TO THE THREE MONTHS ENDED NOVEMBER 30, 2002.

REVENUES - Revenues for the three months ended November 30, 2003 totaled $8.3 million as compared to $4.3 million for the three months ended November 30, 2002, an increase of $4.0 million or 93%. This increase was a result of the Company receiving significant tooling programs for the Mercedes-Benz M Class sports utility vehicle and a new "crossover" vehicle. The Company's customer for these vehicles is the Tier 1 supplier to Mercedes-Benz for these particular vehicles. For a portion of these tooling systems the Company is performing engineering services and manages certain die manufacturing subcontracted by the Company, with the Company being responsible for the engineering and performance of these tools. During the first quarter of fiscal 2004, the Company recorded approximately $0.8 million of outsourced revenue or 9% of first quarter 2004 sales.

The Company's backlog of awarded contracts, which are all believed to be firm, was approximately $22.1 million and $22.6 million as of November 30, 2003 and 2002, respectively. The Company expects all backlog contracts will be reflected in sales during fiscal years ending August 31, 2004 and 2005. Despite the backlog, the Company continues to see a general "softness" in the overall domestic automotive tooling industry. The Company believes that such should improve in the latter part of 2004 if the domestic automakers commit to increasing future new model restyling and support manufacturing such tooling systems utilizing domestic suppliers.

During the first quarter of fiscal 2004, the Company recorded an increase in estimated loss for eight specific contracts totaling approximately $626,000 due to production difficulties encountered in completing part functionality. The Company, under the percentage of completion method of accounting for long-term contracts, records revenue as production activity takes place. Under such methodology if a loss on a contract is evident, the total estimated loss must be recognized in the period such loss is estimated.

COST OF SALES - Cost of goods sold increased from $4.0 million for the first quarter of fiscal 2003 to $7.5 million for 2004. However, as a percent of sales, cost of goods sold decreased from 93.2% for 2003 to 89.8% for 2004. Direct costs (materials and labor) increased by $3.1 million, from $2.0 million for 2003 to $5.1 million for 2004. Engineering expense increased by $181,000 from $479,000 for 2003 to $660,000 for 2004. Lastly, of the cost of goods sold, manufacturing overhead increased by $100,000 from $1.6 million for 2003 to $1.7 million for 2004. Additional details of these changes in cost of sales for the first quarters of fiscal 2003 and 2004 are as follows:

- o Direct materials expense increased from $586,000 for 2003 to $1.1 million for 2004 and decreased as a percent of sales from 13.5% to 13.4%. This increase was largely due to higher contract volume requirements during 2004 as compared to 2003. Outside services expense increased from $368,500 for 2003 to $2.4 million for 2004 and as a percent of sales from 8.4% to 28.8%.

This increase was largely due to the Company incurring $835,000 million, or 10.0% of sales, in expense related to its outsourced revenue. The balance of the outside services expense was due to sales volumes and corresponding increases in outsourcing certain machining, die patterns, laser cutting, heat treat and outside design services.

o Direct labor expense increased from $1.0 million for 2003 to $1.6 million for 2004. However, as a percent of sales, direct labor decreased from 23.5% to 18.9%. This change was a result of the Company incurring a 36% increase in direct labor hours, from 55,000 hours in 2003 to 75,000 in 2004. Of the total direct labor expense, regular or straight time increased by $320,000 however as a percent of sales, decreased from 17.0% for 2003 to 12.7% for 2004 due to increased sales volume. Overtime expense increased from $279,000 for 2003 to $515,000 for 2004, however as a percent of sales, decreased from 6.4% for 2003 to 6.2% for 2004.

o Engineering expense increased from $479,000, 11.0% of sales, for 2003 to $660,000, 8.0% of sales, for 2004. This increase was due to the Company's increase in awarded contracts and the Company increasing the number of engineering personnel necessary to fulfill the design and project management portions of the contracts.

o Manufacturing overhead was $1.6 million or 36.7% of sales for 2003 as compared to $1.7 million or 20.7% of sales for 2004. During 2004, increases in manufacturing overhead were largely due to a $54,000 increase in payroll tax expense, a $41,000 increase in medical insurance premiums and a $34,000 increase in building rent

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expense. The decrease of approximately 16% of manufacturing overhead, as a percent of sales, was largely due to improved overhead absorption from sales increases.

SELLING AND ADMINISTRATIVE EXPENSE. Selling and administrative expense increased from $322,000 for the first quarter of 2003 to $403,000 for 2004. As a percent of sales, selling and administrative expense decreased from 7.4% for 2003 to 4.8% for 2004 due to the increased sales volume. The largest selling and administrative expense increases were in salaries and wages.

INTEREST EXPENSE. Interest expense increased from $157,000 for 2003 to $209,000 for 2004. This increase was largely due to the amortization of debt issuance and guarantees expense during 2004. These costs were incurred related to the Company's December 2002 refinancing.

FEDERAL INCOME TAXES For the three months ended November 30, 2003, the Company recorded a reduction in the valuation allowance of approximately $81,000 to offset the income tax expense.

LIQUIDITY AND CAPITAL RESOURCES
During the three months ended November 30, 2003, the Company's cash provided by operating activities was $4.5 million. This largely resulted from a decrease of $3.6 million in account receivables and a $900,000 decrease in contracts in process. From investing activities, the Company incurred an increase in other assets (cash surrender value of life insurance policies) of $22,000 and $125,000 in additions to property, plant and equipment. The Company used $4.2 million to reduce the revolving line of credit and $157,000 to reduce long-term debt.

On November 24, 2003, the Company amended its primary bank facility. Under such, the Company received a one-year extension of its credit facility. Under such amendment, the existing $7.5 million Revolving Line of Credit was increased to $10.0 million. The Company believes that the unused portion of the revolving bank working capital credit line, receipt of progress payments from the Company's major customer and the funds generated from operations will be sufficient to cover anticipated cash needs through fiscal 2004. However, depending on the level of future sales, and the terms of such sales, an expanded credit line or other financial instruments 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 and/or other financing, if required.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

None.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time period specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, the Chief Executive and Chief Financial Officers of the Company concluded that the Company's disclosure controls and procedures were adequate.

The Company made no significant changes in its internal controls or in other factors that could significantly affect those controls subsequent to the date of the evaluation of those controls by the Chief Executive and Chief Financial Officers.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

31.1	Certification of Chief Executive Officer Pursuant to Section 302
31.2	Certification of Chief Executive Officer Pursuant to Section 302
32.1	Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C.ss.1350 Sec. 906
32.2	Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C.ss.1350 Sec. 906

(b) Reports on Form 8-K:

None

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, 2004

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)

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EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
EX-31.1	Certification of Chief Executive Officer Pursuant to Section 302
EX-31.2	Certification of Chief Executive Officer Pursuant to Section 302
EX-32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act 2002
EX-32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act 2002