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RIVIERA TOOL CO
Form 10-Q
July 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 May 31, 2002
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, 2002 was 3,379,609.

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| Item 3. | Quantitative and Qualitative Disclosures about Market Risk - None | -- |

PART II
OTHER INFORMATION
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| | |
|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Item 1. | Legal Proceedings - During the quarter ended May 31, 2002 the Company settled its litigation with Dana Corporation. Such settlement was favorable to 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. |

2.

RIVIERA TOOL COMPANY
FINANCIAL STATEMENTS

BALANCE SHEETS

| | ASSETS | | MAY 31, 2002 |
|-----------------------------------------------------------------------------------------|--------|-------|--------------|
| | ----- | | ----- |
| CURRENT ASSETS | | NOTE | (UNAUDITED) |
| ----- | | ----- | ----- |
| Cash..... | | | \$ 4, |
| Accounts receivable..... | | | 3, |
| Costs net of estimated gross loss in excess Of billings on contracts in process..... | | 2 | 3, |
| Inventories..... | | | |
| Prepaid expenses and other current assets..... | | | |
| | | | ----- |
| Total Current assets..... | | | 9, |
| PROPERTY, PLANT AND EQUIPMENT, NET..... | | 3 | 14, |
| PERISHABLE TOOLING..... | | | |

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| | | | |
|------------------------------------------------------|--------------|--------------|--------|
| SALES | \$ 3,702,425 | \$ 2,301,545 | \$ 10 |
| COST OF SALES | 3,565,402 | 3,149,592 | 10 |
| | ----- | ----- | ----- |
| GROSS PROFIT/(LOSS) | 137,023 | (848,047) | |
| SELLING AND ADMINISTRATIVE EXPENSES | 440,943 | 427,070 | 1 |
| | ----- | ----- | ----- |
| LOSS FROM OPERATIONS | (303,920) | (1,275,117) | (1) |
| OTHER INCOME (EXPENSE) | | | |
| INTEREST EXPENSE | (149,769) | (146,882) | |
| OTHER INCOME/(EXPENSE) | 1,057 | -- | |
| | ----- | ----- | ----- |
| TOTAL OTHER EXPENSE - NET | (148,712) | (146,882) | |
| LOSS BEFORE TAXES ON INCOME | (452,632) | (1,421,999) | (1) |
| | ----- | ----- | ----- |
| INCOME TAX CREDIT | -- | (483,480) | |
| | ----- | ----- | ----- |
| NET LOSS AVAILABLE FOR COMMON SHARES | \$ (452,632) | \$ (938,519) | \$ (1) |
| | ===== | ===== | ===== |
| BASIC AND DILUTED LOSS PER COMMON SHARE ... | \$ (.13) | \$ (.28) | \$ |
| | ===== | ===== | ===== |
| BASIC AND DILUTED COMMON SHARES OUTSTANDING | 3,379,609 | 3,379,609 | 3 |
| | ===== | ===== | ===== |

See notes to financial statements

4.

RIVIERA TOOL COMPANY
STATEMENTS OF CASH FLOWS
(UNAUDITED)

FOR THE NINE MONTHS
MAY 31,

2002

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| | |
|--------------------------------------------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Net loss | \$ (1,956,407) |
| Adjustments to reconcile net loss to net cash | |
| From operating activities: | |
| Depreciation and amortization | 1,432,323 |
| Deferred taxes | -- |
| (Increase) decrease in assets: | |
| Accounts receivable | (1,142,965) |
| Federal income tax receivable | -- |
| Costs and estimated gross loss in | |
| excess of billings on contracts in | |
| process | 222,513 |
| Perishable tooling | 32,004 |
| Prepaid expenses and other current assets .. | (101,378) |
| Increase (decrease) in liabilities: | |
| Accounts payable | (322,437) |
| Accrued lease expense | (12,269) |
| Accrued liabilities | 236,274 |
| | ----- |
| Net cash provided by/(used in) | |
| operating activities | \$ (1,612,342) |
| | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Increase in other assets | (42,290) |
| Additions to property, plant and equipment | (224,463) |
| | ----- |
| Net cash used in investing activities | \$ (266,753) |
| | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Net borrowings (repayments) on revolving | |
| Credit line | 2,761,763 |
| Principal payments on notes payable to bank and | |
| non-revolving equipment line of credit | (1,111,974) |
| | ----- |
| Net cash provided by/(used in) | |
| financing activities | \$ 1,649,789 |
| | ----- |
| NET DECREASE IN CASH | \$ (229,306) |
| | ----- |
| CASH - Beginning of Period | 282,721 |
| | ----- |
| CASH - End of Period | \$ 53,415 |
| | ===== |

See notes to financial statements

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

The results of operations for the three and nine month periods ended May 31, 2002 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:

| | MAY 31, 2002 |
|------------------------------------------------------------------------------------------|-----------------|
| | ----- |
| Costs incurred on contracts in process under the Percentage of completion method..... | \$ 9,864,622 |
| Estimated gross loss..... | (650,000) |
| | ----- |
| Total..... | 9,214,622 |
| Less progress payments received and progress Billings to date..... | 5,302,452 |
| Plus costs incurred on contracts in process under the completed contract method..... | 18,886 |
| | ----- |
| Costs and estimated gross loss in excess of billings on contracts in process..... | \$ 3,931,056 |
| | ===== |

Included in estimated gross loss for May 31, 2002 and August 31, 2001 are jobs with losses accrued of \$952,481 and \$763,980, respectively.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT, NET

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

| | MAY 31, 2002 |
|---------------------------------------|-----------------|
| | ----- |
| Lease and leasehold improvements..... | \$ 1,50 |
| Office furniture and fixtures..... | 19 |
| Machinery and equipment..... | 22,86 |

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| | |
|------------------------------------------------|----------|
| Construction in Process..... | 23 |
| Computer equipment and software..... | 2,22 |
| Transportation equipment..... | 13 |
| | ----- |
| Total cost..... | 27,15 |
| Accumulated depreciation and amortization..... | 12,21 |
| | ----- |
| Net carrying amount..... | \$ 14,93 |
| | ===== |

6.

RIVIERA TOOL COMPANY
 NOTES TO FINANCIAL STATEMENTS
 MAY 31, 2002

NOTE 4 - LONG-TERM DEBT

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

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 May 31, 2002, an effective rate of 5.75%).....\$ 5,9

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, at either LIBOR plus 2.25% or at .25% below the bank's prime rate (as of May 31, 2002, an effective rate of 4.5%), at the election of the Company.....

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..... 1,7

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..... 4

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, at either LIBOR plus 2.25% or at .25% below the bank's

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| | |
|-------------------------------------------------------------------------------------------------|---------|
| prime rate (as of May 31, 2002, an effective rate of 4.5%), at the election of the Company..... | 1,8 |
| ----- | |
| Total long-term debt..... | \$ 10,0 |
| Less current portion..... | 7,2 |
| ----- | |
| Long-term debt-- Net..... | \$ 2,7 |
| ===== | |

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 May 31, 2002, the Company was not in compliance with these covenants. The Company believes that the bank will continue its relationship with the Company under existing terms until the Company and the bank review and reset such covenants. The Company anticipates this will be concluded by the end of the fourth quarter.

7.

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

RESULTS OF OPERATIONS

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

| | FOR THE THREE MONTHS ENDED | | |
|------------------------------------------|----------------------------|---------|-------|
| | MAY 31, | | |
| | 2002 | 2001 | 2 |
| | ----- | ----- | ----- |
| SALES..... | 100.0% | 100.0% | |
| COST OF SALES..... | 96.3% | 136.8% | |
| ----- | | | |
| GROSS PROFIT/(LOSS) | 3.7% | (36.8%) | |
| SELLING AND ADMINISTRATIVE EXPENSES..... | 11.9% | 18.6% | |
| ----- | | | |
| LOSS FROM OPERATIONS..... | (8.2%) | (55.4%) | |
| OTHER EXPENSE | | | |
| INTEREST EXPENSE..... | (4.0%) | (6.4%) | |
| TOTAL OTHER EXPENSE - NET..... | (4.0%) | (6.4%) | |
| LOSS BEFORE TAXES ON INCOME..... | (12.2%) | (61.8%) | |

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| | | |
|------------------------|---------|---------|
| INCOME TAX CREDIT..... | - | (21.0%) |
| | ----- | ----- |
| NET LOSS..... | (12.2%) | (40.8%) |
| | ===== | ===== |

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," "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 MAY 31, 2002 TO THE THREE MONTHS ENDED MAY 31, 2001.

REVENUES - Revenues for the three months ended May 31, 2002 totaled \$3.7 million as compared to \$2.3 million for the three months ended May 31, 2001,

8.

an increase of \$1.4 million or 61%. This is a result of increased backlog of contracts and related revenue from such backlog. During the third quarter of 2002 the Company incurred 49,140 shop floor hours, an increase of 9,109 hours or 23% over the third quarter of 2001. This quarterly increase represents the first increase since the fourth quarter of the fiscal year ended August 31, 2000. Since the fourth quarter of 2000, the market demand for automotive tooling systems has declined. During this period limited contracts have been released and of those contracts that were released, most were competitively bid and resulted in erosion of contract pricing. These factors resulted in the Company having lower contract revenue as well as contract margins during fiscal 2001 and 2002.

During the third quarter of 2002, the Company received letters of intent and orders for approximately \$17.6 million, bringing the estimated contract backlog to \$21.7 million, as of May 31, 2002, as compared to \$9.3 million as of May 31, 2001. These letter of intents represent approximately \$16.0 million of the estimated contract backlog where the Company and its customer are finalizing the terms of the purchase order.

COST OF SALES - Cost of sales was \$3.6 million or 96% of sales for the three months ended May 31, 2002 as compared to \$3.1 million or 137% of sales for the same period last year. The increase in gross margin was largely due to the Company's increase in contracts and utilization.

Direct costs expense increased from \$1.4 million in 2001 to \$1.6 million in 2002, as a percent of sales it decreased from 60% to 42%. Direct labor expense was \$0.9 million in 2002 as compared to \$0.7 million in 2001, as a percent of sales, direct labor expense decreased from 31% in 2001 to 24% in 2002. The Company incurred 49,140 shop floor hours during the third quarter of 2002 as

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compared to 40,031 during the same period of 2001, an increase of 9,109 hours or 23%. Other direct costs decreased from \$857,000 in 2001 to \$689,000 in 2002, as a percent of sales it decreased from 29% to 19%.

Engineering expense increased from \$280,000 for the third quarter of 2001 to \$424,000 for the third quarter of 2002, however as a percent of sales engineering expense decreased from 12% to 11%. The increase in engineering expense was largely in salaries and related payroll taxes. This was a result of the Company increasing its' design and engineering personnel to meet the requirements of the increased backlog.

Manufacturing overhead expense increased from \$1,495,000 or 65% of sales for the third quarter of 2001 to \$1,580,000 or 43% of sales for the third quarter of 2002. The largest increases in the third quarter of 2002 as compared to 2001 included \$32,000 in machinery repair and maintenance expense, \$26,000 in perishable tooling expense, \$15,000 on insurance expense and \$11,000 in indirect labor, vacation, holiday pay and related payroll taxes.

SELLING & ADMINISTRATIVE EXPENSES - Selling and administrative expenses increased from \$427,000 or 19% of sales for the third quarter of 2001 to \$441,000 or 12% of sales for the third quarter of 2002. This increase was largely due to increases of \$24,000 in sales travel related expenses, \$13,000 in computer maintenance expenses, and \$13,000 in office and supervision salaries. These increases were offset by decreases of \$27,000 in legal and professional fees, and \$13,000 in deferred compensation/401(k) expense.

INTEREST EXPENSE - Interest expense for the third quarter of 2002 increased to \$150,000 or 4% of sales from \$147,000 or 6% of sales for the third quarter of 2001.

9.

COMPARISON OF THE NINE MONTHS ENDED MAY 31, 2002 TO THE NINE MONTHS ENDED MAY 31, 2001.

REVENUES - Revenues for the nine months ended May 31, 2002 totaled \$10.5 million as compared to \$9.3 million for the nine months ended May 31, 2001, an increase of \$1.2 million or 13%.

COST OF SALES - Cost of sales was \$10.7 million or 102% of sales for the nine months ended May 31, 2002 as compared to \$11.2 million or 121% of sales for the same period last year. The increase in gross margin was largely due to the Company's increase in revenue and certain cost containment measures.

Direct costs expense decreased from \$5.4 million in 2001 to \$4.9 million in 2002, as a percent of sales it decreased from 58% to 47%. Direct labor expense was \$2.7 million in 2002 as compared to \$3.1 million in 2001, as a percent of sales, direct labor expense decreased from 33% in 2001 to 25% in 2002. The Company incurred 138,000 shop floor hours during the first three quarters of 2002 as compared to 165,000 during the same period of 2001, a decrease of 27,000 hours or 17%. This decrease was a direct result of lower contract level requirements during the first and second quarters of 2002. Other direct costs remained consistent at \$2.3 million in 2002, however as a percent of sales, other direct costs decreased from 25% in 2001 to 22% for 2002.

Engineering expense increased from \$892,000 for the first three quarters of 2001 to \$1.1 million for same period of 2002, as a percent of sales engineering expense increased from 9.6% to 10.2%. The increase in engineering expense was largely in salaries as a result of increasing staffing levels for the Company's

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increased backlog. Such resulted in the Company increasing design and project management staffing.

Manufacturing overhead expense decreased from \$4.9 million or 53% of sales for the first three quarters of 2001 to \$4.7 million or 45% of sales for the same period on 2002. The largest decreases during this period in 2002 as compared to 2001 included \$169,000 in supervision, indirect labor, vacation, holiday pay and related payroll taxes, \$49,000 in medical and general insurance expense, and \$45,000 in building rent, utilities, maintenance and supplies expenses. These decreases were offset by an increase of \$30,000 in perishable tooling expense.

SELLING & ADMINISTRATIVE EXPENSES - Selling and administrative expenses increased slightly from \$1.276 million or 14% of sales for the first three quarters of 2001 to \$1.285 million or 12% of sales in 2002. Increases in the first three quarters of 2002 as compared to 2001 included \$52,000 in supervision and office salaries, \$34,000 in legal and professional fees, \$25,000 in employee training expense, \$23,000 in computer maintenance expense, \$14,000 in sales travel related expenses, \$11,000 in dues and subscriptions expense, \$11,000 in Michigan Single Business Tax expense and \$7,000 in equipment rental expense. These increases were offset by decreases of \$44,000 in insurance expense, \$30,000 in contributions expense, \$29,000 in deferred compensation/401(k) expense, \$20,000 in director fees, \$19,000 in public company expenses, \$12,000 in advertising expense, \$11,000 in depreciation expense, \$6,000 in office supplies, and \$5,000 in telephone expense.

INTEREST EXPENSE - Interest expense for the first three quarters of 2002 decreased to \$487,000 or 4.6% of sales from \$603,000 or 6.5% of sales for 2001. This was a result of lower debt levels as well as lower interest rates during 2002 as compared to 2001.

10.

FEDERAL INCOME TAXES

For the nine months ended May 31, 2002, the Company recorded a valuation allowance of approximately \$665,000 to offset the income tax benefit. As of May 31, 2002, the Company had approximately \$3,756,000 of net operating loss 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 nine months ended May 31, 2002, the Company's cash used in operating activities was \$1,612,000. This largely resulted from an increase of \$1,143,000 in accounts receivable and a decrease of \$322,000 in accounts payable. From investing activities, the Company acquired additional machinery and equipment of \$224,000. From financing activities, the Company used \$1,112,000 to reduce long-term debt and borrowed an additional \$2,762,000 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 and terms of such 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

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undersigned, thereunto duly authorized.

Date: July 12, 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)

11.