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RIVIERA TOOL CO
Form 10-Q
January 23, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2006

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
(State or other jurisdiction of
incorporation or organization)

38-2828870
(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 No
--- ---

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ___ Accelerated filer ___ Non-accelerated filer
--- --- ---

Indicate by check mark whether the Registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

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Yes No X
 --- ---

There were 4,400,458 shares of the Registrant's common stock outstanding as of January 22, 2007.

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FINANCIAL INFORMATION
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RIVIERA TOOL COMPANY
FINANCIAL STATEMENTS

BALANCE SHEETS

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| | NOTE | NOVEMBER 30, 2006 |
|--|------|----------------------|
| | ---- | ----- (UNAUDITED) |
| ASSETS | | |
| CURRENT ASSETS | | |
| - Cash..... | | \$ 509,551 |
| - Accounts receivable, net..... | | 9,086,783 |
| - Costs in excess of billings/(billings in excess of costs) on contracts in process..... | 2 | 224,222 |
| - Inventories..... | | 249,962 |
| - Prepaid expenses and other current assets..... | | 319,583 |
| | | ----- |
| Total Current Assets..... | | 10,390,101 |
| - Property, Plant and Equipment, net..... | 3 | 9,072,246 |
| - Perishable Tooling..... | | 542,431 |
| - Other Assets..... | | 379,029 |
| | | ----- |
| Total Assets..... | | \$ 20,383,807 |
| | | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| - Current portion of long-term debt..... | 4 | \$ 2,884,038 |
| - Accounts payable..... | | 3,801,526 |
| - Accrued liabilities..... | | 697,850 |
| | | ----- |
| Total Current Liabilities..... | | 7,383,414 |
| - Long-Term and Subordinated Debt, net of Unamortized Discount..... | 4 | 9,791,088 |
| - Accrued Lease Expense..... | | 1,013,216 |
| - Other Long-Term Liabilities..... | | 16,386 |
| | | ----- |
| Total Liabilities..... | | 18,204,104 |
| PREFERRED STOCK | | |
| - Preferred stock - no par value, \$100 mandatory redemption value: Authorized - 5,000 shares, Issued and outstanding - no shares..... | | -- |
| - Preferred stock - no par value, Authorized - 200,000 shares Issued and outstanding - no shares..... | | -- |
| COMMON STOCKHOLDERS' EQUITY | | |
| - Common stock - No par value: Authorized - 9,785,575 shares Issued and outstanding - 4,400,458 and 4,257,601 shares as of November 30 and August 31, 2006, respectively..... | | 17,330,483 |
| - Retained deficit..... | | (15,150,780) |
| | | ----- |
| Total Stockholders' Equity..... | | 2,179,703 |
| | | ----- |
| Total Liabilities and Stockholders' Equity..... | | \$ 20,383,807 |
| | | ===== |

See notes to financial statements

RIVIERA TOOL COMPANY
STATEMENTS OF OPERATIONS
(UNAUDITED)

| | FOR THE THREE MONTHS ENDED NOVEMBER 30 | |
|--|---|--------------|
| | 2006 | 2005 |
| SALES..... | \$4,307,796 | \$6,063,185 |
| COST OF SALES..... | 3,641,172 | 5,467,385 |
| GROSS PROFIT..... | 666,624 | 595,800 |
| SELLING AND ADMINISTRATIVE EXPENSES..... | 593,180 | 565,577 |
| INCOME FROM OPERATIONS..... | 73,444 | 30,223 |
| OTHER EXPENSE | | |
| - Interest expense..... | 436,368 | 464,918 |
| - Other (income) expense..... | (97) | 6,655 |
| TOTAL OTHER EXPENSE..... | 436,271 | 471,573 |
| LOSS BEFORE INCOME TAXES..... | (362,827) | (441,350) |
| INCOME TAXES..... | -- | -- |
| NET LOSS AVAILABLE FOR COMMON SHARES... | \$ (362,827) | \$ (441,350) |
| BASIC AND DILUTED LOSS PER COMMON SHARE..... | \$ (.09) | \$ (.11) |
| WEIGHTED-AVERAGE BASIC AND DILUTED COMMON SHARES OUTSTANDING..... | 4,292,826 | 3,984,874 |

See notes to financial statements

RIVIERA TOOL COMPANY
STATEMENT OF CASH FLOWS
(UNAUDITED)

| | FOR THE T ENDED NO |
|----------------------|-----------------------|
| | 2006 |
| OPERATING ACTIVITIES | |
| Net loss..... | \$ (362,827) |

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| | |
|--|-------------|
| Adjustments to reconcile net loss to net cash from/(used in) operating activities: | |
| - Depreciation and amortization..... | 395,634 |
| - Debt discount amortization..... | 58,500 |
| (Increase) decrease in assets: | |
| - Accounts receivable..... | 1,401,299 |
| - Costs in excess of billings on contracts in process..... | (329,933) |
| - Perishable tooling..... | 67,617 |
| - Prepaid expenses and other current assets..... | 10,778 |
| Increase (decrease) in liabilities: | |
| - Accounts payable..... | (943,802) |
| - Accrued lease expense..... | 18,132 |
| - Accrued liabilities..... | 163,921 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES..... | \$ 479,319 |
| INVESTING ACTIVITIES | |
| - Increase (decrease) in other assets..... | (8,977) |
| - Purchases of property, plant and equipment..... | (28,932) |
| NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES | \$ (37,909) |
| FINANCING ACTIVITIES | |
| - Net borrowings (repayments) on revolving credit line..... | (920,053) |
| - Net borrowings (repayments) on overformula..... | 1,000,000 |
| - Principal payments on secured convertible term note and note payable to bank.. | (195,728) |
| - Payments on capital lease..... | (2,048) |
| - Proceeds from other financing..... | 24,791 |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES..... | \$ (93,038) |
| NET INCREASE IN CASH..... | \$ 348,372 |
| CASH - Beginning of Period..... | 161,179 |
| CASH - End of Period..... | \$ 509,551 |

See notes to financial statements

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RIVIERA TOOL COMPANY
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2006

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, without audit, 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 have been prepared and 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

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conjunction with the financial statements and footnotes thereto included in the Company's Form 10-K dated November 30, 2006, for the fiscal year ended August 31, 2006.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. During fiscal 2006, the Company sustained a net loss of \$1,639,218. This loss resulted in an accumulated deficit of \$14,787,953 as of August 31, 2006. These factors, among other things, raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company believes that the revolving line of credit, overadvance facility and the funds generated from operations, should be sufficient to cover anticipated cash needs through fiscal 2007. However, depending on Company's primary lenders' willingness to extend the due date of the overadvance facility as well as the level of future sales, terms of such sales, financial performance and cash flow of existing contracts such financing may not be sufficient to support operations. Therefore, the Company may be required to seek additional sources of funding. The results of operations for the three-month period ended November 30, 2006 may not be indicative of the results to be expected for the full year.

Basic earnings per share ("EPS) excludes dilution and is computed by dividing earnings/(loss) available to common stockholders by the weighted-average common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised. Diluted EPS is computed by increasing the weighted average number of shares outstanding by the dilutive effect, if any, of the issuance of common stock for options outstanding under the 1996 Incentive Employee Stock Option Plan, as amended, 1998 Key Employee Stock Option Plan, convertible debt and the other non-employee options. Weighted average shares issuable upon the exercise of stock options that were not included in the (loss) earnings per share calculations were 831,000 in the quarter ended November 30, 2006.

In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes", which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognize in its financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for our fiscal year ended August 31, 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on its financial statements.

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NOTE 2 - COSTS AND BILLINGS ON CONTRACTS IN PROCESS

Costs and billings on contracts in process are as follows:

| NOVEMBER 30, 2006 | AUGUST 31, 2006 |
|----------------------|--------------------|
| ----- | ----- |

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| | | |
|--|--------------|--------------|
| Costs incurred on contracts in process under the percentage-of-completion method | \$13,061,827 | \$12,981,159 |
| Estimated gross profit (loss) | 950,000 | 675,000 |
| | ----- | ----- |
| Total | 14,011,827 | 13,656,159 |
| Less progress payments received and progress billings to date ... | 13,787,605 | 13,761,870 |
| | ----- | ----- |
| COSTS IN EXCESS OF BILLINGS ON CONTRACTS IN PROCESS | \$ 224,222 | \$ (105,711) |
| | ===== | ===== |

Included in estimated gross profit (loss) for November 30, 2006 and August 31, 2006 are jobs with losses accrued of \$661,525 and \$480,658, respectively.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT, NET

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

| CATEGORY ----- | NOVEMBER 30, 2006 ----- | AUGUST 31, 2006 ----- |
|---|-------------------------------|-----------------------------|
| - Leasehold improvements | \$ 1,152,036 | \$ 1,338,712 |
| - Office furniture and fixtures | 110,157 | 104,313 |
| - Machinery and equipment | 21,053,910 | 21,696,157 |
| - Computer equipment and software | 1,145,628 | 1,264,779 |
| - Transportation equipment | 58,114 | 102,036 |
| | ----- | ----- |
| Total cost | 23,519,845 | 24,505,997 |
| - Accumulated depreciation and amortization ... | 14,447,599 | 15,067,049 |
| | ----- | ----- |
| PROPERTY, PLANT AND EQUIPMENT | \$ 9,072,246 | \$ 9,438,948 |
| | ===== | ===== |

NOTE 4 - LONG-TERM DEBT

The Company's long-term debt consists of the following:

| DEBT TYPE ----- | NOVEMBER 30, 2006 ----- | AUGUST 31, 2006 ----- |
|---|-------------------------------|-----------------------------|
| CONVERTIBLE REVOLVING NOTE - The convertible 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 \$11 million. The credit line is due May 17, 2008, and bears interest, payable monthly, at prime rate plus 1.25% (as of November 30, 2006, an effective rate of 8.25%) | \$ 8,877,185 | \$ 9,797,238 |

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RIVIERA TOOL COMPANY
 NOTES TO FINANCIAL STATEMENTS
 NOVEMBER 30, 2006

NOTE 4 - LONG-TERM DEBT - CONTINUED

| DEBT TYPE ----- | NOVEMBER 30, 2006 ----- | AUGUST 31, 2006 ----- |
|--|-------------------------------|-----------------------------|
| OVERFORMULA | | |
| - The overadvance loan is due June 30, 2007 and bears interest at prime rate plus 1.25% (as of November 30, 2006, an effective rate of 8.25%) | 1,550,000 | 550,000 |
| SECURED CONVERTIBLE TERM NOTE | | |
| - The convertible term note is due May 17, 2008 and is payable in monthly installments of \$96,970 commencing September 1, 2005, plus interest at prime rate plus 4%, (as of November 30, 2006, an effective rate of 11.25%) | 1,745,455 | 2,036,364 |
| NOTES PAYABLE TO BANK | | |
| - Subordinated note payable to bank is due January 1, 2008 and is payable in monthly installments of \$31,000, including interest at 11% | 816,158 | 770,977 |
| OTHER | | |
| - Other | 27,578 | 4,835 |
| Total debt | 12,901,376 | 13,159,414 |
| Less: unamortized debt discount | 341,250 | 399,750 |
| Less: current portion of long-term debt and unamortized debt discount | 2,884,038 | 1,757,631 |
| LONG-TERM DEBT, NET OF UNAMORTIZED DISCOUNT | \$ 9,791,088 | \$11,002,033 |
| | ===== | ===== |

On May 17, 2005, the Company entered into a new senior loan facility with Laurus Master Fund LTD. ("Laurus"). In connection with such financing, the Company entered into a Securities Purchase Agreement and a Security Agreement (collectively, the "Agreements"). Pursuant to these Agreements, the Company received a Secured Convertible Term Loan (the "Term Loan") in the aggregate principal amount of \$3.2 million as well as a Revolving Credit Note (the "Revolving Facility") with a maximum availability of \$11.0 million. The Revolving Facility is convertible by Laurus into shares of the Company's common stock at a rate of \$1.66 per share. The Agreements are subject to certain restrictions and various covenants, including a borrowing base formula of ninety percent of eligible accounts receivable and fifty percent of the lesser of work-in-process inventory or \$5 million. The Term Loan monthly installments may be paid in Company common stock if the average closing price of the Company's common stock for five trading days prior to due date is greater or equal to 115%

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of the fixed conversion price (\$1.66) and the amount of such conversion does not exceed 25% of the aggregate trading dollar volume of the Company's common stock for the period of 22 trading days immediately preceding such conversion date. In addition, the Company issued an option to purchase 650,000 shares of its Common Stock at an exercise price of \$.01. The Company recorded the cost of this option as debt discount. The debt discount was determined by calculating the difference between the closing price of the stock on May 17, 2005 (the date of the option issuance) and the option exercise price of \$.01 per share. The closing price on May 17, 2005 was \$.93 per share, thus the total debt discount of the option was \$702,000. The debt discount is being amortized over the term of the financing. During the first quarter of fiscal 2006 and 2007 the Company recorded \$22,750 and \$58,500 in debt discount expense, respectively.

Laurus has agreed that it will not convert either the Term Loan or any loans under the Revolving Facility into shares of the Company's Common Stock in amounts that would cause it to obtain an aggregate beneficial ownership of the Company's Common Stock exceeding 4.99% at any given time (or 19.99% in the event such limitation is suspended

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upon the occurrence of an "event of default" under any of the Agreements). The Company and Laurus agreed to customary terms and conditions including, but not limited to, the filing of a registration statement within 60 days from the date of the Agreements of shares of the Company's Common Stock issuable (i) upon exercise of the Option, (ii) upon conversion of the Term Loan, and (iii) upon conversion of up to \$2.0 million under the Revolving Facility. The Company has an obligation to register an additional \$2.0 million under the Revolving Facility upon issuance by the Company of an additional note evidencing such indebtedness.

On December 9, 2005, the Company agreed to convert \$150,000 of principal of its Convertible Term Note into 272,727 shares of common stock at a conversion rate of \$.55 per share.

On September 1, 2006, the Company agreed to convert \$50,000 of principal of its Convertible Note Payable into 142,857 shares of common stock at a conversion rate of \$.35 per share.

On October 31, 2006, the Company amended and restated the Overadvance Side Letter Agreement with Laurus. Under the original Overadvance Side Letter Agreement, dated May 17, 2005, the Company received a loan in excess of the formula amount allowable under the Revolving Facility totaling \$2.3 million. As of August 31, 2006, the Company had lowered the overformula loan balance to \$550,000. Under the October 31, 2006 amended agreement, such amount was increased to \$1,550,000 and will expire June 30, 2007.

As of November 31, 2006, the Company was in non-compliance with its Notes Payable to Bank for delinquent payments. As this note payable is subordinate to the Convertible Revolving Note, Overformula and Secured Convertible Term Note there is no acceleration clause under which they can accelerate payment. As such, the debt is recorded as long-term, net of current portion of long-term debt.

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

FORWARD-LOOKING STATEMENT; RISKS AND UNCERTAINTIES

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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.

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.

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| | For The Three Months Ended November 30 | |
|---|--|--------|
| | 2006 | 2005 |
| SALES | 100.0% | 100.0% |
| COST OF SALES | 84.5% | 90.2% |
| | 15.5% | 9.8% |
| GROSS PROFIT | | |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSE ... | 13.8% | 9.3% |
| | 1.7% | 0.5% |
| INCOME FROM OPERATIONS | | |
| INTEREST EXPENSE | 10.1% | 7.7% |
| OTHER EXPENSE | -- | 0.1% |
| | 10.1% | 7.8% |
| TOTAL OTHER EXPENSE | | |
| LOSS BEFORE INCOME TAX EXPENSE | (8.4%) | (7.3%) |
| INCOME TAX EXPENSE | -- | -- |
| | (8.4%) | (7.3%) |
| NET LOSS | (8.4%) | (7.3%) |

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the Company's Financial Statements. These financial

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statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require the use of estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. The accounting policies that may involve a higher degree of judgment, estimates and complexity include revenue recognition using percentage of completion estimates and the assessment of asset impairments. The Company uses the following methods and assumptions in its estimates.

- Revenue recognition - The Company recognizes revenue on time and material contracts utilizing the completed-contract method. Revenue is recognized on all other contracts utilizing the percentage-of-completion method. Under the completed-contract method, the contract is considered complete when all costs except for insignificant items have been incurred and the project has been approved by the customer. Under the percentage-of-completion method, estimated contract earnings are based on total estimated contract profits multiplied by the ratio of labor hours incurred to total estimated labor hours on the contract. Provisions for total estimated losses on contracts in process are recognized in the period such losses are determined. Changes in job performance, conditions and estimated profitability may result in revisions to costs and income and are recognized in the period such revisions are determined.
- Impairment of long-lived assets - The Company reviews long-lived assets for impairment if changes in circumstances or the occurrence of events suggest the remaining carrying value may not be recoverable. This review is performed using estimated future undiscounted cash flows. If the carrying value of a long-lived asset is considered to be impaired, an impairment charge is recorded for the amount that the carrying value of the long-lived asset exceeds its fair value.

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

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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 30, 2006, for the fiscal year ended August 31, 2006.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. During fiscal 2006, the Company sustained a net loss of \$1,639,218. This loss resulted in an accumulated deficit of \$14,787,953 as of August 31, 2006. These factors, among other things, raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be

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unable to continue as a going concern.

The Company believes that the revolving line of credit, overadvance and the funds generated from operations, should be sufficient to cover anticipated cash needs through fiscal 2007. However, depending on Company's primary lenders' willingness to extend the due date of the overadvance facility as well as the level of future sales, terms of such sales, financial performance and cash flow of existing contracts such financing may not be sufficient to support operations. Therefore, the Company may be required to seek additional sources of funding.

The results of operations for the three-month period ended November 30, 2006 may not be indicative of the results to be expected for the full year.

COMPARISON OF THE THREE MONTHS ENDED NOVEMBER 30, 2005 TO THE THREE MONTHS ENDED NOVEMBER 30, 2006.

REVENUES

| REVENUE | FIRST QUARTER ENDED | | INCREASE/ (DECREASE) | PERCENT INCREASE/ (DECREASE) |
|---------------------|---------------------|---------|-------------------------|------------------------------------|
| | 2005 | 2006 | | |
| Total Revenue | \$ 6.1m | \$ 4.3m | \$ (1.8)m | (30%) |
| Contract Backlog .. | \$ 12.9m | \$ 3.9m | \$ (9.0m) | (70%) |
| Shop Floor Hours .. | 72,800 | 61,700 | (11,100) | (15%) |

Revenues for the three months ended November 30, 2006 totaled \$4.3 million as compared to \$6.1 million for the three months ended November 30, 2005, a decrease of \$1.8 million or 30%. This decrease was a result of the Company having a lower contract backlog at the start of the first quarter of 2006 as compared to 2005. The Company experienced a total of 61,700 shop floor hours for the first quarter of 2006 as compared to 72,800 in the first quarter of 2005, a decrease of 15%.

The Company's backlog of awarded contracts, which are all believed to be firm, was approximately \$3.9 million and \$12.9 million as of November 30, 2006 and 2005, respectively. The Company expects all backlog contracts will be reflected in sales during fiscal year ending August 31, 2007.

The Company believes the domestic tooling industry continues to be unstable, as does the overall domestic automotive industry. With the prevalence of global sourcing and related pricing pressure issues, uncertainty to the domestic tooling industry will continue. These issues in conjunction with delayed new model developments have contributed to the Company's decreased backlog and related revenues. The Company recently has seen an increase in domestic quoting activity, which may result in future orders.

COST OF SALES

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| COST OF GOODS SOLD ----- | ENDED | | INCREASE/ (DECREASE) | PERCENT INCREASE/ (DECREASE) |
|-----------------------------|--------|--------|-------------------------|------------------------------------|
| | 2005 | 2006 | | |
| Direct Costs | \$3.2m | \$1.5m | \$ (1.7)m | (53%) |
| Engineering Expense | \$0.6m | \$0.4m | \$ (0.2)m | (33%) |
| Manufacturing Overhead | \$1.7m | \$1.7m | \$ -- | -- |
| | ---- | ---- | ----- | ---- |
| Total Cost of Goods Sold .. | \$5.5m | \$3.6m | \$ (1.9)m | (33%) |
| | ==== | ==== | ===== | ==== |

Cost of goods sold decreased from \$5.5 million for the first quarter of fiscal 2006 to \$3.6 million for 2007 and, as a percent of sales, decreased from 90% for 2006 to 85% for 2007. Gross margin increased to 15% for 2007 from 10% for 2006. This 5 percent change in gross margin was impacted by a number of factors including volume and the mix of projects from the comparable quarter in the prior year and, changes in estimated costs to complete on projects in process. Direct costs (materials and labor) decreased by \$1.7 million, from \$3.2 million for 2006 to \$1.6 million for 2007. Engineering expense increased by \$133,000 from \$540,000 for 2006 to \$407,000 for 2007. Lastly, of the cost of goods sold, manufacturing overhead decreased by \$37,000 from \$1.71 million for 2006 to \$1.67 million for 2007. Additional details of these changes in cost of sales for the first quarters of fiscal 2006 and 2007 are as follows:

- Direct materials expense decreased from \$1.3 million for 2006 to \$0.3 million for 2007 and decreased as a percent of sales from 21% to 6%. This decrease was largely due to lower contract volume requirements and the mix of contracts. During the first quarter of 2007, much of the contracts in process were in the later stage of completion as compared to 2006 and resulted in lower direct material requirements and expense. Outside services expense decreased from \$585,000 for 2006 to \$117,000 for 2007 and as a percent of sales from 9% to 3%, respectively. This decrease was largely due to the Company contracts during 2007 being at a stage of completion whereas less outside machining, die patterns, laser cutting and heat treat services were required.
- Direct labor expense decreased from \$1.3 million for 2006 to \$1.2 million for 2007 however, as a percent of sales, increasing from 22% to 27%. This change was a result of the Company incurring a \$1.8 million decrease in revenues while direct labor expense decreased by only \$145,000. Of the total direct labor expense, regular or straight time decreased by \$34,000 however as a percent of sales, increased from 14% for 2006 to 19% for 2007. Overtime expense decreased from \$475,000 for 2006 to \$364,000 for 2007, however as a percent of sales, remained consistent at 8%.
- Engineering expense increased from \$540,000, 9% of sales, for 2006 to \$407,000, 9% of sales, for 2007. This decrease was due to the Company's decrease in awarded contracts and backlogs, and the resulting decrease in the number of engineering personnel necessary to fulfill the design and project management portions of the Company's current contract backlog.
- Manufacturing overhead was \$1.71 million or 28% of sales for 2006 as compared to \$1.68 million or 39% of sales for 2007. During 2007, decreases in manufacturing overhead were largely due to a \$34,000 decrease in perishable tool expense and a \$31,000 decrease in manufacturing supplies expense. These decreases were offset by increases of \$11,000 in utilities expense, \$9,000 maintenance supplies and machinery repairs, \$8,000 in general, health and workers compensation insurance expense and \$8,000 in building rent expense.

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SELLING AND ADMINISTRATIVE EXPENSE

| SELLING AND ADMINISTRATIVE EXPENSE | FIRST QUARTER ENDED | | INCREASE/ (DECREASE) | PERCENT INCREASE/ (DECREASE) |
|--|---------------------|-----------|-------------------------|------------------------------------|
| | 2005 | 2006 | | |
| Selling & Administrative Expense..... | \$566,000 | \$593,000 | \$27,000 | 4.8% |

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Selling and administrative expense increased from \$566,000 for the first quarter of 2006 to \$593,000 for 2007. As a percent of sales, selling and administrative expense increased from 9% for 2006 to 14% for 2007. The largest selling and administrative expense increases included \$26,000 in travel expenses and \$21,000 in legal and professional expense. These increases were offset by decreases of \$14,000 in public company and director fee expense, \$6,000 in 401(K) expense, as well as decreases in office supplies expense, office salaries expense and payroll tax expenses.

INTEREST EXPENSE

| INTEREST EXPENSE | FIRST QUARTER ENDED | | INCREASE/ (DECREASE) | PERCENT INCREASE/ (DECREASE) |
|---------------------|---------------------|-----------|-------------------------|------------------------------------|
| | 2005 | 2006 | | |
| Interest Expense... | \$465,000 | \$436,000 | \$(29,000) | (6%) |

Interest expense decreased from \$465,000 for 2006 to \$436,000 for 2007. This decrease was largely due to the Company's mix of debt during the first quarter of 2007 as compared to 2006. The Company's higher interest debt during the first quarter of 2007 was lower than the same period of 2006. Offsetting this decreased interest expense, the Company incurred increased debt discount expense during the first quarter of 2007 as compared to 2006. During the first quarter of 2007, the Company recorded \$58,500 in debt discount expense versus \$22,750 in 2006.

The following table illustrates the Company's total long-term debt on a quarterly basis during fiscal 2007 and fiscal 2006.

(PERFORMANCE GRAPH)

| | 2006 | 2007 |
|---------|----------|----------|
| Nov. 30 | \$13,566 | \$12,901 |
| Feb. 28 | \$14,568 | |
| May 31 | \$14,138 | |
| Aug. 31 | \$13,159 | |

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Weighted-Average \$13,858

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FEDERAL INCOME TAXES

For the three months ended November 30, 2006, the Company recorded a valuation allowance of approximately \$123,000 to offset the income tax benefit utilizing a 34% statutory tax rate. For the three months ended November 30, 2005, the Company recorded a valuation allowance of approximately \$150,000 to offset the income tax benefit. For the year ended August 31, 2007, the Company anticipates utilizing a 34% statutory tax rate in establishing its provision for income taxes.

LIQUIDITY AND CAPITAL RESOURCES

| LIQUIDITY AND CAPITAL RESOURCES | FIRST QUARTER ENDED | |
|------------------------------------|---------------------|------------|
| | 2005 | 2006 |
| Cash Flow From/(Used in): | | |
| - Operations | \$ (757,382) | \$479,319 |
| - Investing Activities ... | \$ 7,912 | \$(37,909) |
| - Financing Activities ... | \$ 787,680 | \$(93,038) |

During the three months ended November 30, 2006, the Company's cash from operating activities was \$479,000. This largely resulted from decreases of \$1.4 million in account receivables and \$164,000 in accrued liabilities offset an increase of \$330,000 in contracts in process and a decrease of \$944,000 in accounts payable. The Company utilized a portion of its cash from operating activities by decreasing overall debt by \$93,000.

The Company believes that the revolving line of credit and the funds generated from operations, should be sufficient to cover anticipated cash needs through fiscal 2007. However, depending on the Company's primary lenders willingness to extend the due date of the overformula facility as well as the level of future sales, terms of such sales, financial performance and cash flow of existing contracts, such financing may not be sufficient to support operations. Therefore, the Company may be required to seek additional sources of funding.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The following table provides information on the Company's debt as of November 30, 2006 and August 31, 2006 that are sensitive to changes in interest rates.

| AS OF NOVEMBER 30, 2006 | AMOUNT OUTSTANDING | MATURITY DATE |
|-------------------------|-----------------------|------------------|
|-------------------------|-----------------------|------------------|

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| | AMOUNT OUTSTANDING | MATURITY DATE |
|---|-----------------------|------------------|
| ----- | | |
| CONVERTIBLE REVOLVING NOTE: | | |
| Variable rate revolving credit line at an interest rate of prime rate plus 1.25% (as of November 30, 2005, an effective rate of 8.25%)..... | \$8,877,185 | May 17, 2008 |
| SECURED CONVERTIBLE TERM NOTE: | | |
| At an interest rate of prime plus 4.00% (as of November 30, 2005, an effective rate of 11.25%).... | \$1,745,455 | May 17, 2008 |
| OVERFORMULA: | | |
| At an interest rate of prime plus 1.25% (as of November 30, 2005, an effective rate of 8.25%).... | \$1,550,000 | June 30, 2007 |
| AS OF AUGUST 31, 2006 | | |
| ----- | | |

| | | |
|--|-------------|---------------|
| CONVERTIBLE REVOLVING NOTE: | | |
| Variable rate revolving credit line at an interest rate of prime rate plus 1.25% (as of August 31, 2006, an effective rate of 9.5%)..... | \$9,797,238 | May 18, 2008 |
| SECURED CONVERTIBLE TERM NOTE: | | |
| At an interest rate of prime plus 4.00% (as of August 31, 2006, an effective rate of 12.25%)..... | \$2,036,364 | May 18, 2008 |
| OVERFORMULA: | | |
| At an interest rate of prime plus 1.25% (as of August 31, 2006, an effective rate of 9.5%)..... | \$ 550,000 | June 30, 2007 |

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15e, and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report. Based upon such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting: There were no changes in the Company's internal control over financial reporting during the Company's first fiscal quarter ended November 30, 2006, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company is not currently an accelerated or large accelerated filer and is not currently subject to the internal control reporting requirements under Section 404 of the Sarbanes-Oxley Act until its fiscal year ended August 31, 2008. The Company has begun documentation of processes for its internal controls and will comply with Section 404 as required.

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PART II. OTHER INFORMATION

ITEM 1A: RISK FACTORS

In addition to the information set forth in this report, you should carefully consider the factors discussed in "Risk Factors" in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2006, which could materially affect the Company's business, financial condition and/or operating results. The risks described in the Company's Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company's business, financial condition and/or operating results.

ITEM 6. EXHIBITS

- 31.1 Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 Sec. 302
- 31.2 Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 Sec. 302
- 32 Written Statement of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 Sec. 906

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 22, 2007

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

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- 32 Written Statement of the Chief Executive Officer and Chief
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