RIVIERA TOOL CO
Form 10-Q
January 17, 2006

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, 2005

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act).

Yes          No [X]

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

Yes          No [X]

There were 4,257,601 shares of the Registrant's common stock outstanding as of January 16, 2006.

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RIVIERA TOOL COMPANY
FINANCIAL STATEMENTS

BALANCE SHEETS

| ASSETS | NOTE | NOVEMBER 2005 (UNAUDIT |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash | | $ 2 |
| Accounts receivable, net | | 7,6 |
| Costs in excess of billings on contracts in process | 2 | 1,7 |
| Inventories | | 2 |
| Prepaid expenses and other current assets | | 3 |
| Total current assets | | 10,2 |
| PROPERTY, PLANT AND EQUIPMENT, NET | 3 | 10,5 |
| PERISHABLE TOOLING | | 7 |
| OTHER ASSETS | | 5 |
| Total assets | | $ 22,0 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **CURRENT LIABILITIES** | | |
| Current portion of long-term debt | 4 | $ 3,2 |
| Accounts payable | | 3,9 |
| Accrued liabilities | | 6 |
| Total current liabilities | | 7,8 |
| LONG-TERM AND SUBORDINATED DEBT, NET OF UNAMORTIZED DISCOUNT | 4 | 9,7 |
| ACCRUED LEASE EXPENSE | | 9 |
| Total liabilities | | 18,5 |
| 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 - 3,984,874 shares as of November 30 and August 31, 2005 | | 17,1 |
| Retained deficit | | (13,5 |

| | | |
|---|---|---|
| Total stockholders' equity.................................... | | 3,5 |
| Total liabilities and stockholders' equity............................... | $ | 22,0 |

See notes to financial statements

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RIVIERA TOOL COMPANY
STATEMENTS OF OPERATIONS
(UNAUDITED)

| | | FOR THE T<br>N |
|---|---|---|
| | | 2005 |
| SALES.................................................................................... | $ | 6,063,1 |
| COST OF SALES........................................................................ | | 5,467,3 |
| GROSS PROFIT.......................................................................... | | 595,8 |
| SELLING AND ADMINISTRATIVE EXPENSES............................................ | | 565,5 |
| PROFIT (LOSS) FROM OPERATIONS................................................... | | 30,2 |
| OTHER EXPENSE | | |
| INTEREST EXPENSE................................................................. | | 464,9 |
| OTHER EXPENSE..................................................................... | | 6,6 |
| TOTAL OTHER EXPENSE........................................................... | | 471,5 |
| LOSS BEFORE INCOME TAX EXPENSE.............................................. | | (441,3 |
| INCOME TAX EXPENSE.............................................................. | | |
| NET LOSS AVAILABLE FOR COMMON SHARES....................................... | $ | (441,3 |
| BASIC AND DILUTED INCOME/(LOSS) PER COMMON SHARE........................ | $ | (. |
| WEIGHTED-AVERAGE BASIC AND DILUTED | | |

| | |
|---|---|
| COMMON SHARES OUTSTANDING | 3,984,8 |

See notes to financial statements

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RIVIERA TOOL COMPANY
STATEMENT OF CASH FLOWS
(UNAUDITED)

| | FOR THE T NO |
|---|---|
| | 2005 |
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Net loss | $ (441,350 |
| Adjustments to reconcile net loss to net cash from operating activities: | |
| Depreciation and amortization | 419,890 |
| (Increase) decrease in assets: | |
| Accounts receivable | (2,398,952 |
| Costs in excess of billings on contracts in process | 1,128,561 |
| Perishable tooling | 4,800 |
| Prepaid expenses and other current assets | 71,414 |
| Increase (decrease) in liabilities: | |
| Accounts payable | 414,756 |
| Accrued lease expense | 12,513 |
| Accrued liabilities | 8,236 |
| Net cash (used in) provided by operating activities | $ (780,132 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Increase (decrease) in other assets | 36,017 |
| Additions to property, plant and equipment | (28,105 |
| Net cash provided by (used in) investing activities | $ 7,912 |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Net borrowings (repayments) on revolving credit line | 1,103,256 |
| Principal payments on notes payable to bank and non-revolving equipment line of credit | (292,826 |
| Deferred interest | -- |
| Net cash provided by (used in) financing activities | $ 810,430 |

| | | |
|---|---|---|
| NET INCREASE IN CASH | $ | 38,210 |
| CASH - Beginning of Period | | 239,475 |
| CASH - End of Period | $ | 277,685 |

See notes to financial statements

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RIVIERA TOOL COMPANY
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2005

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 conjunction with the financial statements and footnotes thereto included in the Company's Form 10-K dated November 30, 2005, for the fiscal year ended August 31, 2005.

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 2005, the Company sustained a loss from operations of $498,282 and a net loss of $2,502,248. This loss resulted in an accumulated deficit of $13,148,735 as of August 31, 2005. 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 and the funds generated from operations, will be sufficient to cover anticipated cash needs through fiscal 2006. 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, 2005 may not be indicative of the results to be expected for the full year.

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RIVIERA TOOL COMPANY
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2005

NOTE 2 - COSTS AND BILLINGS ON CONTRACTS IN PROCESS

Costs and billings on contracts in process are as follows:

| | NOVEMBER 30, 2005 |
|---|---|
| Costs incurred on contracts in process under the percentage-of-completion method | $ 10,283,2 |
| Estimated gross profit (loss) | 130,0 |
| Total | 10,413,2 |
| Less progress payments received and progress billings to date | 8,697,3 |
| Costs in excess of billings on contracts in process | $ 1,715,8 |

Included in estimated gross profit (loss) for November 30, 2005 and August 31, 2005 are jobs with losses accrued of $171,529 and $190,430, respectively.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT, NET

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

| CATEGORY | NOVEMBER 3 2005 |
|---|---|
| Leasehold improvements | $ 1,48 |
| Office furniture and fixtures | 17 |
| Machinery and equipment | 23,14 |
| Construction in Process | |
| Computer equipment and software | 2,86 |
| Transportation equipment | 10 |
| Total cost | 27,79 |
| Less Accumulated depreciation and amortization | 17,25 |
| Net carrying amount | $ 10,53 |

RIVIERA TOOL COMPANY
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2005

NOTE 4 - LONG-TERM DEBT

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

| DEBT TYPE | NOVEMBER 3 2005 |
|---|---|
| CONVERTIBLE REVOLVING NOTE | |
| o 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 1.25% above prime rate (as of November 30, 2005, an effective rate of 8.25%)............................ | $ 7,637,98 |
| OVERFORMULA | |
| o The overadvance loan is due January 31, 2006 and bears interest at prime rate plus 1.25% (as of November 30, 2005, an effective rate of 8.25%)................ | 2,000,00 |
| SECURED CONVERTIBLE TERM NOTE | |
| o The convertible term note, payable in monthly installments of $96,969.70 commencing September 1, 2005, plus interest at prime rate plus 4%, (as of November 30, 2005, an effective rate of 11.25%), due May 17, 2008............... | 2,909,09 |
| NOTES PAYABLE TO BANK | |
| o Subordinated note payable to bank, payable in monthly installments of $31,000, including interest at 11%, due January 1, 2008........................ | 1,008,12 |
| OTHER | |
| o Other............................................................... | 10,78 |
| Total debt................................................. | 13,565,98 |
| Less: unamortized debt discount............................... | 575,25 |
| Less: current portion of long-term debt and unamortized debt discount........................................ | 3,206,18 |
| Long-term debt, net of unamortized discount...... | $ 9,784,54 |

The Subordinated note payable to bank principal balance did not amortize during the first quarter of 2005. This was a result of the Company being prohibited from making payments on the subordinated debt from November, 2004 until August, 2005 when payments were resumed. As a result, those payments made subsequent to this period were applied to accrued interest and late fees prior to principal.

On May 17, 2005, the Company executed a new senior loan facility agreement with Laurus Master Fund LTD. ("Laurus"). Under 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 $10.0 million. The Agreement is 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% 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 amortization date. The Revolving Facility shall



be convertible by Laurus into shares of the Company's common stock at a rate of $1.66 per share. In addition, the Company issued an option to purchase 650,000 shares of its Common Stock at an exercise price of $.01.

Laurus has agreed that it shall 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 upon the occurrence of an "event of default" under any of the Agreements or any other transaction 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.

The Company, in issuing an option for 650,000 shares at $.01 per share, triggered price protection in relationship to previously issued warrants. Under the previous warrant agreements, if the Company issued warrants or options below the strike price, the exercise price of the outstanding warrants would adjust to the lower exercise price. The Company had previous warrants for 315,792 shares of common stock with 157,896 shares priced at an exercise price of $5.07 per share and 157,896 priced at $5.53 per share. Of these warrants, 210,528 shares were exercised during fiscal 2005.

On October 14, 2005, the Company executed an Omnibus Amendment to the Security Agreement dated May 17, 2005, whereas the Revolving Credit Note, with a maximum availability of $10.0 million, was increased to $11.0 million.

Effective November 10, 2005, the Company received a waiver of noncompliance with Section 3 of its security agreement with its lender such that the overadvance loan shall not trigger an event of default and extending the overadvance loan through January 31, 2006.

On December 9, 2005, Riviera Tool Company (the "Company") entered into an Omnibus Amendment with Laurus Master Fund, Ltd. ("Laurus"), amending the term "Fixed Conversion Price" with respect to the Convertible Term Note (the "Term Note"), dated as of May 17, 2005, by the Company in favor of Laurus in the aggregate principal amount of $3,200,000 issued pursuant to the terms of the Securities Purchase Agreement, dated as of May 17, 2005, between the Company and Laurus. The term "Fixed Conversion Price," with respect solely to the Term Note, was amended as follows:

> The initial Fixed Conversion Price means $1.66; provided, however, that in respect of the first $150,000 of aggregate principal amount (the

"Initial Converted Amount") of the Term Note converted into shares of the Company's common stock, the Fixed Conversion Price in respect of such Initial Converted Amount (and the interest and fees associated therewith to the extent converted) shall be equal to $0.55.

A prospectus supplement relating to the prospectus, dated August 3, 2005 (File No. 33-126659), of the Company was filed with the Commission on December 9, 2005 reflecting such amended terms.

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

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.

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<br>Novem |
|---|---|
| | 2005 |
| SALES | 100.0% |
| COST OF SALES | 90.2% |
| GROSS PROFIT | 9.8% |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSE | 9.3% |

| | |
|---|---|
| INCOME/(LOSS) FROM OPERATIONS | 0.5% |
| INTEREST EXPENSE | 7.7% |
| OTHER EXPENSE | 0.1% |
| TOTAL OTHER EXPENSE | 7.8% |
| LOSS BEFORE INCOME TAX EXPENSE | (7.3%) |
| INCOME TAX EXPENSE | -- |
| NET LOSS | (7.3%) |



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 November 30, 2005, for the fiscal year ended August 31, 2005.

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 2005, the Company sustained a loss from operations of $498,282 and a net loss of $2,502,248. This loss resulted in an accumulated deficit of $13,148,735 as of August 31, 2005. 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 and the funds generated from operations, will be sufficient to cover anticipated cash needs through fiscal 2006. 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, 2005 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, 2004.

REVENUES - Revenues for the three months ended November 30, 2005 totaled $6.1 million as compared to $4.6 million for the three months ended November 30, 2004, an increase of $1.5 million or 33%. This increase was a result of the Company having a higher contract backlog at the start of the first quarter of 2005 as compared to 2004. The Company experienced a total of 72,800 shop floor hours for the first quarter of 2005 as compared to 61,400 in the first quarter of 2004, an increase of 18%.

The Company's backlog of awarded contracts, which are all believed to be firm, was approximately $12.9 million and $4.6 million as of November 30, 2005 and 2004, respectively. The Company expects all backlog contracts will be reflected in sales during fiscal years ending August 31, 2006 and 2007.

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COST OF SALES - Cost of goods sold increased from $4.0 million for the first quarter of fiscal 2005 to $5.5 million for 2006 and, as a percent of sales, increased from 89% for 2005 to 90% for 2006. Gross margin decreased to 10% for 2006 from 11% for 2005. This 1 percent change in gross margin was impacted by a number of factors including the mix of projects from the comparable quarter in the prior year, changes in estimated costs to complete on projects in process, the accelerated recognition of all estimated losses on projects with negative margins, and the number of new projects released during the quarter. Direct costs (materials and labor) increased by $1.3 million, from $1.9 million for 2005 to $3.2 million for 2006. Engineering expense increased by $85,000 from $456,000 for 2005 to $540,000 for 2006. Lastly, of the cost of goods sold, manufacturing overhead increased by $54,000 from $1.66 million for 2005 to $1.7 million for 2006. Additional details of these changes in cost of sales for the first quarters of fiscal 2005 and 2006 are as follows:

- Direct materials expense increased from $0.4 million for 2005 to $1.3 million for 2006 and increased as a percent of sales from 9% to 21%. This increase was largely due to increased contract volume requirements and backlog mix during 2006 as compared to 2005. Outside services expense increased from $259,000 for 2005 to $585,000 for 2006 and as a percent of sales from 6% to 9%. This increase was largely due to the Company experiencing higher sales volumes and corresponding increases in outsourcing certain machining, die patterns, laser cutting and heat treat.

- Direct labor expense remained consistent at $1.3 million for 2005 and 2006. However, as a percent of sales, direct labor decreased from 28% to 22%. This change was a result of the Company incurring a 33% increase in revenues while direct labor expense increased by $61,000. Of the total direct labor expense, regular or straight time increased by $54,000 however as a percent of sales, decreased from 17% for 2005 to 14% for 2006. Overtime expense increased from $467,000 for 2005 to $475,000 for 2006, however as a percent of sales, decreased from 10% for 2005 to 8% for 2006.

- Engineering expense increased from $456,000, 10% of sales, for 2005 to $540,000, 9% of sales, for 2006. This increase was due to the Company's increase in awarded contracts and the resulting increase 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 $1.66 million or 36% of sales for 2005 as compared to $1.71 million or 28% of sales for 2006. During 2006, increases in manufacturing overhead were largely due to a $40,000 increase in indirect labor expense, a $34,000 increase in manufacturing supplies expense and a $22,000 increase in supervision salaries expense. These increases were offset by decreases of $31,000 in depreciation expense and $13,000 in machinery repairs and maintenance.

SELLING AND ADMINISTRATIVE EXPENSE - Selling and administrative expense decreased from $579,000 for the first quarter of 2005 to $566,000 for 2006. As a percent of sales, selling and administrative expense decreased from 13% for 2005 to 9% for 2006. The largest selling and administrative expense increases included $40,000 in public company expenses, $20,000 in State of Michigan Single Business Tax expense. These increases were offset by decreases of $40,000 in travel expense, $18,000 in legal and professional expense, $14,000 in office and supervision wages and $14,000 in bad debt expense.

INTEREST EXPENSE - Interest expense increased from $393,000 for 2005 to $465,000 for 2006. This increase was largely due to the Company's increased debt levels during the first quarter of 2006 as compared to 2005.

FEDERAL INCOME TAXES - 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 three months ended November 30, 2004, the Company recorded a valuation allowance of approximately $158,000 to offset the income tax benefit.

LIQUIDITY AND CAPITAL RESOURCES - During the three months ended November 30, 2005, the Company's cash used in operating activities was $780,000. This largely resulted from a increase of $2.4 million in account receivables, a $1.1 million decrease in contracts in process and a $415,000 increase in accounts payable. The Company financed its increase in working capital with $1.1 million of borrowings on its revolving line of credit, net of $293,000 used to reduce other debt.

The Company believes that the revolving line of credit and the funds generated from operations, will be sufficient to cover anticipated cash needs through fiscal 2006. 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The following table provides information on the Company's debt as of November 30, 2005 and August 31, 2005 that are sensitive to changes in interest rates.

| AS OF NOVEMBER 30, 2005 | AMOUNT OUTSTANDING | M |
|---|---|---|
| CONVERTIBLE REVOLVING NOTE: | | |
| o 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%) | $ 7,637,983 | M |

| | | | |
|---|---|---|---|
| SECURED CONVERTIBLE TERM NOTE: | | | |
| o At an interest rate of prime plus 4.00% (as of November 30, 2005, an effective rate of 11.25%) | $ | 2,909,091 | M |
| OVERFORMULA: | | | |
| o At an interest rate of prime plus 1.25% (as of November 30, 2005, an effective rate of 8.25%) | $ | 2,000,000 | J |

AS OF AUGUST 31, 2005

| | | | |
|---|---|---|---|
| CONVERTIBLE REVOLVING NOTE: | | | |
| o Variable rate revolving credit line at an interest rate of prime rate plus 1.25% (as of August 31, 2005, an effective rate of 8.0% | $ | 6,534,727 | M |
| SECURED CONVERTIBLE TERM NOTE: | | | |
| o At an interest rate of prime plus 4.00% (as of August 31, 2005, an effective rate of 10.75%) | $ | 3,200,000 | M |
| OVERFORMULA: | | | |
| o At an interest rate of prime plus 1.25% (as of August 31, 2005, an effective rate of 8.0%) | $ | 2,000,000 | J |

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms and were effective.

Changes in Internal Control Over Financial Reporting. There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

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 January 11, 2006.

The following directors were elected to serve until the meeting of shareholders in 2007 and 2008, as indicated, and until their successors are elected and qualified (amounts shown in parentheses represent the number of votes cast for, against or withheld, and abstentions, respectively):

(i) Kenneth K. Rieth (3,817,126/66,969) (Term expiring 2008)
(ii) James V. Gillette (3,848,526/35,569) (Term expiring 2008)
(iii) Dr. Jay S. Baron (3,855,706/28,389) (Term expiring 2007)

The following director of the Company shall continue to serve until the annual meeting of shareholders in the year indicated parenthetically and until his successor is elected and qualified:

o J. Dann Engels (2006)

ITEM 5. OTHER INFORMATION

On December 9, 2005, Riviera Tool Company (the "Company") entered into an Omnibus Amendment with Laurus Master Fund, Ltd. ("Laurus"), amending the term "Fixed Conversion Price" with respect to the Convertible Term Note (the "Term Note"), dated as of May 17, 2005, by the Company in favor of Laurus in the aggregate principal amount of $3,200,000 issued pursuant to the terms of the Securities Purchase Agreement, dated as of May 17, 2005, between the Company and Laurus. The term "Fixed Conversion Price," with respect solely to the Term Note, was amended as follows:

> The initial Fixed Conversion Price means $1.66; provided, however, that in respect of the first $150,000 of aggregate principal amount (the "Initial Converted Amount") of the Term Note converted into shares of the Company's common stock, the Fixed Conversion Price in respect of such Initial Converted Amount (and the interest and fees associated therewith to the extent converted) shall be equal to $0.55.

A prospectus supplement relating to the prospectus, dated August 3, 2005 (File No. 33-126659), of the Company was filed with the Commission on December 9, 2005 reflecting such amended terms.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

31.1 Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C. Section 13
31.2 Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C. Section 13
32 Written Statement of the Chief Executive Officer and Chief Financial Officer Purs
Section 1350 Sec. 302

(b) Reports on Form 8-K:

| File Date | Item |
|---|---|
| December 12, 2005 | 1.01 Entry into a Material Definitive Agreement. |

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 17, 2006

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 of Exhibit |
|---|---|
| 31.1 | Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C. Sec |
| 31.2 | Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C. Sec |
| 32 | Written Statement of the Chief Executive Officer and Chief Financial Offic<br>Section 1350 Sec. 906 |