

Edgar Filing: RESERVE INDUSTRIES CORP /NM/ - Form 10QSB

RESERVE INDUSTRIES CORP /NM/
Form 10QSB
October 17, 2001

U. S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

Quarterly report under Section 13 or 15(d) of the Securities and Exchange Act
of 1934

For the quarterly period ended August 31, 2001
Commission file number 0-3492

RESERVE INDUSTRIES CORPORATION

(Name of Small Business Issuer in its charter)

NEW MEXICO

85-0128783

(State or other jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification No.)

20 First Plaza, Suite 308, Albuquerque, New Mexico

87102

(Address of principal executive offices)

(Zip Code)

505-247-2384

Issuer's telephone number, including area code

Check whether the issuer: (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 and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
----- -----

State the number of shares of outstanding of each of the issuer's classes of
common equity, as of the latest practicable date. As of October 10, 2001
- 2,803,763 shares \$1.00 Par Value

INDEX

	Page No. -----
PART I. Financial Information	
Consolidated Balance Sheets August 31, 2001 and November 30, 2000	1
Consolidated Statements of Income Third quarter ended August 31, 2001 and 2000	2

Edgar Filing: RESERVE INDUSTRIES CORP /NM/ - Form 10QSB

Consolidated Statements of Cash Flows Third quarter ended August 31, 2001 and 2000	3
Footnotes to Consolidated Financial Statements	4
Management's Discussion and Analysis or Plan of Operation	5 - 7
PART II. Other Information	8

RESERVE INDUSTRIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AUGUST 31, 2001 AND NOVEMBER 30, 2000

ASSETS	2001	2000
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 106,132	\$ 6,729
Receivables, less allowance for doubtful accounts	170,510	362,889
Receivables from affiliates and related parties	592,323	527,423
Inventories	404,536	182,498
Prepaid expenses and deposits	38,882	73,292
	-----	-----
Total current assets	1,312,383	1,152,831
PROPERTY, PLANT AND EQUIPMENT, at cost	3,283,553	3,147,237
Less accumulated depreciation and depletion	(1,454,811)	(1,249,060)
	-----	-----
	1,828,742	1,898,177
INVESTMENT IN UNCONSOLIDATED AFFILIATES	798,281	2,155,158
	-----	-----
Total assets	\$ 3,939,406	\$ 5,206,166
	=====	=====
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Trade accounts payable	\$ 344,209	\$ 433,889
Short-term debt related party	170,252	175,000
Current portion of long-term debt	981,364	997,196
Deferred obligations to related parties	4,678,930	4,319,245
Other current liabilities	114,347	90,184
	-----	-----
Total current liabilities	6,289,102	6,015,514
LONG-TERM DEBT, less current portion	441,320	558,261
STOCKHOLDERS' INVESTMENT:		
Common stock, \$1.00 par value. Authorized 6,000,000 shares, issued and outstanding 2,803,763 shares in 2001 and 2000	2,803,763	2,803,763
Additional paid-in capital	5,871,218	5,871,218
Accumulated deficit	(11,465,997)	(10,042,590)
	-----	-----
Total stockholders' investment	(2,791,016)	(1,367,609)

Edgar Filing: RESERVE INDUSTRIES CORP /NM/ - Form 10QSB

	-----	-----
Total liabilities and stockholders' investment	\$ 3,939,406	\$ 5,206,166
	=====	=====

The accompanying notes are an integral part of these consolidated statements. The 2001 and 2000 financial information is unaudited.

RESERVE INDUSTRIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THIRD QUARTERS AND NINE MONTHS ENDED AUGUST 31, 2001 AND 2000

	Third Quarter Ended AUGUST 31		Nine Months Ended AUGUST 31	
	2001	2000	2001	2000
REVENUES & OTHER ITEMS:				
Sales	\$ 555,385	\$ 584,884	\$ 1,576,404	\$ 1,635,733
Royalties	66,339	-	95,764	-
Interest income	1,238	-	10,865	188
Gain on sale of equipment	-	-	19,555	110,232
Gain on sale of property	-	244,653	-	244,653
Income (loss) from affiliates:				
Equity in earnings	(235,812)	(196,866)	(669,308)	(265,364)
Consulting fees	-	-	-	7,500
Other income (loss)	(67,254)	5,961	(42,472)	5,961
	319,896	638,632	990,808	1,738,903
EXPENSES & OTHER ITEMS:				
Cost of sales	363,383	456,136	1,449,121	1,387,412
General and administration	203,445	181,784	543,989	523,842
Interest	67,520	66,772	215,066	193,684
Depreciation and amortization	70,269	63,982	206,039	193,428
	704,617	768,674	2,414,215	2,298,366
Pretax income (loss) from operations	(384,721)	(130,042)	(1,423,407)	(559,463)
Provision for income taxes	-	-	-	-
Net income (loss) from operations	\$ (384,721)	\$ (130,042)	\$ (1,423,407)	\$ (559,463)
EARNINGS (LOSS) PER SHARE:				
Income (loss) from operations	(0.14)	(0.05)	(0.51)	(0.20)
Net income (loss) per share	\$ (0.14)	\$ (0.05)	\$ (0.51)	\$ (0.20)
Weighted Average Number of Shares of Common Stock Outstanding	2,803,763	2,787,096	2,803,763	2,787,096

The accompanying notes are an integral part of these consolidated statements. The 2001 and 2000 financial information is unaudited.

Edgar Filing: RESERVE INDUSTRIES CORP /NM/ - Form 10QSB

RESERVE INDUSTRIES CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE NINE MONTHS ENDED AUGUST 31, 2001 AND AUGUST 31, 2000

	Nine Months Ended August 31	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) from continuing operations	\$(1,423,407)	\$ (559,463)
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	206,039	193,428
Equity in loss of affiliates	669,308	265,364
(Gain) on sale of equipment	(19,555)	(110,232)
Loss on sale of investment	67,254	-
Changes in assets and liabilities:		
Decrease in receivables	192,379	(50,457)
(Increase) decrease in inventories	(222,038)	202,771
Decrease (increase) in other current assets	34,410	(5,995)
(Decrease) in trade accounts payable	(89,680)	(123,298)
Increase in deferred obligations to related parties	290,037	418,912
Increase (decrease) in other current liabilities	24,163	(109,754)
Total adjustments	1,152,317	680,739
Net cash (used) provided by operating activities	(271,090)	121,276
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investment	624,985	-
Sale of equipment	31,912	128,214
Capital expenditures	(153,631)	(115,547)
Net cash provided by investing activities	503,266	12,667
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Decrease) in short-term debt	(15,832)	(48,151)
(Decrease) in long-term debt	(116,941)	(95,365)
Net cash (used) by financing activities	(132,773)	(143,516)
Net increase (decrease) in cash and cash equivalents	99,403	(9,573)
Cash and cash equivalents at the beginning of the year	6,729	17,689
Cash and cash equivalents at the end of the year	\$ 106,132	\$ 8,116
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 87,119	\$ 65,735

The accompanying notes are an integral part of these consolidated statements.
 The 2001 and 2000 financial information is unaudited.

FOOTNOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying statements, which should be read in conjunction with the Consolidated Financial Statements included in the

Edgar Filing: RESERVE INDUSTRIES CORP /NM/ - Form 10QSB

November 30, 2000 fiscal year end Annual Report filed on Form 10-KSB, are unaudited but have been prepared in the ordinary course of business for the purpose of providing information with respect to the interim periods, and are subject to audit at the close of the year. However, it is the opinion of the management of the Company that all adjustments (none of which were other than normal recurring accruals) necessary for a fair presentation of such periods have been included.

The Consolidated Financial Statements prepared for fiscal years 2000, 1999, 1998, 1997, 1996, 1995, 1994, 1993, 1992 and 1991 were unaudited because the Company elected to not incur the expense of an audit and to conserve its cash for other corporate requirements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

Third quarter ended August 31, 2001 compared
to the third quarter ended August 31, 2000

For the third quarter ended August 31, 2001, the Registrant had revenues of \$319,896, which resulted in a net loss of \$384,721 or \$0.14 per share. For the third quarter ended August 31, 2000, the Registrant had revenues of \$638,632, which resulted in a net loss of \$130,042 or \$0.05 per share.

The revenues in the third quarter of 2001 decreased from 2000 as a result of a decrease in sales from \$584,884 to \$555,385, a decrease in gain on sale of property by \$244,653, which was related to the final distribution of L-Bar Product assets, an increase in equity losses from \$196,866 to \$235,812, and a loss of \$67,254 from sale of the Registrant's Singapore investment. The sales at the Registrant's silica sand operation decreased as a result of a drop in cement sand sales, which was partially offset by an increase in demand for the Registrant's low iron glass sand.

The plant improvement program was completed during the third quarter 2001. Included in revenues is royalty income from the Registrant's interest in the McArthur River uranium mine. The Registrant's equity income decreased as a result of the continuing problems in the primary steel industry, including the bankruptcy by LTV Steel. On July 31, 2001, the Registrant's affiliate Rossborough Manufacturing Co. LP completed the transaction describe in item 5 below. It is expected that the combination will improve the results in the affiliate.

The costs and expenses were \$704,617 and \$768,674 in the third quarter of 2001 and 2000, respectively. The cost of sales decreased by \$92,753 from 2000 to 2001 as a direct result of the plant improvements, which were completed during the quarter. The Registrant intends to continue its efforts to lower the production costs related to its low iron sand. The G&A and interest costs increased slightly from 2000 to 2001. Some of the expenses contained in the general and administrative costs pertaining to salaries of the officers and deferred compensation have been accrued but not paid, as the Company is conserving its cash.

Nine months ended August 31, 2001 compared
to the nine months ended August 31, 2000

For the nine months ended August 31, 2001, the Registrant had revenues of

Edgar Filing: RESERVE INDUSTRIES CORP /NM/ - Form 10QSB

\$990,808, which resulted in a net loss of \$1,423,407 or \$0.51 per share. For the nine months ended August 31, 2000, the Registrant had revenues of \$1,738,903, which resulted in a net loss of \$559,463 or \$0.20 per share.

The revenues for the nine months of 2001 decreased from 2000 primarily as a result of an increase in equity losses from \$265,364 to \$669,308, a decrease in gain on sale of equipment of \$90,667, a decrease in the sale property by \$244,653, which was related to the final distribution of L-Bar Product assets, and a loss of \$67,254 from sale of the Registrant's Singapore investment. The Registrant's equity income decreased as a result of the continuing problems in the primary steel industry, including the bankruptcy by LTV Steel.

The costs and expenses were \$2,414,215 and \$2,298,366 in the nine months of 2001 and 2000, respectively. For the current nine month period, the cost of sales increased by \$61,709 from 2000 to 2001 as a result of operating problems in the first quarter; these problems were corrected during the third quarter as the project was completed during the third quarter. The Registrant intends to continue its efforts to lower the production costs related to its low iron sand. The G&A and interest costs increased slightly from 2000 to 2001. Some of the expenses contained in the general and administrative costs pertaining to salaries of the officers and deferred compensation have been accrued but not paid, as the Company is conserving its cash.

Liquidity and Capital Resources

Period from December 1, 2000 to August 31, 2001

The Company's net cash (used) provided by operating activities was \$(271,090) and \$121,276 for the nine months ended August 31, 2001 and August 31, 2000, respectively. The net cash provided by investing activities was \$503,266 and \$12,667 for the same nine months in 2001 and 2000, respectively. The cash provided by investing activities was from the sale of the Company's Singapore investment and surplus equipment, and the capital expenditures were for capital improvements to the sand project. The Company decreased its long-term debt by \$116,941 and \$95,365 for the nine months ended August 31, 2001 and 2000, respectively. The Company's cash and cash equivalents increased (decreased) by \$99,403 and \$(9,573) for the nine months ended August 31, 2001 and 2000, respectively.

The Company had working capital deficits of approximately \$4.98 million and \$4.86 million for the nine months ended August 31, 2001 and the year ended November 30, 2000, respectively. The working capital deficit increased as a result of the operating losses. As part of the Company's program to conserve cash in order to operate the company, part of the salaries due to the officers of the Company, all of the deferred compensation due to the deceased chairman's spouse, and part of the interest due on certain loans were accrued but not paid for the nine months ended August 31, 2001 and 2000, respectively. As of August 31, 2001, these accruals (salaries, deferred compensation and deferred interest) exceeded \$4.9 million.

For the current year, the Company plans to continue to accrue part of the obligations described in the preceding paragraph and expects to continue to generate sufficient cash flow to operate.

Forward-Looking Statements. The Company may from time to time make written or oral "forward-looking statements", within the meaning of the Private Securities Litigation Reform Act of 1995, including statements contained in this Form 10QSB and in other documents filed by the Company with the Securities and Exchange Commission and in its reports to stockholders,

Edgar Filing: RESERVE INDUSTRIES CORP /NM/ - Form 10QSB

as well as elsewhere. "Forward-looking statements" are statements such as those contained in projections, plans, objectives, estimates, statements of future economic performance, and assumptions related to any of the forgoing, and may be identified by the use of forward-looking terminology, such as "may", "expect", "anticipate", "estimate", "goal", "continued", or other comparable terminology. By their very nature, forward-looking statements are subject to known and unknown risks and uncertainties relating to the Company's future performance that may cause the actual results, performance or achievements of the Company, or industry results, to differ materially from those expressed or implied in such "forward-looking statements". Any such statement is qualified by reference to the following cautionary statements.

The Company's business operates in highly competitive markets and is subject to changes in general economic conditions, competition, customer and market preferences, government regulation, the impact of tax regulation, foreign exchange rate fluctuations, the degree of market acceptance of the products, the uncertainties of potential litigation, as well as other risks and uncertainties detailed elsewhere herein and from time to time in the Company's Securities and Exchange Commission filings. This Form 10QSB contains forward looking statements, particularly in the section: Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, and Part II Item 5. other information, and in some of the footnotes to the financial statements. Actual results could differ materially from those projected in the forward looking statements as a result of known and unknown risks, uncertainties, and other factors, including but not limited market acceptance of the Company's products and services, changes in expected research and development requirements, and the effects of changing economic conditions and business conditions generally. The Company does not undertake and assumes no obligation to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable

Item 2. Changes in Securities

Not Applicable

Item 3. Defaults upon Senior Securities

Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable

Item 5. Other Information

On July 31, 2001, Rossborough Manufacturing Co. L.P. (Rossborough), in which the Registrant has a 44% equity interest, finalized the acquisition of substantially all of the assets and certain of the liabilities of Reactive Metals and Alloys Corporation (Remacor) of West Pittsburgh, PA. Both companies service the global steel industry by providing hot metal

Edgar Filing: RESERVE INDUSTRIES CORP /NM/ - Form 10QSB

desulfurization, desulfurization equipment, and metallurgical additives for secondary steel refining, technology and field service. Other products and services are also provided to the global die casting industry.

The acquisition entity is Rossborough-Remacor LLC, and the LLC will also contain substantially all of Rossborough's assets and liabilities. Rossborough-Remacor LLC will have global sales in excess of \$80 million and will be better able to compete in the steel industry, which has been plagued by financial problems related to over capacity. By consolidating the companies, the LLC plans to lower its cost structure to the benefit of all parties. The purchase price for the Remacor assets was the assumption of certain liabilities, a subordinated note in an amount equal to \$4,000,000 and a 35% membership interest in Rossborough-Remacor.

Gerald R. Zebrowski, President and CEO of Rossborough, will retain the position of President and CEO of Rossborough-Remacor. Joseph R. Jackman, President and CEO of Remacor, will be elected Vice President and Chief Operating Officer of Rossborough-Remacor.

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits - None
- (b) Reports - A form 8K was filed March 7, 2001 - see Item 5 above.

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RESERVE INDUSTRIES CORPORATION
(Registrant)

/s/ William J. Melfi

William J. Melfi, Vice President Finance
and Administration
(Principal Financial and Accounting
Officer and Authorized Officer)

Date: October 10, 2001