

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

RESERVE INDUSTRIES CORP /NM/  
Form 10QSB  
July 18, 2002

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 May 31, 2002  
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 months 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 July 10, 2002 - 2,803,763 shares \$1.00 Par Value

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PART I. Financial Information

Consolidated Balance Sheets  
May 31, 2002 and November 30, 2001

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### RESERVE INDUSTRIES CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS MAY 31, 2002 AND NOVEMBER 30, 2001

| ASSETS   | 2002         | 2001         |
|--|--------------|--------------|
|  | -----        | -----        |
| CURRENT ASSETS:  |              |              |
| Cash and cash equivalents                                      | \$ 56,048    | \$ 76,223    |
| Receivables, less allowance for doubtful<br>accounts - \$1,501 | 177,258      | 177,698      |
| Receivables from affiliates and related parties                | 684,135      | 634,548      |
| Inventories  | 339,043      | 298,357      |
| Prepaid expenses and deposits                                  | 86,934       | 55,674       |
|  | -----        | -----        |
| Total current assets   | 1,343,418    | 1,242,500    |
| PROPERTY, PLANT AND EQUIPMENT, at cost                         | 3,265,970    | 3,262,771    |
| Less accumulated depreciation and depletion                    | (1,641,909)  | (1,505,484)  |
|  | -----        | -----        |
| Total property, plant and equipment                            | 1,624,061    | 1,757,287    |
| INVESTMENT IN UNCONSOLIDATED AFFILIATES                        | (295,534)    | 117,541      |
|  | -----        | -----        |
| Total assets   | \$ 2,671,945 | \$ 3,117,328 |
|  | =====        | =====        |
| LIABILITIES AND STOCKHOLDERS' INVESTMENT                       |              |              |
| CURRENT LIABILITIES:   |              |              |
| Trade accounts payable   | \$ 297,983   | \$ 143,306   |
| Short-term debt related party                                  | 335,300      | 348,000      |
| Current portion of long-term debt                              | 986,812      | 946,812      |
| Deferred obligations to related parties                        | 5,165,639    | 4,910,582    |
| Other current liabilities                                      | 37,360       | 145,791      |
|  | -----        | -----        |
| Total current liabilities                                      | 6,823,094    | 6,494,491    |
| LONG-TERM DEBT, less current portion                           | 334,014      | 383,963      |
| STOCKHOLDERS' INVESTMENT:                                      |              |              |

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|   |              |              |
|---|--------------|--------------|
| Common stock, \$1.00 par value. Authorized 6,000,000 shares, issued and outstanding 2,803,763 shares in 2002 and 2001 | 2,803,763    | 2,803,763    |
| Additional paid-in capital  | 5,471,218    | 5,471,218    |
| Accumulated deficit   | (12,760,144) | (12,036,107) |
|   | -----        | -----        |
| Total stockholders' investment  | (4,485,163)  | (3,761,126)  |
|   | -----        | -----        |
| Total liabilities and stockholders' investment  | \$ 2,671,945 | \$ 3,117,328 |
|   | =====        | =====        |

The accompanying notes are an integral part of these consolidated statements. The 2002 and 2001 financial information is unaudited.

### RESERVE INDUSTRIES CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE SECOND QUARTER AND SIX MONTHS ENDED MAY 31, 2002 AND 2001

|   | Second Quarter Ended<br>MAY 31 |              | Six Months Ended<br>MAY 31 |                |
|---|--------------------------------|--------------|----------------------------|----------------|
|   | 2002                           | 2001         | 2002                       | 2001           |
| <b>REVENUES &amp; OTHER ITEMS:</b>                            |                                |              |                            |                |
| Sales   | \$ 608,025                     | \$ 511,608   | \$ 1,018,945               | \$ 1,021,019   |
| Royalties   | 48,360                         | 17,437       | 99,814                     | 29,425         |
| Interest income   | 243                            | 9,590        | 1,082                      | 9,626          |
| Gain on sale of equipment                                     | -                              | -            | -                          | 19,555         |
| Income (loss) from affiliates:                                |                                |              |                            |                |
| Equity in earnings  | (189,854)                      | (353,991)    | (413,055)                  | (433,496)      |
| Other income  | (1,456)                        | 24,782       | (1,201)                    | 24,782         |
|   | -----                          | -----        | -----                      | -----          |
| Total revenues  | 465,318                        | 209,426      | 705,585                    | 670,911        |
| <b>EXPENSES &amp; OTHER ITEMS:</b>                            |                                |              |                            |                |
| Cost of sales   | 451,557                        | 478,392      | 800,194                    | 1,085,738      |
| General and administration                                    | 180,971                        | 168,357      | 358,105                    | 340,544        |
| Interest expense  | 68,633                         | 78,206       | 134,897                    | 147,546        |
| Depreciation and amortization                                 | 68,856                         | 68,151       | 136,426                    | 135,771        |
|   | -----                          | -----        | -----                      | -----          |
| Total costs and expenses                                      | 770,017                        | 793,106      | 1,429,622                  | 1,709,599      |
| Pretax income (loss) from continuing operations               | (304,699)                      | (583,680)    | (724,037)                  | (1,038,688)    |
| Provision for income taxes                                    | -                              | -            | -                          | -              |
|   | -----                          | -----        | -----                      | -----          |
| Net income (loss) from continuing operations                  | \$ (304,699)                   | \$ (583,680) | \$ (724,037)               | \$ (1,038,688) |
|   | =====                          | =====        | =====                      | =====          |
| <b>EARNINGS (LOSS) PER SHARE:</b>                             |                                |              |                            |                |
| Income (loss) from continuing operations                      | (0.11)                         | (0.21)       | (0.26)                     | (0.37)         |
|   | -----                          | -----        | -----                      | -----          |
| Net income (loss) per share                                   | \$ (0.11)                      | \$ (0.21)    | \$ (0.26)                  | \$ (0.37)      |
|   | =====                          | =====        | =====                      | =====          |
| Weighted Average Number of Shares of Common Stock Outstanding | 2,803,763                      | 2,803,763    | 2,803,763                  | 2,803,763      |
|   | -----                          | -----        | -----                      | -----          |

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The accompanying notes are an integral part of these consolidated statements. The 2002 and 2001 financial information is unaudited.

### RESERVE INDUSTRIES CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED MAY 31, 2002 AND MAY 31, 2001

|  | Six Months Ended |                |
|--|------------------|----------------|
|  | May 31<br>2002   | May 31<br>2001 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                  |                |
| Net income (loss) from continuing operations   | \$ (724,037)     | \$(1,038,688)  |
| Adjustments to reconcile net income from continuing operations to net cash provided by operating activities: |                  |                |
| Depreciation and amortization  | 136,426          | 135,771        |
| Equity in (gain) loss from affiliates  | 413,055          | 433,496        |
| (Gain) loss on disposition of fixed assets   | -                | (19,555)       |
| Changes in assets and liabilities:   |                  |                |
| (Increase) decrease in receivables   | (49,128)         | 235,816        |
| (Increase) decrease in inventories   | (40,686)         | (20,452)       |
| (Increase) decrease in other current assets  | (31,260)         | 27,500         |
| Increase (decrease) in trade accounts payable  | 154,677          | (54,349)       |
| Increase (decrease) in deferred obligations to related parties   | 242,357          | 441,786        |
| Increase (decrease) in other current liabilities   | (68,431)         | 33,158         |
| Total adjustments  | 757,010          | 1,213,171      |
| Net cash provided (used) by operating activities   | 32,973           | 174,483        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                  |                |
| Sale of equipment  | -                | 31,912         |
| Capital expenditures   | (3,199)          | (115,299)      |
| Net cash provided (used) by investing activities   | (3,199)          | (83,387)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                  |                |
| Increase (decrease) in long-term debt  | (49,949)         | (93,175)       |
| Net cash provided (used) by financing activities   | (49,949)         | (93,175)       |
| Net increase (decrease) in cash and cash equivalents   | (20,175)         | (2,079)        |
| Cash and cash equivalents at the beginning of the year   | 76,223           | 6,729          |
| Cash and cash equivalents at the end of the year   | \$ 56,048        | \$ 4,650       |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>  |                  |                |
| Cash paid during the year for interest   | \$ 30,446        | \$ 62,248      |

The accompanying notes are an integral part of these consolidated statements. The 2002 and 2001 financial information is unaudited.

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### FOOTNOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying statements, which should be read in conjunction with the Consolidated Financial Statements included in the November 30, 2001 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 2001, 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

Second quarter ended May 31, 2002 compared  
to the second quarter ended May 31, 2001

For the second quarter ended May 31, 2002, the Registrant had revenues of \$465,318, which resulted in a net loss of \$304,699 or \$0.11 per share. For the second quarter ended May 31, 2001, the Registrant had revenues of \$209,426, which resulted in a net loss of \$583,680 or \$0.21 per share.

The revenues in the second quarter of 2002 increased from 2001 as a result of an increase in sales from \$511,608 to \$608,025, an increase in royalty income of \$30,929, and a decrease in equity losses from \$353,991 to \$189,854. The sales at the Registrant's silica sand operation increased as a result of an increase in demand for the Registrant's low iron glass sand. The plant improvement program was completed during the second quarter 2001. The Registrant's equity earnings from its affiliated venture Rossborough-Remacor LLC (R-R) remained in a loss position, as sales have not recovered due to the loss of several steel customers to bankruptcy and the slowness in the economy. R-R completed the consolidation of last summer's merger during the quarter, which reduced the losses. However, R-R's continued losses are unsustainable, and R-R is undertaking an aggressive cost reduction program to bring the operation to positive cash flow. To be successful, R-R will require continued cooperation from its bank and suppliers, and R-R is evaluating all options including bankruptcy.

The costs and expenses were \$770,017 and \$793,106 in the second quarter of 2002 and 2001, respectively. The cost of sales for the sand operation decreased by \$26,835 from 2001 to 2002. The G&A cost increased slightly and was partially offset by lower interest costs. Some of the expenses contained in the general and administrative costs pertaining to salaries of the officers have been accrued but not paid, as the Company is conserving its cash.

Six months ended May 31, 2002 compared  
to the six months ended May 31, 2001

For the six months ended May 31, 2002, the Registrant had revenues of \$705,585, which resulted in a net loss of \$724,037 or \$0.26 per share.

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For the six months ended May 31, 2001, the Registrant had revenues of \$670,911, which resulted in a net loss of \$1,038,688 or \$0.37 per share.

The revenues in the six months ended May 31, 2002 increased over 2001 as a result of a decrease in equity losses of \$20,441 and an increase in royalty income of \$70,389, which was offset by reductions in the other line items. As described above, the Registrant's equity losses are not sustainable, and efforts to reduce costs to a breakeven cash flow are being pursued by R-R.

The costs and expenses were \$1,429,622 and \$1,709,599 for the six months ended May 31, 2002 and 2001, respectively. For the current six month period, the cost of sales decreased by \$285,544 from 2001 to 2002 as a result of completion of the sand plant improvements. The G&A was increased slightly in 2002, and this was offset by reduced interest expense. Some of the expenses contained in the general and administrative costs pertaining to salaries of the officers have been accrued but not paid, as the Company is conserving its cash.

### Liquidity and Capital Resources

Period from December 1, 2001 to May 31, 2002

The Company's net cash provided by operating activities was \$32,973 and \$174,483 for the six months ended May 31, 2002 and 2001, respectively. The net cash used by investing activities was \$3,199 and \$83,387 for the same six months in 2002 and 2001, respectively. For 2001, the cash provided by investing activities was from the sale of surplus equipment, and the capital expenditures were for capital improvements to the sand project. The Company decreased its long-term debt by \$49,949 and \$93,175 for the six months ended May 31, 2002 and 2001, respectively. The Company's cash and cash equivalents decreased by \$20,175 and \$2,079 for the six months ended May 31, 2002 and 2001, respectively.

The Company had working capital deficits of approximately \$5.48 million and \$5.25 million for the six months ended May 31, 2002 and the year ended November 30, 2001, 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, and part of the interest due on certain loans were accrued but not paid for the six months ended May 31, 2002. As of May 31, 2002, these accruals (salaries, deferred compensation and deferred interest) exceeded \$5.1 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, 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 foregoing, 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

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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, 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

Not Applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits - None

(b) Reports - None

### 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.

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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: July 15, 2002