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

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

FORM 10-QSB

z Quarterly report under Section 13 or 15(d) of the Securities and Exchange Act of 1934  
For the quarterly period ended May 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  No  
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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, 2001 - 2,803,763 shares \$1.00 Par Value

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

| ASSETS  | 2001         | 2000         |
|---|--------------|--------------|
| CURRENT ASSETS:   |              |              |
| Cash and cash equivalents   | \$ 4,650     | \$ 6,729     |
| Receivables, less allowance for doubtful<br>accounts -0-  | 127,073      | 362,889      |
| Receivables from affiliates and related parties   | 574,323      | 527,423      |
| Inventories   | 202,950      | 182,498      |
| Prepaid expenses and deposits   | 45,792       | 73,292       |
| Total current assets  | 954,788      | 1,152,831    |
| PROPERTY, PLANT AND EQUIPMENT, at cost  | 3,249,921    | 3,147,237    |
| Less accumulated depreciation and depletion   | (1,384,543)  | (1,249,060)  |
|   | 1,865,378    | 1,898,177    |
| INVESTMENT IN UNCONSOLIDATED AFFILIATES   | 1,721,632    | 2,155,158    |
| Total assets  | \$ 4,541,798 | \$ 5,206,166 |
| LIABILITIES AND STOCKHOLDERS' INVESTMENT  |              |              |
| CURRENT LIABILITIES:  |              |              |
| Trade accounts payable  | \$ 379,540   | \$ 433,889   |
| Short-term debt related party   | 429,000      | 175,000      |
| Current portion of long-term debt   | 981,364      | 997,196      |
| Deferred obligations to related parties   | 4,553,931    | 4,319,245    |
| Other current liabilities   | 123,342      | 90,184       |
| Total current liabilities   | 6,467,177    | 6,015,514    |
| LONG-TERM DEBT, less current portion  | 480,918      | 558,261      |
| STOCKHOLDERS' INVESTMENT:   |              |              |
| Common stock, \$1.00 par value. Authorized 6,000,000<br>shares, issued and outstanding 2,803,763 shares<br>in 2001 and 2000 | 2,803,763    | 2,803,763    |
| Additional paid-in capital  | 5,871,218    | 5,871,218    |
| Accumulated deficit   | (11,081,278) | (10,042,590) |
| Total stockholders' investment  | (2,406,297)  | (1,367,609)  |

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Total liabilities and stockholders' investment    \$ 4,541,798    \$ 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 SECOND QUARTERS AND SIX MONTHS ENDED MAY 31, 2001 AND 2000

|  | Second Quarter Ended |              | Six Months Ended |              |
|--|----------------------|--------------|------------------|--------------|
|  | MAY 31               |              | MAY 31           |              |
|  | 2001                 | 2000         | 2001             | 2000         |
|  | -----                | -----        | -----            | -----        |
| <b>REVENUES &amp; OTHER ITEMS:</b>                               |                      |              |                  |              |
| Sales  | \$ 511,608           | \$ 560,120   | \$ 1,021,019     | \$ 1,050,849 |
| Royalties  | 17,437               | -            | 29,425           | -            |
| Interest income  | 9,590                | 58           | 9,626            | 188          |
| Gain (loss) on sale of equipment                                 | -                    | 54,537       | 19,555           | 110,232      |
| Income (loss) from affiliates:                                   |                      |              |                  |              |
| Equity in earnings   | (353,991)            | (39,617)     | (433,496)        | (68,498)     |
| Consulting fees  | -                    | -            | -                | 7,500        |
| Other income   | 24,782               | -            | 24,782           | -            |
|  | -----                | -----        | -----            | -----        |
| Total revenues   | 209,426              | 575,098      | 670,911          | 1,100,271    |
| <b>EXPENSES &amp; OTHER ITEMS:</b>                               |                      |              |                  |              |
| Cost of sales  | 478,392              | 525,499      | 1,085,738        | 931,276      |
| General and administration                                       | 168,357              | 168,075      | 340,544          | 342,058      |
| Interest   | 78,206               | 62,183       | 147,546          | 126,912      |
| Depreciation and amortization                                    | 68,151               | 63,821       | 135,771          | 129,446      |
|  | -----                | -----        | -----            | -----        |
| Total costs and expenses   | 793,106              | 819,578      | 1,709,599        | 1,529,692    |
| Pretax income (loss) from operations                             | (583,680)            | (244,480)    | (1,038,688)      | (429,421)    |
| Provision for income taxes                                       | -                    | -            | -                | -            |
| Net income (loss) from operations                                | \$ (583,680)         | \$ (244,480) | \$ (1,038,688)   | \$ (429,421) |
|  | =====                | =====        | =====            | =====        |
| <b>EARNINGS (LOSS) PER SHARE:</b>                                |                      |              |                  |              |
| Income (loss) from operations                                    | (0.21)               | (0.09)       | (0.37)           | (0.16)       |
|  | -----                | -----        | -----            | -----        |
| Net income (loss) per share                                      | \$ (0.21)            | \$ (0.09)    | \$ (0.37)        | \$ (0.16)    |
|  | =====                | =====        | =====            | =====        |
| Weighted Average Number of Shares of<br>Common Stock Outstanding | 2,803,763            | 2,761,960    | 2,803,763        | 2,761,960    |

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 CASH FLOWS FOR THE SIX MONTHS ENDED MAY 31, 2001 AND MAY 31, 2000

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|  | Six Months Ended<br>May 31 |              |
|--|----------------------------|--------------|
|  | 2001                       | 2000         |
|  | -----                      | -----        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                            |              |
| Net (loss) from continuing operations  | \$ (1,038,688)             | \$ (429,421) |
| Adjustments to reconcile net income from continuing operations to net cash provided by operating activities: |                            |              |
| Depreciation and amortization  | 135,771                    | 129,446      |
| Equity in loss of affiliates   | 433,496                    | 68,498       |
| (Gain) on sale of equipment  | (19,555)                   | (110,232)    |
| Changes in assets and liabilities:   |                            |              |
| Decrease in receivables  | 235,816                    | 35,044       |
| (Increase) decrease in inventories   | (20,452)                   | 195,655      |
| Decrease in other current assets   | 27,500                     | 7,590        |
| (Decrease) in trade accounts payable   | (54,349)                   | (19,149)     |
| Increase in deferred obligations to related parties  | 441,786                    | 275,013      |
| Increase (decrease) in other current liabilities   | 33,158                     | (88,991)     |
|  | -----                      | -----        |
| Total adjustments  | 1,213,171                  | 492,874      |
| Net cash provided (used) by operating activities   | 174,483                    | 63,453       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                            |              |
| Sale of equipment  | 31,912                     | 128,214      |
| Capital expenditures   | (115,299)                  | (63,966)     |
|  | -----                      | -----        |
| Net cash (used) provided by investing activities   | (83,387)                   | 64,249       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                            |              |
| (Decrease) in long-term debt   | (93,175)                   | (11,754)     |
|  | -----                      | -----        |
| Net cash provided (used) by financing activities   | (93,175)                   | (11,754)     |
| Net (decrease) increase in cash and cash equivalents   | (2,079)                    | 115,948      |
| Cash and cash equivalents at the beginning of the year   | 6,729                      | 17,689       |
| Cash and cash equivalents at the end of the year   | \$ 4,650                   | \$ 133,637   |
|  | =====                      | =====        |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>  |                            |              |
| Cash paid during the year for interest   | \$ 62,248                  | \$ 40,595    |

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 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

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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, 2001 compared  
to the second quarter ended May 31, 2000

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. For the second quarter ended May 31, 2000, the Registrant had revenues of \$575,098, which resulted in a net loss of \$244,480 or \$0.09 per share.

The revenues in the second quarter of 2001 decreased from 2000 as a result of a decrease in sales from \$560,120 to \$511,608, a decrease in gain on sale of equipment by \$54,537, and an increase in equity losses from \$39,617 to \$353,991. 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 second quarter 2001. 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 \$793,106 and \$819,578 in the second quarter of 2001 and 2000, respectively. The cost of sales decreased by \$47,107 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 was comparable for both years, while the 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.

Six months ended May 31, 2001 compared  
to the six months ended May 31, 2000

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. For the six months ended May 31, 2000, the Registrant had revenues of \$1,100,271, which resulted in a net loss of \$429,421 or \$0.16 per share.

The revenues in the second quarter of 2001 decreased from 2000 primarily as a result of an increase in equity losses from \$68,498 to \$433,496 and a decrease in gain on sale of equipment by \$90,677. 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 \$1,709,599 and \$1,529,692 in the six months of 2001 and 2000, respectively. For the current six month period, the cost of sales increased by \$154,462 from 2000 to 2001 as a result of operating problems in the first quarter; these problems were corrected during the second quarter as the project was completed during the second quarter. The Registrant intends to continue its efforts to lower the production costs related to its low iron sand. The G&A was

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comparable for both years, while the 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 May 31, 2001

The Company's net cash provided by operating activities was \$174,483 and \$63,453 for the second quarter ended May 31, 2001 and May 31, 2000, respectively. The net cash provided (used) by investing activities was \$(83,387) and \$64,249 for the same six months in 2001 and 2000, respectively. 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 \$93,175 and \$11,754 for the six months ended May 31, 2001 and 2000, respectively. The Company's cash and cash equivalents increased (decreased) by \$(2,079) and \$115,948 for the six months ended May 31, 2001 and 2000, respectively.

The Company had working capital deficits of approximately \$5.51 million and \$4.86 million for the six months ended May 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 six months ended May 31, 2001 and 2000, respectively. As of May 31, 2001, these accruals (salaries, deferred compensation and deferred interest) exceeded \$4.5 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 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,

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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

A form 8K was filed March 7, 2001. Rossborough Manufacturing Co. L.P. (Rossborough), in which the Registrant has a 44% equity interest, has signed an agreement to purchase 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 steel industry by providing hot metal desulfurization, desulfurization equipment, metallurgical additives for secondary steel refining, technology and field service.

Rossborough has formed Rossborough-Remacor LLC as the acquisition entity and will contribute substantially all of its assets and its liabilities to the LLC. Remacor has filed for Chapter 11 bankruptcy protection and is seeking authority of the Bankruptcy Court to sell its assets to Rossborough-Remacor. The transaction will create the basis for a reorganization plan for Remacor that will enable it to satisfy the claims of its unsecured creditors over time.

The purchase price for the Remacor assets is the assumption of certain liabilities, a subordinated note in an amount equal to \$4,000,000 and a 35% membership interest in Rossborough-Remacor. The Bankruptcy Court has approved the transaction and due diligence has been completed. If financing can be obtained, it is anticipated that the transaction will close prior to July 31, 2001.

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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.

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 13, 2001