

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

RESERVE INDUSTRIES CORP /NM/  
Form 10QSB/A  
July 14, 2003

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

FORM 10-QSB/A

z Quarterly report under Section 13 or 15(d) of the Securities and Exchange Act of 1934  
For the quarterly period ended February 28, 2003  
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 (I.R.S. Employer Identification No.)  
Incorporation or Organization)

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 April 10, 2003 - 2,803,763 shares \$1.00 Par Value

INDEX

Page No.  
-----

PART I. Financial Information

Consolidated Balance Sheets February 28, 2003 and November 30, 2002	1
Consolidated Statements of Income First quarter ended February 28, 2003 and 2002	2
Consolidated Statements of Cash Flows First quarter ended February 28, 2003 and 2002	3

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

Footnotes to Consolidated Financial Statements	4
Management's Discussion and Analysis or Plan of Operation	5 - 7
PART II. Other Information	7

RESERVE INDUSTRIES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
FEBRUARY 28, 2003 AND NOVEMBER 30, 2002

ASSETS	2003	2002
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 52,648	\$ 61,078
Receivables, less allowance for doubtful accounts \$1,501	202,329	179,516
Receivables from affiliates and related parties	750,879	727,286
Inventories	241,202	298,218
Prepaid expenses and deposits	104,569	130,017
	-----	-----
Total current assets	1,351,627	1,396,115
PROPERTY, PLANT AND EQUIPMENT, at cost	3,337,601	3,317,968
Less accumulated depreciation and depletion	(1,842,107)	(1,773,951)
	-----	-----
Total property, plant and equipment	1,495,494	1,544,017
INVESTMENT IN UNCONSOLIDATED AFFILIATES		(713,787)
OTHER INVESTMENT	150,000	
	-----	-----
Total assets	\$ 2,997,121	\$ 2,226,345
	=====	=====
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Trade accounts payable	\$ 288,224	\$ 373,503
Short-term debt related party	321,263	327,315
Current portion of long-term debt related parties	753,718	753,718
Current portion of long-term debt	245,546	245,546
Deferred obligations to related parties	5,893,847	5,753,544
Loss in excess of investment in investee	420,000	-
Other current liabilities	72,591	70,919
	-----	-----
Total current liabilities	7,995,189	7,524,545
LONG-TERM DEBT, less current portion	208,082	255,706

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

STOCKHOLDERS' INVESTMENT:

Common stock, \$1.00 par value. Authorized 6,000,000 shares, issued and outstanding 2,803,763 shares in 2003 and 2002	2,803,763	2,803,763
Additional paid-in capital	5,471,218	5,471,218
Accumulated deficit	(13,481,131)	(13,828,887)
	-----	-----
Total stockholders' investment	(5,206,150)	(5,553,906)
Total liabilities and stockholders' Investment	\$ 2,997,121	\$ 2,226,345
	=====	=====

The accompanying notes are an integral part of these consolidated statements. The 2003 and 2002 financial information is unaudited

RESERVE INDUSTRIES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE FIRST QUARTERS ENDED FEBRUARY 28, 2003 AND 2002

	Three Months Ended February 28	
	2003	2002
	-----	-----
REVENUES & OTHER ITEMS:		
Sales	\$ 703,207	\$ 410,919
Royalties	71,037	51,454
Interest income	480	839
Other income	-	255
	-----	-----
Total revenues	774,724	463,467
EXPENSES & OTHER ITEMS:		
Cost of sales	557,971	348,636
Loss on investment in investee	-	223,201
General and administration	173,015	177,134
Interest	71,613	66,264
Depreciation and amortization	68,156	67,570
	-----	-----
Total costs and expenses	870,755	659,604
	-----	-----
Pretax income (loss) from continuing operations	(96,031)	(419,338)
Provision for income taxes	-	-
Net income (loss) from continuing operations	\$ (96,031)	\$ (419,338)
	=====	=====
EARNINGS (LOSS) PER SHARE:		
Income (loss) from operations	(0.03)	(0.15)
	-----	-----
Net income (loss) per share	\$ (0.03)	\$ (0.15)
	=====	=====
Weighted Average Number of Shares of Common Stock Outstanding	2,803,763	2,803,763
	=====	=====

The accompanying notes are an integral part of these consolidated statements. The 2003 and 2002 financial information is unaudited.

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

RESERVE INDUSTRIES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE FIRST QUARTER ENDED FEBRUARY 28, 2003 AND 2002

	Three Months Ended February 28	
	2003	2002
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) from operations	\$ (96,031)	\$ (419,338)
Adjustments to reconcile net income From operations to net cash provided by operating activities:		
Depreciation and amortization	68,156	67,570
Loss (gain) on investment in investee	-	223,201
Changes in assets and liabilities:		
(Increase) decrease in receivables	(46,406)	57,663
(Increase) decrease in inventories	57,016	(4,607)
(Increase) decrease in other current assets	25,448	(12,178)
Increase (decrease) in trade accounts payable	(85,279)	41,335
Increase (decrease) in deferred obligations to related parties	134,251	91,404
Increase (decrease) in other current liabilities	1,672	(60,454)
	-----	-----
Total adjustments	154,858	403,934
	-----	-----
Net cash provided (used) by operating activities	58,827	(15,404)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures - Net	(19,633)	-
	-----	-----
Net cash provided (used) by investing activities	(19,633)	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Decrease) in long-term debt	(47,624)	(121)
	-----	-----
Net cash provided (used) by financing activities	(47,624)	(121)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(8,430)	(15,525)
	-----	-----
Cash and cash equivalents at the beginning of the year	61,078	76,223
	-----	-----
Cash and cash equivalents at the end of the year	\$ 52,648	\$ 60,698
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 13,612	\$ 16,561
	-----	-----

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

The accompanying notes are an integral part of these consolidated statements. The 2003 and 2002 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, 2002 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 2002, 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

First quarter ended February 28, 2003 compared to the first quarter ended February 28, 2002

For the first quarter ended February 28, 2003, the Registrant had revenues of \$774,724, which resulted in a net loss of \$96,031 or \$0.03 per share. For the first quarter ended February 28, 2002, the Registrant had revenues of \$463,467, which resulted in a net loss of \$419,338 or \$0.15 per share.

The revenues in the first quarter of 2003 increased from 2002 as a result of an increase in sales from \$410,919 to \$703,207, an increase in royalty income of \$19,583. The sales at the Registrant's silica sand operation increased as a result an increase in demand for the Registrant's low iron glass sand and bunker sand. The increased demand will continue into part of the second quarter, but then is expected to return to prior levels for the remainder of the year.

The costs and expenses were \$870,755 and \$882,805 in the first quarter of 2003 and 2002, respectively. The cost of sales increased by \$209,335 from 2002 to 2003 due primarily to the increased demand for glass sand and increased mining and tailing costs. The G&A decreased slightly from 2002 to 2003. 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. The Registrant's loss on investment from its affiliated venture Rossborough-Remacor LLC (R-R) decreased by \$223,201 as the losses exceeded the Registrant's investment and obligations. R-R has remained in a loss position, as sales were slow during the first quarter. R-R is continuing its program of trying to reduce costs and improve both sales and product margins. The operations of R-R will require continued cooperation from its suppliers, and R-R is negotiating with them to reduce past due unsecured debt. R-R is continuing to evaluate all its options including bankruptcy.

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

### Liquidity and Capital Resources

Period from December 1, 2001 to February 28, 2002

The Company's net cash provided (used) by operating activities was \$58,827 and \$(15,404) for the first quarter ended February 28, 2003 and 2002, respectively. The net cash used by investing activities was \$19,633 and \$0 for the same three months in 2003 and 2002, respectively. For 2003, the capital expenditures were for capital improvements to the sand project. The Company decreased its long-term debt by \$47,624 and \$121 for the three months ended February 28, 2003 and 2002, respectively. The Company's cash and cash equivalents decreased by \$8,430 and \$15,525 for the three months ended February 28, 2003 and 2002, respectively.

The Company had working capital deficits of approximately \$6.64 million and \$6.13 million for the three months ended February 28, 2003 and the year ended November 30, 2002, 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 three months ended February 28, 2003. As of February 28, 2003, these accruals (salaries, deferred compensation and deferred interest) exceeded \$5.8 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, 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

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

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.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Registrant's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Registrant's disclosure controls and procedures within 90 days of this report. Based on that evaluation, the Registrant's management, including the CEO and CFO, concluded that the Registrant's disclosure controls and procedures were effective as of August 31, 2002.

#### Changes in Internal Controls

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation.

## 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.

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

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 11, 2003

CERTIFICATIONS

I, William J. Melfi, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Reserve Industries Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant And we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent valuation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function): Note: The Registrant does not have an auditor.
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes



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

in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: July 11, 2003

/s/ William J. Melfi

-----  
William J. Melfi  
Vice President Finance and Administration  
and Chief Financial Officer

I, Frank C. Melfi, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Reserve Industries Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant And we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent valuation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function): Note: The Registrant does not have an auditor.
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant

deficiencies and material weaknesses.

Date: July 11, 2003

/s/ Frank C Melfi

-----

President and  
Chief Executive Officer