RESERVE INDUSTRIES CORP /NM/
Form 10QSB
April 11, 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 February 28, 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 April 10, 2001 - 2,803,763 shares $1.00 Par Value

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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, 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.

RESERVE INDUSTRIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
FEBRUARY 28, 2001 AND NOVEMBER 30, 2000

ASSETS	2001	2000
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,996	$ 6,729
Receivables, less allowance for doubtful accounts -0-	268,050	362,889
Receivables from affiliates and related parties (Note 11)	552,923	527,423
Inventories (Note 2)	213,483	182,498
Prepaid expenses and deposits	60,763	73,292
Total current assets	1,108,215	1,152,831
PROPERTY, PLANT AND EQUIPMENT, at cost (Note 3)	3,003,043	3,147,237
Less accumulated depreciation and depletion	(1,128,878)	(1,249,060)
	1,874,165	1,898,177
INVESTMENT IN UNCONSOLIDATED AFFILIATES (Note 4)	2,075,623	2,155,158
Total assets	$ 5,058,003	$ 5,206,166

LIABILITIES AND STOCKHOLDERS' INVESTMENT

CURRENT LIABILITIES:		
Trade accounts payable	$ 488,174	$ 433,889
Short-term debt related party	314,000	175,000
Current portion of long-term debt (Note 9)	981,364	997,196
Deferred obligations to related parties (Note 11)	4,403,144	4,319,245
Other current liabilities (Note 8)	168,848	90,184
Total current liabilities	6,355,530	6,015,514
LONG-TERM DEBT, less current portion (Note 10)	525,091	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	(10,497,599)	(10,042,590)
Total stockholders' investment	(1,822,618)	(1,367,609)
Total liabilities and stockholders' investment	$ 5,058,003	$ 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 FIRST QUARTERS ENDED FEBRUARY 28, 2001 AND FEBRUARY 29, 2000

	Three Months Ended	
	February 28 2001	February 29 2000
REVENUES & OTHER ITEMS:		
Sales	$ 509,411	$ 490,729
Interest income	35	130
Gain on sale of equipment	19,555	55,695
Income (loss) from affiliates:		
Equity in earnings	(79,505)	(28,881)
Consulting fees	-	7,500
Other income	11,988	-
Total revenues	461,484	525,173
EXPENSES & OTHER ITEMS:		
Cost of sales	607,346	405,777
General and administration	172,187	173,983
Interest	69,340	64,729
Depreciation and amortization	67,620	65,626
Total costs and expenses	916,493	710,115
Pretax income (loss) from continuing operations	(455,009)	(184,942)
Provision for income taxes	-	-
Net income (loss) from continuing operations	$ (455,009)	$ (184,942)
EARNINGS (LOSS) PER SHARE:		
Income (loss) from continuing operations	(0.16)	(0.07)

Net income (loss) per share	$ (0.16)	$ (0.07)
Weighted Average Number of Shares of Common Stock Outstanding	2,803,763	2,820,156

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RESERVE INDUSTRIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE FIRST QUARTERS ENDED FEBRUARY 28, 2001 AND FEBRUARY 29, 2000

	Three Months Ended	
	February 28 2001	February 29 2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) from continuing operations	$ (455,009)	$ (184,942)
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	67,620	65,626
Equity in loss of affiliates	79,505	28,881
(Gain) on sale of equipment	(19,555)	(55,695)
Changes in assets and liabilities:		
Decrease in receivables	69,339	13,460
(Increase) decrease in inventories	(30,985)	210,370
Decrease in other current assets	12,529	7,475
Increase (decrease) in trade accounts payable	54,285	(116,367)
Increase in deferred obligations to related parties	222,899	336,082
Increase (decrease) in other current liabilities	62,832	(298,411)
Total adjustments	518,469	191,421
Net cash provided (used) by operating activities	63,460	6,479
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of equipment	31,912	29,136
Capital expenditures	(55,965)	(32,629)
Net cash provided (used) by investing activities	(24,053)	(3,493)
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Decrease) in long-term debt	(33,170)	(9,468)
Net cash provided (used) by financing activities	(33,170)	(9,468)
Net increase (decrease) in cash and cash equivalents	6,237	(6,482)
Cash and cash equivalents at the beginning of the year	6,729	17,689
Cash and cash equivalents at the end of the year	$ 12,966	$ 11,207
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 24,837	$ 23,532

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

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

Results of Operations

First quarter ended February 28, 2001 compared to the first quarter ended February 29, 2000

For the first quarter ended February 28, 2001, the Registrant had revenues of $461,484, which resulted in a net loss of $455,009 or $0.16 per share. For the first quarter ended February 29, 2000, the Registrant had revenues of $525,173, which resulted in a net loss of $184,942 or $0.07 per share.

The revenues in the first quarter of 2001 decreased from 2000 as a result of an increase in sales from $490,729 to $509,411, a decrease in gain on sale of equipment from $55,695 to $19,555 and an increase in equity losses from $28,881 to $79,505. The sales at the Registrant's silica sand operation increased as a result a slight increase in demand for the Registrant's low iron glass sand. The plant improvement program was continued during the quarter and is planned to be completed by the end of the second quarter 2001. These final improvements are expected to reduce the cost of sales. The Registrant's equity income remained in a loss position even though its affiliated partnership had increased sales volume compared to the first quarter of 2000. Most of the replacement sales are at much lower gross margins, which resulted in an increased loss for the current quarter.

The costs and expenses were $916,493 and $710,115 in the first quarter of 2001 and 2000, respectively. The cost of sales increased by $201,569 from 2000 to 2001 due primarily due to operational problems that occurred in December and January related to the sand operation. The G&A decreased 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 February 28, 2001

The Company's net cash provided (used) by operating activities was $64,460 and $6,479 for the first quarter ended February 28, 2001 and February 29, 2000, respectively. The net cash used by investing activities was $24,053 and $3,493 for the same three 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 $33,170 and $9,468 for the three months ended February 28, 2001 and 2000, respectively. The Company's cash and cash equivalents increased (decreased) by $6,237 and $(6,482) for the three months ended February 28, 2001 and 2000, respectively.

The Company had working capital deficits of approximately

$5.25 million and $4.86 million for the three months ended February 28, 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 three months ended February 28, 2001 and 2000, respectively. As of February 28, 2001, these accruals (salaries, deferred compensation and deferred interest) exceeded $4.4 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 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. It is anticipated that the transaction will close prior to April 30, 2001. Completion of the transaction is subject to due diligence, approval of the Bankruptcy Court, and obtaining financing.

Item 6. Exhibits and Reports on Form 8-K
(a) Exhibits - Exhibit 27
(b) Reports - Form 8K/A filed March 7, 2001

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: April 10, 2001