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

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 August 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 October 10, 2002 - 2,803,763 shares $1.00 Par Value

INDEX

Page No.

PART I. Financial Information

Consolidated Balance Sheets
August 31, 2002 and November 30, 2001 1

Consolidated Statements of Income
Third quarter and nine months ended

August 31, 2002 and 2001 2

Consolidated Statements of Cash Flows
Third quarter ended
August 31, 2002 and 2001 3

Footnotes to Consolidated Financial Statements 4

Management's Discussion and Analysis or
Plan of Operation 5 - 7

Controls and Procedures 7

PART II. Other Information 8

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

ASSETS	2002	2001
CURRENT ASSETS:		
Cash and cash equivalents	$ 51,622	$ 76,223
Receivables, less allowance for doubtful accounts - $1,501	188,959	177,698
Receivables from affiliates and related parties	717,618	634,548
Inventories	325,080	298,357
Prepaid expenses and deposits	68,744	55,674
Total current assets	1,352,023	1,242,500
PROPERTY, PLANT AND EQUIPMENT, at cost	3,304,638	3,262,771
Less accumulated depreciation and depletion	(1,692,290)	(1,505,484)
Total property, plant and equipment	1,612,348	1,757,287
INVESTMENT IN UNCONSOLIDATED AFFILIATES	(741,454)	117,541
Total assets	$ 2,222,917	$ 3,117,328
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Trade accounts payable	$ 243,423	$ 143,306

Short-term debt related party	1,139,018	1,043,000
Current portion of long-term debt	240,842	251,812
Deferred obligations to related parties	5,316,591	4,910,582
Other current liabilities	64,215	145,791
Total current liabilities	7,004,089	6,494,491
LONG-TERM DEBT, less current portion	308,858	383,963
STOCKHOLDERS' INVESTMENT:		
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	(13,365,011)	(12,036,107)
Total stockholders' investment	(5,090,030)	(3,761,126)
Total liabilities and stockholders' investment	$ 2,222,917	$ 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 THIRD QUARTERS AND NINE MONTHS ENDED AUGUST 31, 2002 AND 2001

	Third Quarter Ended AUGUST 31		Nine Months Ended AUGUST 31	
	2002	2001	2002	2001
REVENUES & OTHER ITEMS:				
Sales	$ 544,783	$ 555,385	$ 1,563,727	$ 1,576,404
Royalties	45,792	66,339	145,606	95,764
Interest income	159	1,238	1,241	10,865
Gain on sale of equipment	-	-	-	19,555
Equity in earnings	(445,920)	(235,812)	(858,975)	(669,308)
Other income	45	(67,254)	(1,156)	(42,472)
Total revenues	144,859	319,896	850,443	990,808
EXPENSES & OTHER ITEMS:				
Cost of sales	437,758	363,383	1,237,951	1,449,121
General and administration	176,427	203,445	534,533	543,989
Interest expense	65,157	67,520	200,054	215,066
Depreciation and amortization	70,383	70,269	206,809	206,039
Total costs and expenses	749,725	704,617	2,179,347	2,414,215
Pretax income (loss) from continuing operations	(604,866)	(384,721)	(1,328,904)	(1,423,407)
Provision for income taxes	-	-	-	-

Net income (loss) from continuing operations	$ (604,866)	$ (384,721)	$(1,328,904)	$(1,423,407)
EARNINGS (LOSS) PER SHARE:				
Income (loss) from continuing operations	(0.22)	(0.14)	(0.47)	(0.51)
Net income (loss) per share	$ (0.22)	$ (0.14)	$ (0.47)	$ (0.51)
Weighted Average Number of Shares of Common Stock Outstanding	2,803,763	2,803,763	2,803,763	2,803,763

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 NINE MONTHS ENDED AUGUST 31, 2002 AND AUGUST 31, 2001

	Nine Months Ended August 31	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) from continuing operations	$(1,328,904)	$(1,423,407)
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	206,809	206,039
Equity in (gain) loss from affiliates	858,975	669,308
(Gain) loss on disposition of fixed assets	-	(19,555)
(Gain) loss on sale of investment	-	67,254
Changes in assets and liabilities:		
(Increase) decrease in receivables	(11,261)	192,379
(Increase) decrease in inventories	(26,723)	(222,038)
(Increase) decrease in other current assets	(13,070)	34,410
Increase (decrease) in trade accounts payable	100,117	(89,680)
Increase (decrease) in deferred obligations to related parties	322,939	290,037
Increase (decrease) in other current liabilities	(81,576)	24,163
Total adjustments	1,356,210	1,152,317
Net cash provided (used) by operating activities	27,306	(271,090)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of property	-	656,897
Capital expenditures	(61,850)	(153,631)
Net cash provided (used) by investing activities	(61,850)	503,266

CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in short-term debt	85,048	(15,832)
Increase (decrease) in long-term debt	(75,105)	(116,941)
Net cash provided (used) by financing activities	9,943	(132,773)
Net increase (decrease) in cash and cash equivalents	(24,601)	99,403
Cash and cash equivalents at the beginning of the year	76,223	6,729
Cash and cash equivalents at the end of the year	$ 51,622	$ 106,132
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 44,078	$ 87,119

The accompanying notes are an integral part of these consolidated statements. The 2002 and 2001 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, 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

Third quarter ended August 31, 2002 compared to the third quarter ended August 31, 2001

For the third quarter ended August 31, 2002, the Registrant had revenues of $144,859, which resulted in a net loss of $604,866 or $0.22 per share. 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.

The revenues in the third quarter of 2002 decreased from 2001 as a result of a decrease in sand sales of $10,602, a decrease in royalty income of $20,547, and an increase in equity losses of $210,108. The sales at the Registrant's silica sand operation were similar to the prior year's quarter. The plant improvement program was completed during the third quarter of 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 second quarter, which reduced the losses. However, the continued losses after the final consolidation were unsustainable, and R-R has undertaken an aggressive cost reduction program to bring the operation to positive cash flow. During the quarter, R-R reached an agreement with its bank to provide continued financing, pursuant to R-R achieving its cost reduction goals. As part of the financing arrangement, R-R is to sell part of its international operations to reduce bank debt. The sale is expected to be completed within the next 30 days. 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.

The costs and expenses of the Registrant were $749,725 and $704,617 in the third quarter of 2002 and 2001, respectively. The cost of sales for the sand operation increased by $74,375 from 2001 to 2002, due to increased mining and tailing costs. The G&A cost decreased and the interest costs were comparable to last year. 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.

Nine months ended August 31, 2002 compared to the nine months ended August 31, 2001

For the nine months ended August 31, 2002, the Registrant had revenues of $850,443, which resulted in a net loss of $1,328,904 or $0.47 per share. For the nine months ended August 31, 2001, the Registrant had revenues of $990,808, which resulted in a net loss of $1,423,407 or $0.51 per share.

The revenues in the nine months ended August 31, 2002 decreased from 2001 primarily as a result of an increase in equity losses of $189,667. As described above, the Registrant's equity losses reflect unsustainable losses by R-R, and efforts to reduce costs to a breakeven cash flow are being pursued by R-R.

The costs and expenses were $2,179,347 and $2,414,215 for the nine months ended August 31, 2002 and 2001, respectively. For the current nine month period, the cost of sales decreased by $211,170 from 2001 to 2002 as a result of completion of the sand plant improvements. However, as noted above, some of the improvements in plant efficiencies have been offset by higher mining and tailing costs. The G&A decreased slightly in 2002, along with 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 August 31, 2002

The Company's net cash provided (used) by operating activities was $27,306 and $(271,090) for the nine months ended August 31, 2002 and 2001, respectively. The net cash (used) provided by investing activities was $(61,850) and $503,266 for the same nine months in 2002 and 2001, respectively. For 2001, the cash provided by investing activities was from the sale of surplus equipment and the sale of the Company's stock in JPL Industries. For both years, the capital expenditures were for capital improvements to the sand project. The Company decreased its long-term debt by $75,105 and $116,941 for the nine months ended August 31, 2002 and 2001, respectively. The Company's net cash and cash equivalents decreased by $24,601 and increased by $99,403for the nine months ended August 31, 2002 and 2001, respectively.

The Company had working capital deficits of approximately $5.65 million and $5.25 million for the nine months ended August 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 nine months ended August 31, 2002. As of August 31, 2002, these accruals (salaries, deferred compensation and deferred interest) exceeded $5.3 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.

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.

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 15, 2002

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):
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: October 15, 2002

/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):
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: October 15, 2002

/s/ Frank C Melfi

President and
Chief Executive Officer