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RESERVE INDUSTRIES CORP /NM/  
Form 10QSB  
July 21, 2003

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

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May 31, 2003 and November 30, 2002

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RESERVE INDUSTRIES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
MAY 31, 2003 AND NOVEMBER 30, 2002

ASSETS	2003	2002
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 108,111	\$ 61,078
Receivables, less allowance for doubtful accounts \$1,501	168,774	179,516
Receivables from affiliates and related parties	789,615	727,286
Inventories	209,873	298,218
Prepaid expenses and deposits	60,132	130,017
	-----	-----
Total current assets	1,336,505	1,396,115
PROPERTY, PLANT AND EQUIPMENT, at cost	3,379,257	3,317,968
Less accumulated depreciation and depletion	(1,910,678)	(1,773,951)
	-----	-----
Total property, plant and equipment	1,468,579	1,544,017
OTHER INVESTMENT	150,000	150,000
	-----	-----
Total assets	\$ 2,955,084	\$ 3,090,132
	=====	=====
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Trade accounts payable	\$ 207,969	\$ 373,503
Short-term debt related party	554,314	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	5,814,150	5,753,544
Loss in excess of investment in investee	420,000	420,000
Other current liabilities	51,692	70,919
	-----	-----

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Total current liabilities	8,047,389	7,944,545
LONG-TERM DEBT, less current portion	137,330	255,706
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	(13,504,616)	(13,385,100)
	-----	-----
Total stockholders' investment	(5,229,635)	(5,110,119)
Total liabilities and stockholders'		
investment	\$ 2,955,084	\$ 3,090,132
	=====	=====

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 SECOND QUARTER AND SIX MONTHS ENDED MAY 31, 2003 AND 2002

	Second Quarter Ended		Six Months Ended	
	MAY 31		MAY 31	
	2003	2002	2003	2002
	-----	-----	-----	-----
REVENUES & OTHER ITEMS:				
Sales	\$ 932,450	\$ 608,025	\$ 1,635,657	\$ 1,018,945
Royalties	44,908	48,360	115,945	99,814
Interest income	1,557	243	2,038	1,082
Other income (loss)	3,993	(1,456)	3,993	(1,201)
	-----	-----	-----	-----
Total revenues	982,908	655,172	1,757,633	1,118,640
EXPENSES & OTHER ITEMS:				
Cost of sales	700,557	451,557	1,258,528	800,194
Loss on investment in investee	-	189,854	-	413,055
General and administration	169,555	180,971	342,570	358,105
Interest expense	67,712	68,633	139,325	134,897
Depreciation and amortization	68,571	68,856	136,726	136,426
	-----	-----	-----	-----
Total costs and expenses	1,006,395	959,871	1,877,149	1,842,677
Pretax income (loss) from				
continuing operations	(23,487)	(304,699)	(119,516)	(724,037)
Provision for income taxes	-	-	-	-
Net income (loss) from				
continuing operations	\$ (23,487)	\$ (304,699)	\$ (119,516)	\$ (724,037)
EARNINGS (LOSS) PER SHARE:				
Income (loss) from continuing				
operations	(0.01)	(0.11)	(0.04)	(0.26)
	-----	-----	-----	-----
Net (loss) per share	\$ (0.01)	\$ (0.11)	\$ (0.04)	\$ (0.26)
	=====	=====	=====	=====

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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 2003 and 2002 financial information is unaudited.

RESERVE INDUSTRIES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SECOND QUARTERS ENDED MAY 31, 2003 AND MAY 31, 2002

	Six Months Ended May 31	
	2003	2002
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) from continuing operations	\$ (119,516)	\$ (724,037)
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	136,726	136,426
(Gain) loss on investment in investee	-	413,055
Changes in assets and liabilities:		
(Increase) decrease in receivables	10,742	(49,128)
(Increase) decrease in inventories	88,345	(40,686)
(Increase) decrease in other current assets	7,556	(31,260)
Increase (decrease) in trade accounts payable	(165,534)	154,677
Increase (decrease) in deferred obligations to related parties	287,606	242,357
Increase (decrease) in other current liabilities	(19,227)	(68,431)
	-----	-----
Total adjustments	346,214	757,010
Net cash provided (used) by operating activities	226,698	32,973
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures - Net	(61,289)	(3,199)
	-----	-----
Net cash (used) by investing activities	(61,289)	(3,199)
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Decrease) in long-term debt	(118,376)	(49,949)
	-----	-----
Net cash provided (used) by financing activities	(118,376)	(49,949)
Net increase (decrease) in cash and cash equivalents	47,033	(20,175)
	-----	-----
Cash and cash equivalents at the beginning of the year	61,078	76,223
	-----	-----

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Cash and cash equivalents at the end of the year	\$ 108,111 =====	\$ 56,048 =====
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### SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for interest	\$ 23,195 -----	\$ 30,446 -----
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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

Second quarter ended May 31, 2003 compared  
to the second quarter ended May 31, 2002

For the second quarter ended May 31, 2003, the Registrant had revenues of \$982,908, which resulted in a net loss of \$23,487 or \$0.01 per share. For the second quarter ended May 31, 2002, the Registrant had revenues of \$655,172, which resulted in a net loss of \$304,699 or \$0.11 per share.

The revenues in the second quarter of 2003 increased from 2002 as a result of an increase in sales from \$608,025 to \$932,450. 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 through most of the third quarter.

The costs and expenses were \$1,006,395 and \$959,871 in the second quarter of 2003 and 2002, respectively. The cost of sales increased by \$249,000 from 2002 to 2003 due primarily to the increased demand for glass sand. 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

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Company is conserving its cash. The Registrant's loss on investment from its affiliated venture Rossborough-Remacor LLC (R-R) decreased by \$189,854 as the losses exceeded the Registrant's investment and obligations. R-R was not able to reach an agreement with its suppliers and filed for bankruptcy on June 18, 2003. R-R continued its program of trying to reduce costs and improve both sales and product margins and has shutdown its steel side and magnesium recycling operations. R-R will concentrate on its desulfurization operations.

Six months ended May 31, 2003 compared  
to the six months ended May 31, 2002

For the six months ended May 31, 2003, the Registrant had revenues of \$1,757,633, which resulted in a net loss of \$119,516 or \$0.04 per share. For the six months ended May 31, 2002, the Registrant had revenues of \$1,118,640, which resulted in a net loss of \$724,037 or \$0.26 per share.

The revenues in the six months ended May 31, 2003 increased over 2002 as a result of an increase in sales of \$616,712 and an increase in royalty income of \$16,131.

The costs and expenses were \$1,877,149 and \$1,842,677 for the six months ended May 31, 2003 and 2002, respectively. For the current six month period, the cost of sales increased by \$458,334 from 2002 to 2003 as a result of the increase amount of low iron sand produced and sold. The Registrant's loss on investment from its affiliated venture Rossborough-Remacor LLC (R-R) decreased by \$413,055 as the losses exceeded the Registrant's investment and obligations. The G&A decreased slightly in 2003. 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, 2002 to May 31, 2003

The Company's net cash provided by operating activities was \$226,698 and \$32,973 for the six months ended May 31, 2003 and 2002, respectively. The net cash used by investing activities was \$61,289 and \$3,199 for the same six 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 \$118,376 and \$49,949 for the six months ended May 31, 2003 and 2002, respectively. The Company's cash and cash equivalents increased (decreased) by \$47,033 and \$(20,175) for the six months ended May 31, 2003 and 2002, respectively.

The Company had working capital deficits of approximately \$6.7 million and \$6.5 million for the six months ended May 31, 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 six months ended May 31, 2003. As of May 31, 2003, these accruals (salaries

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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 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

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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

On June 18, 2003, Rossborough-Remacor LLC filed for Chapter 11 Bankruptcy protection. The bankruptcy was filed in the United States Bankruptcy Court for the Northern District of Ohio.

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 15, 2003

CERTIFICATIONS



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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 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 15, 2003

/s/ William J. Melfi

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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

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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 15, 2003

/s/ Frank C Melfi

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President and Chief Executive Officer