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EXX INC/NV/
Form 10-Q
November 12, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

For the quarterly period ended September 30, 2002 or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

For the transition period from ----- to -----

Commission file number 1-5654

EXX INC

(Exact Name of Registrant as Specified in Its Charter)

Nevada

88-0325271

(State or Other Jurisdiction of
Incorporation or Organization)

(IRS Employer
Identification No.)

1350 East Flamingo Road, Suite 689, Las Vegas, Nevada

89119-5263

(Address or Principal Executive Offices)

(Zip Code)

(702) 598-3223

(Registrant's Telephone Number, Including Area Code)

NONE

(Former Name, Former Address and Former Fiscal Year,
if Changed Since Last Report)

Indicate by check mark whether the registrant: (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 (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days.

Yes ☒ NO ☐

Number of shares of common stock outstanding as of September 30, 2002:
10,447,807 Class A Shares and 613,353 Class B Shares.

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PART 1. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

A. Balance Sheets

ASSETS	September 30, 2002	December 31, 2001
-----	-----	-----
	(unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 9,289,000	\$ 9,622,000
Accounts receivable, less allowances of \$91,000 and \$91,000	2,580,000	2,152,000
Inventories, at lower of cost or market:		
Raw materials	340,000	838,000
Work in process	40,000	164,000
Finished goods	2,295,000	1,618,000
	-----	-----
	2,675,000	2,620,000
Other current assets	642,000	267,000
Deferred income taxes	520,000	520,000
	-----	-----
TOTAL CURRENT ASSETS	15,706,000	15,181,000
Property, plant and equipment, at cost:		
Land	41,000	41,000
Buildings and improvements	2,993,000	2,993,000
Machinery and equipment	6,489,000	6,462,000
	-----	-----
	9,523,000	9,496,000
Less accumulated depreciation and amortization	7,855,000	7,695,000
	-----	-----
	1,668,000	1,801,000
Other assets	816,000	482,000
	-----	-----
TOTALS	\$18,190,000	\$17,464,000
	=====	=====

See Notes to Consolidated Financial Statements

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2

A. Consolidated Balance Sheets (continued)

LIABILITIES -----	September 30, 2002 ----- (unaudited)	December 31, 2001 -----
CURRENT LIABILITIES:		
Long-term debt, current portion	\$ 64,000	\$ 66,000
Accounts payable and other current liabilities	4,266,000 -----	3,815,000 -----
TOTAL CURRENT LIABILITIES	4,330,000 -----	3,881,000 -----
LONG-TERM LIABILITIES:		
Long-term debt, less current portion	1,508,000	1,555,000
Pension liability	416,000	416,000
Deferred tax liability	562,000 -----	562,000 -----
	2,486,000 -----	2,533,000 -----
STOCKHOLDERS' EQUITY -----		
Preferred stock, \$.01 par value; authorized 5,000,000 shares, none issued		
Common stock, Class A \$.01 par value authorized 25,000,000 shares, issued 12,061,607 shares	121,000	121,000
Common stock, Class B \$.01 par value authorized 1,000,000 shares; 624,953 shares issued	6,000	6,000
Capital in excess of par value	2,670,000	2,670,000
Accumulated other comprehensive loss	(275,000)	(275,000)
Retained earnings	9,816,000	9,311,000
Less Treasury Stock 1,613,800 and 1,229,600 shares of Class A Common Stock and 11,600 and 7,100 shares of Class B Common Stock, at cost, respectively	(964,000) -----	(783,000) -----
TOTAL STOCKHOLDERS' EQUITY	11,374,000 -----	11,050,000 -----
TOTALS	\$18,190,000 =====	\$17,464,000 =====

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See Notes to Consolidated Financial Statements

3

B. Consolidated Statements of Operations (Unaudited)

	For the Three-Month Period Ended		For the Nine-M
	September 30, 2002	September 30, 2001	September 30, 2002
Net sales	\$ 4,208,000	\$ 4,900,000	\$ 12,203,000
Cost of sales	2,796,000	3,206,000	8,191,000
Gross profit	1,412,000	1,694,000	4,012,000
Selling, general and administrative expenses	1,116,000	976,000	3,298,000
Operating income	296,000	718,000	714,000
Interest expense	(22,000)	(23,000)	(88,000)
Other income	39,000	83,000	139,000
Equity in losses of Newcor, Inc.	--	(1,680,000)	--
Income (loss) before provision for income taxes	313,000	(902,000)	765,000
Provision for income taxes	106,000	265,000	260,000
Net income (loss)	207,000	(1,167,000)	505,000
Net income (loss) per common share			
Basic	\$.02	\$ (.10)	\$.04

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Diluted	\$.02	\$ (.10)	\$.04
	=====	=====	=====

Weighted average shares outstanding

Basic	11,131,359	11,801,601	11,297,563
	=====	=====	=====

Diluted	11,157,073	11,801,601	11,348,417
	=====	=====	=====

See Notes to Consolidated Financial Statements

4

C. Consolidated Statements of Cash Flow (Unaudited)

	For the Nine-Month Period Ended	
	September 30, 2002	September 30, 2001
Operating activities:		
Net income (loss)	\$ 505,000	\$ (291,000)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and Amortization	160,000	183,000
Equity in losses of Newcor, Inc.	--	1,680,000
Increase (decrease) in cash attributable to changes in operating assets and liabilities:		
Accounts receivable	(428,000)	(207,000)
Inventories	(55,000)	750,000
Other current assets	(375,000)	154,000
Other assets	(334,000)	(19,000)
Refundable income taxes	--	152,000
Accounts payable and other current liabilities	451,000	68,000
Net cash provided by (used in) operating activities	(76,000)	2,470,000
Cash flows from investing activities:		
Purchase of property and equipment	(27,000)	(15,000)
Proceeds from sale of short-term investments	--	599,000

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Purchase of investments and advances in Newcor, Inc.	--	(1,680,000)
	-----	-----
Net cash used in investing activities	(27,000)	(1,096,000)
	-----	-----
Cash flows from financing activities		
Payments on long-term debt	(49,000)	(53,000)
Purchases of Treasury Stock	(181,000)	(377,000)
	-----	-----
Net cash used in financing activities	(230,000)	(430,000)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(333,000)	944,000
Cash and cash equivalents, beginning of period	9,622,000	7,772,000
	-----	-----
Cash and cash equivalents, end of period	\$ 9,289,000	\$ 8,716,000
	=====	=====

See Notes to Consolidated Financial Statements

5

C. Consolidated Statements of Cash Flow (Unaudited) (continued)

	For the Nine-Month Period Ended	
	-----	-----
	September 30, 2002	September 30, 2001
	-----	-----
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 88,000	\$ 94,000
	-----	-----
Income taxes	\$ 87,000	\$391,000
	-----	-----

See Notes to Consolidated Financial Statements

6

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D. Notes to Consolidated Financial Statements

Note 1: The unaudited consolidated financial statements as of

September 30, 2002 and 2001 reflect all adjustments which are necessary in the opinion of management for a fair presentation of the results for the periods stated. All adjustments so made are of a normal recurring nature. Certain financial information and footnote disclosures normally included in consolidated financial statements in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The reader is referred to the audited consolidated financial statements and notes thereto included in the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001.

Note 2: Investment in Newcor, Inc.

In July 2001, the Company purchased an additional 679,994 shares of Newcor, Inc. ("Newcor") common stock and \$500,000 principal amount of Newcor's 9.875% Senior Subordinated Notes due 2008, from five of the former directors of Newcor and 24,000 shares from David A. Segal (the Company's Chairman). In connection with such purchases, the Company paid an aggregate of \$1,680,000 in cash. Prior to the Company's acquisition of these additional shares, the Company accounted for its investment in Newcor as an available for sale marketable security. The changes in the market value of the Newcor shares were recorded as comprehensive income in each applicable period. The additional acquisition increased the Company's ownership percentage in Newcor to approximately 31%, thereby requiring the Company to use the equity method of accounting for this investment in accordance with Accounting Principles Board Opinion No. 18. "The Equity Method of Accounting for Investments in Common Stock". The change to the equity method is considered a change in reporting entity, requiring the Company to give retroactive effect to this change in all prior periods that Newcor stock was held. The consolidated financial statements for all periods prior to December 31, 2001 have been restated to give effect to this change. As of September 30, 2002, the Company owned approximately 1,546,000 shares of the outstanding common stock of Newcor and based on its equity in the losses of Newcor, the Company at December 31, 2001, reduced its prior investment (including subordinated notes) in Newcor to zero. On February 25, 2002, Newcor, Inc., filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Act.

Note 3: Earnings per share

The difference between the number of shares used to compute basic net income per share and diluted net income per share relates to additional shares to be issued upon the assumed exercise of stock options, net of shares hypothetically repurchased at the average price with the proceeds of exercise. For the three months and nine months ended September 30, 2002, these shares amounted to 25,714 and 50,854 respectively. For the three and nine months ended September 30, 2001, no stock options were assumed exercised as the Company had net losses which would result in any assumed exercised stock options being antidilutive.

See Notes to Consolidated Financial Statements

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Note 4: Long-Term Debt

Long-Term debt represents obligations of the Handi-Pac subsidiary as follows:

	September 30, 2002
Notes Payable - SBA Loans	\$ 782,000
Capital lease payable	790,000

	1,572,000
Current portion of long-term debt	64,000

	\$1,508,000
	=====

As of September 30, 2002, there was no other bank debt for the other subsidiaries except as noted above.

Note 5: The following information is reported as required for industry segment

disclosure.

	Three Months Ended September 30, 2002			
	Mechanical Equipment	Toys	Corporate	Consolidated
	-----	-----	-----	-----
Sales	\$ 2,005,000	\$ 2,203,000	\$ --	\$ 4,208,000
	=====	=====	=====	=====
Operating income (loss)	\$ 73,000	\$ 324,000	\$ (101,000)	\$ 296,000
Interest expense	--	(22,000)	--	(22,000)
Interest income	3,000	--	29,000	32,000
Other income	2,000	1,000	4,000	7,000
	-----	-----	-----	-----
Income (loss) before Income taxes	\$ 78,000	\$ 303,000	\$ (68,000)	\$ 313,000
	=====	=====	=====	=====

	Nine Months Ended September 30, 2002			
	Mechanical Equipment	Toys	Corporate	Consolidated
	-----	-----	-----	-----

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Sales	\$ 5,925,000	\$ 6,278,000	\$ --	\$ 12,203,000
	=====	=====	=====	=====
Operating income (loss)	\$ 147,000	\$ 987,000	\$ (420,000)	\$ 714,000
Interest expense	--	(66,000)	(22,000)	(88,000)
Interest income	11,000	--	92,000	103,000
Other income	24,000	5,000	7,000	36,000
	-----	-----	-----	-----
Income (loss) before Income taxes	\$ 182,000	\$ 926,000	\$ (343,000)	\$ 765,000
	=====	=====	=====	=====

8

Note 5: Cont'd.

	Three Months Ended September 30, 2001			
	Mechanical Equipment	Toys	Corporate	Consolidated
	-----	-----	-----	-----
Sales	\$ 2,409,000	\$ 2,491,000	\$ --	\$ 4,900,000
	=====	=====	=====	=====
Operating income (loss)	\$ 379,000	\$ 452,000	\$ (113,000)	\$ 718,000
Interest expense	--	(23,000)	--	(23,000)
Interest income	2,000	--	63,000	65,000
Other income	12,000	6,000	--	18,000
Equity in losses of Newcor, Inc.	--	--	(1,680,000)	(1,680,000)
	-----	-----	-----	-----
Income (loss) before Income taxes	\$ 393,000	\$ 435,000	\$ (1,730,000)	\$ (902,000)
	=====	=====	=====	=====

	Three Months Ended September 30, 2001			
	Mechanical Equipment	Toys	Corporate	Consolidated
	-----	-----	-----	-----

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Sales	\$ 8,488,000	\$ 6,317,000	\$ --	\$14,805,000
	=====	=====	=====	=====
Operating income (loss)	\$ 1,367,000	\$ 902,000	\$ (390,000)	\$ 1,879,000
Interest expense	--	(69,000)	(25,000)	(94,000)
Interest income	13,000	--	236,000	249,000
Other income	44,000	27,000	--	71,000
Equity in losses of Newcor, Inc.	--	--	(1,680,000)	(1,680,000)
	-----	-----	-----	-----
Income (loss) before Income taxes	\$ 1,424,000	\$ 860,000	\$ (1,859,000)	\$ 425,000
	=====	=====	=====	=====

9

ITEM 2. Management's Discussion and Analysis of Financial Condition and

Results of Operations

The following management's discussion and analysis of results of operations and financial condition contains certain forward-looking statements which are covered under the safe harbor provisions of the Private Securities Legislation Reform Act of 1995 with respect to the Company's future financial performance. Although EXX INC believes the expectations reflected in such forward-looking statements are based on reasonable assumptions, it can give no assurance that its expectations will be realized. Forward-looking statements involve known and unknown risks which may cause EXX INC's actual results and corporate developments to differ materially from those expected. Factors that could cause results and developments to differ materially from EXX INC's expectations include, without limitation, changes in manufacturing and shipment schedules, delays in completing plant construction and acquisitions, new product and technology developments, competition within each business segment, cyclicity of the markets for the products of a major segment, litigation, significant cost variances, the effects of acquisitions and divestitures, and other risks.

A. Results of Operations

Sales for the third quarter of 2002 were \$4,208,000 compared to \$4,900,000 in 2001, a 14% decrease. For the nine month period, 2002 sales were \$12,203,000 compared to \$14,805,000 in 2001. The Mechanical equipment group's third quarter sales totaled \$2,005,000 compared to \$2,409,000 in 2001, while the nine month sales totaled \$5,925,000 compared to \$8,488,000 in 2001. The Toy Segment's third quarter sales totaled \$2,203,000 compared to \$2,491,000 in 2001, while the nine month 2002 sales totaled \$6,278,000 compared to \$6,317,000, in 2001.

Gross profit for the third quarter 2002 totaled \$1,412,000 compared to \$1,694,000 in 2001. For the nine-month period, 2002 gross profits were \$4,012,000 compared to \$5,064,000 in 2001. The Mechanical Equipment Group's gross profits declined for the comparable three month and nine month periods

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while the Toy Division increased its gross profits in both the three and nine month periods.

Third quarter Mechanical Equipment Group sales are below the comparable prior year period. The Telecommunications area continues to reflect the brunt of the reduction of sales. Management continues to explore the marketplace reviewing all available opportunities for the Group and working with existing and potential customers to obtain new business.

The third quarter and nine month Toy division sales reductions are reflective of the industry as a whole. Management remains committed to maintain market share and to review all means to increase its share in a highly competitive market.

Operating income was \$296,000 for the third quarter 2002 compared to \$718,000 in 2001. For the nine months, operating profit was \$714,000 compared to \$1,879,000 in 2001.

Interest expense was \$22,000 for the third quarter 2002 compared to \$23,000 in the same period last year. For the nine months of 2002, interest expense was \$88,000 compared to \$94,000 for 2001.

The net income for the third quarter of 2002, was \$207,000 or 2 cents per share (basic and diluted) compared to net loss of (\$1,167,000) or 10 cents per share (basic and diluted) in the comparable period of 2001. On a nine month basis, the net income was \$505,000 or 4 cents per share (basic and diluted) compared to a net loss of (\$291,000) or 2 cents per share (basic and diluted) for the 2001 period. The net loss for the 2001 three month and nine month periods reflected a write off of the equity in losses of Newcor, Inc. totaling \$1,680,000. There is no comparable charge for the 2002 three month and nine month periods.

10

B. Liquidity and Capital Resources

For the nine months ended September 30, 2002, the Company utilized \$76,000 from operating activities as compared to generating \$2,470,000 in the corresponding period of the preceding year. For the nine months ended September 30, 2002, the Company utilized \$27,000 for investing activities. In the corresponding period of the preceding year, the Company utilized \$1,096,000 from investing activities, principally from the purchase of investments and advances to Newcor, Inc. Cash used in financing activities during the nine months ended September 30, 2002 of \$230,000 relates principally to the payments of long-term debt and purchases of Treasury Stock as compared to \$430,000 in the prior period ended September 30, 2001 which related to the payments of long-term debt and purchases of Treasury Stock.

At September 30, 2002, the Company had working capital of approximately \$11,376,000 and a current ratio of 3.6 to 1. In addition, as described in Notes to Financial Statements, the Registrant's Handi-Pac subsidiary has \$782,000 of long-term debt outstanding with the SBA. The Registrant considers its working capital, as described above, to be more than adequate to handle its current operating capital needs.

PART II. OTHER INFORMATION

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Not applicable.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EXX INC

By: /s/ David A. Segal

David A. Segal
Chairman of the Board
Chief Executive Officer
Chief Financial Officer

Date: November 6, 2002