MILITARY RESALE GROUP INC
Form 10QSB/A
June 17, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-QSB/A
Amendment No. 1

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended March 31, 2003

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to _________

Commission File Number 000-26463

MILITARY RESALE GROUP, INC.

(Name of small business issuer as specified in its charter)

New York	11-2665282
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identifi

2180 Executive Circle
Colorado Springs, Colorado 80906

(Address of principal executive offices)

(719) 391-4564

(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [X] No [ ]

As of March 31, 2003, there were 11,975,804 shares of the issuer's common stock outstanding.

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

MILITARY RESALE GROUP, INC.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

GENERAL

Certain statements in this Report constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The words "believe", "expect", "anticipate", "intend" and "plan" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. Because our common stock is considered a "penny stock," as defined by the regulations of the Securities and Exchange Commission, the safe harbor for forward-looking statements does not apply to statements by our company.

Our business and results of operations are affected by a wide variety of factors that could materially and adversely affect us and our actual results, including, but not limited to: (1) the availability of additional funds to enable us to successfully pursue our business plan; (2) the uncertainties related to the addition of new products and suppliers; (3) our ability to maintain, attract and integrate management personnel; (4) our ability to complete the development of our proposed product line in a timely manner; (5) our ability to effectively market and sell our products and services to current and new customers; (6) our ability to negotiate and maintain suitable strategic partnerships and corporate relationships with suppliers and manufacturers; (7) the intensity of competition; and (8) general economic conditions. As a result of these and other factors, we may experience material fluctuations in future operating results on a quarterly or annual basis, which could materially and adversely affect our business, financial condition, operating results and stock price.

Any forward-looking statements herein speak only as of the date hereof. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. The following discussion should be read in conjunction with the financial statements and related notes appearing elsewhere in this Report.

Prior to November 15, 2001, we did not generate any signification revenue, and accumulated no significant assets, as we explored various business opportunities. On November 15, 2001, we acquired 98.2% of the issued and outstanding capital stock of Military Resale Group, Inc., a Maryland corporation ("MRG-Maryland"), in exchange for a controlling interest in our publicly-held "shell" corporation. For financial reporting purposes, MRG-Maryland was considered the acquirer in such transaction. As a result, our historical financial statements for any period prior to November 15, 2001 are those of MRG-Maryland.

RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 2003 COMPARED TO THREE MONTHS ENDED MARCH 31, 2002

REVENUES. Total revenue for the three months ended March 31, 2003 of $1,758,963 reflected an increase of $341,705, or approximately 24.1%, compared to total revenue of $1,417,258 for the three months ended March 31, 2002. Our revenues are derived in either one of two ways. In the majority of instances, we purchase products from manufacturers and suppliers for resale to the commissaries we service. In such cases, we resell the manufacturer's or supplier's products to the commissaries at generally the same prices we pay for such products, which prices generally are negotiated between the manufacturer or supplier and the Defense Commissary Agency ("DeCA"). Revenue is recognized as the gross sales amount received by us from such sales ("resale revenues"), which includes (i) the purchase price paid by the commissary plus (ii) a negotiated storage and delivery fee paid by the manufacturer or supplier. In the remaining instances, we act as an agent for the manufacturer or supplier of the products we sell, and earn a commission paid by the manufacturer or supplier, generally in an amount equal to a percentage of the manufacturer's or supplier's gross sales amount ("commission revenues"). In such cases, revenue is recognized as the commission we receive on the gross sales amount.

Resale revenue for the three months ended March 31, 2003 of $1,612,597 reflected an increase of $255,013, or approximately 18.8%, compared to resale revenue of $1,357,584 for the three months ended March 31, 2002. This increase was attributable primarily to the addition of the new products we began supplying to commissaries during fiscal 2002, including Hillshire Farm and Kahn`s product groups by Sara Lee Foods-USA, that we sell on a resale basis. For the three months ended March 31, 2003, approximately 40.7% of our gross profit was derived from sales involving resale revenue compared to approximately 66.5% for the three months ended March 31, 2002. During the year ended December 31, 2002, we began implementing our long-term strategy to increase the ratio of our sales of products we sell on a resale basis, rather than a commission basis, due to the payment discounts we often receive from the manufacturers and suppliers of the goods we purchase for resale. However, due to our short-term cash shortage during the three months ended March 31, 2003, we were required to lower this ratio by increasing the amount of our of sales on a commission basis, which do not require a significant cash expenditure.

In the second quarter of 2002, Playtex Products, Inc., a supplier for whom we sell products on a resale basis, suspended the sale of its products to us pending our payment of an outstanding invoice in the approximate amount of $12,000 for products previously shipped to us. To date, we have not made such payment and all sales by Playtex remain suspended. We intend to make the outstanding payment in the second quarter of 2003, upon which our management believes Playtex will resume the sale of its products to us pursuant to the terms of our agreement.

Commission revenues for the three months ended March 31, 2003 of $146,366 reflected an increase of $86,692, or approximately 145%, compared to commission revenues of $59,674 for the three months ended March 31, 2002. For the three months ended March 31, 2003, approximately 59.3% of our gross profit was derived from sales involving commission revenues as compared to approximately 33.5% for the three months ended March 31, 2002. These increases were attributable primarily to the addition of the new products we began supplying to

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commissaries during the first quarter of fiscal 2003, including products distributed by Mid Valley Products, that we sell on a commission basis due to our short-term cash shortage discussed above. We cannot be certain as to whether this trend will continue; however, in the long term we are seeking to increase the ratio of our sales of products sold on a resale basis, rather than a commission basis, because we believe we can increase our profitability on such sales by taking advantage of payment discounts frequently offered by the manufacturers and suppliers of such products. Provided we can generate sufficient cash from operations or financing activities, we intend to do so by seeking to add new products that we can offer to commissaries on a resale basis from our existing manufactures and suppliers and from others with whom we do not currently have a working relationship.

In October 2002, we added to our supplier network the Hillshire Farm and Kahn's product groups of Sara Lee Foods-USA and certain consumer products distributed by Chattem, Inc. Hillshire Farm and Kahn's are product lines of packaged meats and hams. Chattem is a manufacturer of branded consumer products, principally over-the-counter healthcare products, including Aspercreme, Gold Bond, Sportscreme, Pamprin, Dexatrim, Rejuvex and Flexall. We have been advised by Sara Lee Foods-USA, and verified with DeCA, that sales of Hillshire Farm and Kahn's products in 2001 to the commissaries we currently service amounted to approximately $950,000. We have been advised by Chattem, and verified with DeCA, that sales of Chattem's line of products in 2001 to the commissaries we currently service amounted to approximately $200,000. However, there can be no assurance that our annual sales of these products will reach such amounts, and the amount of our actual sales of Hillshire Farm and Kahn's Products and Chattem products may differ materially from the amounts sold by Sara Lee Foods-USA and Chattem, respectively, in 2001. Our agreement with Sara Lee Foods-USA has a one-year term and automatically renews for successive one-year periods. It is cancelable by such supplier upon 30 days' written notice. Our agreement with Chattem, Inc. has no defined term and is cancelable by such supplier upon 30 days' written notice.

Management believes our long-term success will be dependent in large part on our ability to add additional product offerings to enable us to increase our sales and revenues. However, we believe our ability to add additional product offerings is dependent on our ability to obtain additional capital to fund new business development and increased sales and marketing efforts. We are currently in discussions with a number of other manufacturers and suppliers in an effort to reach an agreement under which we can distribute their products to the military market. While there can be no assurance that we will do so, we believe we will be successful in negotiating agreements with a number of such suppliers and manufacturers.

To date, all of our sales revenue has been generated from customers located in the United States.

Cost of Goods Sold. Cost of goods sold consists of our cost to acquire products from manufacturers and suppliers for resale to commissaries. In instances when we sell products on a commission basis, there is no cost of goods sold because we act as an agent for the manufacturer or supplier and earn only a commission on such sales. During the three months ended March 31, 2003, cost of goods sold increased by $273,405, or approximately 22.1%, to $1,512,326 from

$1,238,921 for the three months ended March 31, 2002. This increase was attributable primarily to the addition of new products that we sold on a resale basis. We cannot be certain as to whether or not this trend will continue; however, in the long term we are seeking to increase the ratio of our sales on a resale basis, as discussed above.

Gross Profit. Gross profit for the three months ended March 31, 2003 increased by approximately $91,304, or approximately 51.2%, compared to the three months ended March 31, 2002, from $178,337 for the three months ended March 31, 2002 to $246,637 for the three months ended March 31, 2003. This increase was attributable primarily to the increase in our sale of products on a commission basis that have no associated cost of good sold.

Operating Expenses. Total operating expenses aggregated $611,947 for the three months ended March 31, 2003 as compared to $383,172 for the three months ended March 31, 2002, representing an increase of $228,475, or approximately 59.6%. The increase in total operating expenses was attributable primarily to increased professional fees of approximately $64,034 resulting primarily from the costs of the preparation of a registration statement under the Securities Act of 1933 relating to a proposed offering of equity securities; increased stock-based compensation expense of $91,034 resulting primarily from the issuance of shares of our common stock and options to purchase shares of our common stock to our consultants; and increased general and administrative expenses of $38,006 resulting primarily from increased truck rental expense and increased premiums on health workers' compensation insurance.

Interest Expense. Interest expense of $135,385 for the three months ended March 31, 2003 reflected an decrease of $75,785 as compared to interest expense of $211,170 for the three months ended March 31, 2002. The decrease in interest expense was attributable primarily to decreased interest expense resulting from the recognition of the beneficial conversion feature (the right to convert debt into shares of our common stock at a discount to the fair market value of our common stock) of $205,000 aggregate principal amount of convertible promissory notes issued in the three months ended March 31, 2002 as compared to $15,000 aggregate principal amount of convertible promissory notes issued in the three months ended March 31, 2003, offset by amortization of option-based interest expense of approximately $100,000 during the three months ended March 31, 2003.

Net Loss. Primarily as a result of the increased operating and interest expenses discussed above, we incurred a net loss of $500,695 for the three months ended March 31, 2003 as compared to a net loss of $416,005 for the three months ended March 31, 2002.

Liquidity and Capital Resources

At March 31, 2003, we had a cash balance of approximately $2,146. Our principal source of liquidity has been borrowings. Since November 2001, we have funded our operations primarily from borrowings of approximately $600,000. In the fourth quarter of 2001 and the first half of 2002, we issued $240,000 aggregate principal amount of convertible promissory notes (the "9% convertible notes") that mature, in nearly all instances, on June 30, 2003 and bear interest at the rate of 8% per annum prior to June 30, 2002 and 9% per annum thereafter. In

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April 2002, $150,000 aggregate principal amount of 9% convertible notes (and $2,380 accrued interest thereon) was converted by the holders into an aggregate of 1,793,573 shares of our common stock. The remaining 9% convertible notes are convertible at any time and from time to time by the noteholders into a maximum of 1,350,000 shares of our common stock (subject to certain anti-dilution adjustments) if the 9% convertible notes are not in default, or a maximum of 2,700,000 shares of our common stock (subject to certain anti-dilution adjustments) if an event of default has occurred in respect of such notes. The terms of the 9% convertible notes require us to register under the Securities Act of 1933 the shares our common stock issuable upon conversion of the 9% convertible notes not later than June 30, 2003. In July 2002, the holders of $20,000 aggregate principal amount of convertible notes maturing on June 30, 2002 denied our request to extend the maturity until July 30, 2003. The outstanding principal and interest on such convertible notes have not yet been paid and, thus, such convertible notes are currently in default.

The terms of our 9% convertible notes and 8% convertible notes (discussed below) provide generally that, if the convertible notes are not in default, the holders may convert, at any time and from time to time, all or a portion of the outstanding balance under each convertible note into a number of shares (subject to certain anti-dilution adjustments) of our common stock that will allow the noteholder to receive common stock having a market value equal to 150% of the converted balance of the note. To achieve this result, the conversion price of such notes has been initially set at $0.50; provided, that the closing price per share of our common stock as reported on the OTC Bulletin Board on the date of conversion is at least $0.75 per share. If such closing price is less than $0.75 per share, the conversion price shall be proportionately reduced, but in no event to a conversion price that is less than $0.10 per share in the case of 9% convertible notes and $0.25 in the case of 8% convertible notes, to permit the noteholder to receive the number of shares discussed above. If an event of default has occurred in respect of a 9% convertible note, the holder may convert the outstanding balance into a number of shares (subject to certain anti-dilution adjustments) of our common stock equal to twice the number of shares the holder would have otherwise received if the 9% convertible note was not in default.

In the second half of 2002, we issued $165,000 aggregate principal amount of convertible promissory notes (the "8% convertible notes") that mature on either June 30, 2003 or July 30, 2003 and bear interest at the rate of 8% per annum. The 8% convertible notes are convertible at any time and from time to time by the noteholders into a maximum of 990,000 shares of our common stock (subject to certain anti-dilution adjustments). The terms of the 8% convertible notes require us to register under the Securities Act of 1933 the shares of our common stock issuable upon conversion of the 8% convertible notes not later than June 30, 2003.

In the first quarter of 2003, we borrowed an aggregate of $10,000 from Edward T. Whelan, our Chief Executive Officer and Chairman of our Board of Directors. The loan is payable on demand and bears interest at the rate of 10% annum.

In January and March 2003, we issued $15,000 aggregate principal amount of convertible promissory notes that mature on June 30, 2003 and bear interest at 8% per annum. Such notes are

convertible at any time and from time to time by the noteholders into a maximum of 225,000 shares of our common stock (subject to certain anti-dilution adjustments). The terms of such notes require us to register under the Securities Act of 1933 the shares of our common stock issuable upon conversion of such notes not later than June 30, 2003.

In March 2003, we borrowed $100,000 from a single lender. The loan matures on March 26, 2004 and bears interest at 15% per annum. The loan contains contingent payment terms which vary depending on the success of our efforts to raise additional funding.

In February 2003, one of our capital lease obligations in the approximate amount of $35,000, which is secured by equipment with a net book value of $25,363, was accelerated by the lessor due to non-payment. Management has contacted such lessor to negotiate alternative payment arrangements for this obligation. If unsuccessful, the lessor could bring suit to collect payment or foreclose upon the collateral. Any such litigation may hinder our ability to raise or obtain the capital we require or have an adverse impact on the terms upon which we are able to attract or obtain such capital.

Our current cash levels, together with the cash flows we generate from operating activities, are not sufficient to enable us to execute our business strategy. As a result, we intend to seek additional capital through the sale of up to 5,000,000 shares of our common stock. In December 2001, we filed with the Securities and Exchange Commission a registration statement relating to such shares. Such registration statement has not yet been declared effective, and there can be no assurance that the Securities and Exchange Commission will declare such registration statement effective in the near future, if at all. In the interim, we intend to fund our operations based on our cash position and the near term cash flow generated from operations, as well as additional borrowings. In the event we are able to generate sales proceeds of at least $750,000 in our proposed offering, we believe that the net proceeds of such sale, together with anticipated revenues from sales of our products, will satisfy our capital requirements for at least the next 12 months. However, we would require additional capital to realize our strategic plan to expand distribution capabilities and product offerings. These conditions raise substantial doubt about our ability to continue as a going concern. Our actual financial results may differ materially from the stated plan of operations. Our independent auditors have indicated in its report on our 2002 financial statements that our recurring losses from operations and our difficulties in generating sufficient cash flow to meet our obligations and sustain our operations raise substantial doubt about our ability to continue as a going concern. Such qualification may hinder our ability to raise or obtain the capital we require or have an adverse impact on the terms upon which we are able to attract or obtain such capital. In addition, such qualification may adversely impact our ability to attract and maintain new customer accounts.

Assuming that we receive net proceeds of at least $750,000 from our proposed offering, we expect capital expenditures to be approximately $100,000 during the next 12 months, primarily for the acquisition of an inventory control system. It is expected that our principal uses of cash during that period will be to provide working capital, to finance capital expenditures, to

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repay indebtedness and for other general corporate purposes, including sales and marketing and new business development. The amount of spending for any particular purpose is dependent upon the total cash available to us and the success of our offering of common stock.

At March 31, 2003, we had liquid assets of $499,951, consisting of cash and accounts receivable derived from operations, and other current assets of $443,076, consisting primarily of inventory of products for sale and/or distribution and prepaid expenses. Long term assets of $188,139 consisted primarily of warehouse equipment used in operations.

Current liabilities of $2,396,155 at March 31, 2003 consisted primarily of $1,582,737 of accounts payable and accrued expenses and $610,000 for notes payable, of which $240,000 was payable to our officers or our other affiliates.

Our working capital deficit was $1,453,128 as of March 31, 2003 for the reasons described above.

During the three months ended March 31, 2003, we used cash of $105,413 in operating activities primarily as a result of the net loss we incurred during this period.

During the three months ended March 31, 2003, we used net cash of $1,683 in investing activities, all of which was used for capital expenditures.

Financing activities, consisting primarily of proceeds from the issuance of notes payable, provided net cash of $107,170 during the three months ended March 31, 2003.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits. The following exhibits are filed herewith or are incorporated by reference to Exhibits previously filed.

EXHIBIT NO.	DESCRIPTION
99.1	Certification of our Principal Executive Officer, Edward T. Whelan, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of our Principal Financial Officer, Ethan D. Hokit, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in Colorado Springs, Colorado on June 17, 2003.

MILITARY RESALE GROUP, INC.

By: /s/ Ethan D. Hokit

Name: Ethan D. Hokit
Title: President (Principal Accounting Officer and Principal Financial Officer)

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Certification of Principal Executive Officer
Pursuant to 18 U.S.C. 1350
(SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002)

I, Edward T. Whelan, certify that:

1. I have reviewed this Amendment No. 1 to our quarterly report on Form 10-QSB/A of Military Resale Group, Inc.;

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 evaluation, 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

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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.

By: /s/ Edward T. Whelan
Name: Edward T. Whelan

Title: Chief Executive Officer

June 17, 2003

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Certification of Principal Financial Officer
Pursuant to 18 U.S.C. 1350
(SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002)

I, Ethan D. Hokit, certify that:

1. I have reviewed this Amendment No. 1 to our quarterly report on Form 10-QSB/A of Military Resale Group, Inc.;

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 evaluation, 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.

By: /s/ Ethan D. Hokit

Name: Ethan D. Hokit
Title: Chief Financial Officer

June 17, 2003