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MILITARY RESALE GROUP INC  
Form 10KSB/A  
November 05, 2002

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

FORM 10KSB/A  
Amendment No. 1

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

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  
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MILITARY RESALE GROUP, INC.  
(Name of small business issuer in its charter)  
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New York

11-2665282

-----  
(State or other jurisdiction of  
incorporation or organization)

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I.R.S. Employer Identification No.

2180 Executive Circle, Colorado Springs, Colorado

80906

-----  
(Address of principal executive offices)

-----  
(Zip Code)

Issuer's telephone number: (719) 391-4564  
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Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$.0001 par value  
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(Title of Class)

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  No

Check if no disclosure of delinquent filers in response to Item 405 of Regulation S-B is contained in this form, and no disclosure is contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

State registrant's revenues for its most recent fiscal year. \$4,851,433  
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As of March 15, 2002, the registrant had outstanding 7,805,004 shares of its common stock.

As of March 15, 2002, the aggregate market value of the registrant's common

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stock held by non-affiliates was \$1,597,902 (based upon the closing price  
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(\$0.58) of the registrant's common stock on the OTC Bulletin Board on such  
date).

### MILITARY RESALE GROUP, INC. 2001 FORM 10-K/A ANNUAL REPORT

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#### INTRODUCTORY NOTE

We are filing this Form 10-KSB/A in order to amend and restate the information disclosed in Items 6 and 7 of Part I. The principal changes we made were as follows: (i) we revised our statement of operations to recognize additional interest expense relating to the beneficial conversion feature of \$35,000 aggregate principal amount of convertible promissory notes that were issued in the fourth quarter of 2001 and (ii) we revised the manner in which we accounted for the issuance of 875,000 shares of our common stock to certain of our employees and directors in the fourth quarter of 2001. This Form 10-KSB/A does not necessarily reflect events occurring after the filing of the original Form 10-KSB.

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#### PART I

ITEM 6. 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

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"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.

The following discussion should be read in conjunction with the financial statements and related notes appearing elsewhere in this Report.

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 effectiveness of our technologies and 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.

Prior to November 15, 2001, we did not generate any significant 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 ("the Reverse Acquisition"). 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 - YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

Revenue. Total revenue for the year ended December 31, 2001 of \$4,851,433 reflected an increase of \$371,128, or approximately 8.3%, compared to total revenue of \$4,480,305 for the year ended December 31, 2000. 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)

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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 year ended December 31, 2001 of \$4,560,347 reflected an increase of \$528,072, or approximately 13.1%, compared to resale revenue of \$4,032,275 for the year ended December 31, 2000. For the year ended December 31, 2001, approximately 49.1% of our gross profit was derived from sales involving resale revenue compared to approximately 36.9% for the year ended December 31, 2000. These increases were attributable primarily to the addition of the new products we began supplying to commissaries during the fourth quarter of fiscal 2001, including Slimfast, L'eggs, Bush Beans and Rayovac Batteries, and during the first quarter of fiscal 2002, including a line of feminine hygiene products and a line of infant feeding products supplied by Playtex Products, Inc. which we sell on a resale basis, as well as the implementation of our long-term strategy to increase our ratio of 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.

Commission revenues for the year ended December 31, 2001 of \$291,086 reflected a decrease of \$156,944, or approximately 35%, compared to commission revenues of \$448,030 for the year ended December 31, 2000. For the year ended December 31, 2001, approximately 50.9% of our gross profit was derived from sales involving commission revenues as compared to approximately 63.1% for the year ended December 31, 2000. These decreases were attributable primarily to the implementation of our long-term strategy to increase our ratio of sales of products sold on a resale basis, rather than a commission basis. We cannot be certain as to whether or not these trends 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. To do so, we intend to continue to seek 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 March 2002, we entered into an agreement with Playtex Products, Inc. to distribute, on a resale basis, approximately 70 Stock Keeping Units (SKUs) manufactured or supplied by Playtex, including a line of feminine hygiene products and a line of infant feeding products. We have been advised by Playtex, and verified with DeCA, that sales by Playtex in 2001 to the commissaries we currently service amounted to approximately \$350,000. However, there can be no assurance that our annual sales of Playtex products will reach such amount, and the amount of our actual sales of Playtex products may differ materially from the amounts sold by Playtex in 2001 as a result of one or more of the factors described above, among others.

In April 2002, we began distributing products for Pfizer, Inc. under an agreement that provided for the distribution of approximately 114 SKUs of Pfizer products. In June 2002, the agreement was terminated by Pfizer because we were unable to consistently meet our delivery obligations due to our insufficient working capital. During the term of our agreement with Pfizer, we received revenue from the sale of Pfizer products of approximately \$168,000. Management believes the termination of the Pfizer agreement will not have a material adverse impact on our results of operations for fiscal 2002.

In October 2002, we added to our supplier network the Hillshire Farm and

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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.

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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 where 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 year ended December 31, 2001, cost of goods sold increased by \$509,355, or approximately 13.5%, to \$4,279,449 from \$3,770,094 for the year ended December 31, 2000. This increase was attributable primarily to the addition of new products in the 2001 fiscal year that we sell on a resale basis.

**Gross Profit.** Gross profit for the year ended December 31, 2001 decreased by \$138,227, or approximately 19.5%, compared to the year ended December 31, 2000, from \$710,211 for the year ended December 31, 2000 to \$571,984 for the year ended December 31, 2001. This decrease was attributable primarily to an increase in our inventory on hand as of December 31, 2001 compared to December 31, 2000.

**Operating Expenses.** Total operating expenses aggregated approximately \$1,271,223 for the year ended December 31, 2001 as compared to approximately \$711,763 for the year ended December 31, 2000, representing an increase of \$559,460, or approximately 44.0%. The increase in total operating expenses for the 2001 period was attributable primarily to increased professional fees of approximately \$103,000 resulting primarily from the costs of the Reverse Acquisition in November 2001 and the costs of the preparation of the registration statement under the Securities Act of 1933 relating to this offering; increased occupancy expense of approximately \$75,000 resulting from our move to larger office and warehouse facilities in September 2001; increased salary and wages of approximately \$54,000 due primarily to the addition of office and warehouse personnel and, to a lesser extent, increased wages;

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increased general and administrative expenses of \$284,734 due primarily to the issuance of 875,000 shares of our common stock in the fourth quarter as bonus compensation to certain employees and directors for services rendered in 2001; and increased trucking expense of approximately \$42,000 due primarily to the addition of one truck and the renewal of two truck leases at higher rates.

**Interest Expense.** Interest expense of \$46,755 for the year ended December 31, 2001 reflected an increase of \$34,634 as compared to interest expense of \$12,121 for the year ended December 31, 2000. The increase in interest expense was attributable primarily to 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 \$35,000 aggregate principal amount of convertible promissory notes issued in the fourth quarter of 2001.

**Net Loss.** Primarily as a result of the increased expenses discussed above, we incurred a net loss of \$745,994 for the year ended December 31, 2001 as compared to a net loss of \$13,673 for the year ended December 31, 2000.

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### LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2001, we had a zero cash balance. Our principal source of liquidity has been borrowings. Since November 2001, we have funded our operations primarily from borrowings of approximately \$410,000. In the fourth quarter of 2001 and the first and second quarters of 2002, we issued \$260,000 aggregate principal amount of convertible promissory notes (the "9% Convertible Notes") that mature on December 31, 2002 and bear interest at the rate of 8% per annum prior to June 30, 2002 and 9% per annum thereafter. In 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 1,993,573 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 1,153,900 shares of our common stock (subject to certain anti-dilution adjustments) if the 9% Convertible Notes are not in default, or a maximum of 2,307,800 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 December 31, 2002.

In the third quarter of 2002, we issued \$105,000 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 489,667 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 December 31, 2002.

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

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near term cash flow generated from operations, as well as additional borrowings. In the event we sell only a nominal number of shares (i.e. 500,000 shares) 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.

Assuming that we receive a nominal amount of proceeds from our proposed offering of common stock, we expect capital expenditures to be approximately \$200,000 during the next twelve months, primarily for the acquisition of an inventory control system. It is expected that our principal uses of cash will be to provide working capital, to finance capital expenditures, to 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 December 31, 2001, we had liquid assets of \$441,058, consisting of accounts receivable derived from operations, and other current assets of \$279,544, consisting primarily of inventory of products for sale and/or distribution. Long term assets of \$192,411 consisted primarily of warehouse equipment used in operations.

Current liabilities of \$1,369,735 at December 31, 2001 consisted of \$1,047,207 of accounts payable and \$260,522 for the current portion of notes payable, of which approximately \$210,000 was payable to our officers or our other affiliates.

Our working capital deficit was \$649,133 as of December 31, 2001 for the reasons described above.

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We used cash of \$87,386 in operating activities during the year ended December 31, 2001, primarily as a result of the net loss incurred during the periods.

We used net cash of \$123,502 in investing activities during the year ended December 31, 2001, all of which was used for capital expenditures.

Financing activities consisting primarily of short-term borrowings provided net cash of \$211,338 during the year ended December 31, 2001.

### ITEM 7. FINANCIAL STATEMENTS

Our financial statements for the years ended December 31, 2001 and 2000 are attached and included as a part of this report.

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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,

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Colorado, on November 4, 2002

MILITARY RESALE GROUP, INC.

By: /s/Ethan D. Hokit

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Ethan D. Hokit  
President and Chief Operating Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates stated: