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MILITARY RESALE GROUP INC
Form 10QSB/A
September 16, 2002

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

Form 10-QSB/A
Amendment No. 1

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2002
- 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 Identification No.)

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 No

As of June 30, 2002, there were 9,672,127 shares of the issuer's common stock outstanding.

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

MILITARY RESALE GROUP, INC.

FORM 10-QSB/A
AMENDMENT NO. 1

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ITEM 1. FINANCIAL INFORMATION

MILITARY RESALE GROUP, INC. Balance Sheets (Unaudited)

| ASSETS | June 30, 2002 | December 31, 2001 |
|-----------------------------------|------------------|----------------------|
| | ----- | ----- |
| Current Assets | | |
| Cash | \$ 6,079 | \$ -- |
| Accounts receivable - trade | 522,997 | 441,058 |
| Prepays | 3,714 | 6,708 |
| Inventory | 309,435 | 252,430 |
| Deposits | 23,218 | 20,406 |
| | ----- | ----- |
| Total Currents Assets | 865,443 | 720,602 |
| | ----- | ----- |
| Fixed Assets: | | |
| Office equipment | 2,741 | 9,121 |
| Warehouse equipment | 205,044 | 203,132 |
| Vehicles | 64,366 | 64,366 |

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| | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| Leasehold improvements | 2,440 | 2,440 |
| Software | 15,609 | 15,609 |
| | ----- | ----- |
| | 290,200 | 294,668 |
| Less accumulated depreciation | (123,510) | (102,257) |
| | ----- | ----- |
| Net Fixed Assets | 166,690 | 192,411 |
| | ----- | ----- |
| TOTAL ASSETS | \$1,032,133 | \$ 913,013 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable - trade | \$1,108,770 | \$1,047,207 |
| Accrued expenses | 47,221 | -- |
| Accrued interest payable | 32,370 | 25,657 |
| Bank overdraft | -- | 1,349 |
| Capitalized leases/Notes payable - current portion..... | 339,755 | 260,522 |
| | ----- | ----- |
| Total Current Liabilities | 1,528,116 | 1,334,735 |
| | ----- | ----- |
| Long-term debt | | |
| Notes payable | 91,121 | 91,121 |
| | ----- | ----- |
| Total Long-term debt | 91,121 | 91,121 |
| | ----- | ----- |
| Total Liabilities | 1,619,237 | 1,425,856 |
| | ----- | ----- |
| Stockholders' Equity | | |
| Common stock, par value \$.001, 60,000,000 shares authorized: 9,672,127 and 7,505,004 issued and outstanding at June 30, 2002 and December 31, 2001, respectively | 967 | 750 |
| Additional paid-in capital | 733,262 | 162,150 |
| Retained deficit | (1,321,333) | (675,743) |
| | ----- | ----- |
| Total Stockholders' Equity | (587,104) | (512,843) |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY ... | \$1,032,133 | \$ 913,013 |
| | ===== | ===== |

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| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---------------------------------------------------------------|----------------------------------------|-------------|--------------------------------------|-----------|
| | 2002 | 2001 | 2002 | 2001 |
| REVENUES: | | | | |
| Gross Sales | \$1,657,440 | \$1,048,393 | \$3,015,024 | \$2,073,3 |
| Commission sales - net | 64,472 | 116,489 | 124,146 | 181,9 |
| Total Revenues | 1,721,912 | 1,164,882 | 3,139,170 | 2,255,2 |
| COST OF GOODS SOLD: | | | | |
| | 1,457,701 | 997,140 | 2,696,622 | 1,968,5 |
| GROSS PROFIT | 264,211 | 167,742 | 442,548 | 286,7 |
| EXPENSES: | | | | |
| Salary and payroll taxes | 125,797 | 106,713 | 215,962 | 207,2 |
| Professional fees | 107,446 | 3,438 | 200,446 | 11,2 |
| Occupancy | 55,263 | 23,455 | 110,525 | 49,7 |
| General and administrative | 74,439 | 35,654 | 162,084 | 81,8 |
| Amortization/depreciation | 10,626 | 8,760 | 21,253 | 17,5 |
| Lease and auto/truck expense | 21,910 | 25,555 | 46,318 | 51,1 |
| Total Operating Expenses | 395,481 | 203,575 | 756,588 | 418,7 |
| OTHER REVENUES & EXPENSES: | | | | |
| Interest expense | (325,422) | (986) | (331,592) | (2,2 |
| Interest income | 42 | -- | 42 | |
| Total Other Revenues & Expenses | (325,380) | (986) | (331,550) | (2,2 |
| NET LOSS | \$ (456,650) | \$ (36,819) | \$ (645,590) | \$ (134,2 |
| Per share information | | | | |
| Weighted average number of common shares outstanding | 8,949,752 | 5,360,000 | 8,327,378 | 5,360,0 |
| Net Loss per common share | \$ (0.05) | \$ (0.01) | \$ (0.08) | \$ (0. |

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(Unaudited)

| | Common Stock | | Additional Paid-In Capital | Retaine Deficit |
|-------------------------------------------|--------------|--------|----------------------------------|--------------------|
| | Shares | Amount | | |
| Balance - October 6, 1997 | -- | \$ -- | \$ -- | \$ |
| Issuance of common stock for cash | 800,000 | 80 | 120 | |
| Net loss | -- | -- | -- | (6,7 |
| Balance - December 31, 1997 | 800,000 | 80 | 120 | (6,7 |
| Issuance of common stock for cash | 40,000 | 4 | 14,996 | |
| Issuance of common stock for services .. | 3,000,000 | 300 | (300) | |
| Net loss | -- | -- | -- | (43,3 |
| Balance - December 31, 1998 | 3,840,000 | 384 | 14,816 | (50,1 |
| Issuance of common stock for cash | 1,520,000 | 152 | 134,848 | |
| Net loss | -- | -- | -- | (145,9 |
| Balance - December 31, 1999 | 5,360,000 | 536 | 149,664 | (196,0 |
| Net loss | -- | -- | -- | (13,6 |
| Balance - December 31, 2000 | 5,360,000 | 536 | 149,664 | (209,7 |
| Stock issued for services | 875,000 | 87 | 8,663 | |
| Stock issued for subsidiary | 1,270,004 | 127 | 3,823 | |
| Net loss | -- | -- | -- | (465,9 |
| Balance - December 31, 2001 | 7,505,004 | 750 | 162,150 | (675,7 |
| Stock issued for services | 300,000 | 30 | 92,970 | |
| Stock issued for services | 73,550 | 7 | 11,993 | |
| Stock issued in lieu of debt and interest | 1,793,573 | 180 | 466,149 | |
| Net loss | -- | -- | -- | (645,5 |
| Balance - June 30, 2002 | 9,672,127 | \$ 967 | \$ 733,262 | \$ (1,321,3 |

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MILITARY RESALE GROUP, INC.
 Statements of Cash Flows
 (Unaudited)

| | For the Six Months Ended June 30, | |
|--------------------------------------------------------------------------------|--------------------------------------|--------------|
| | 2002 | 2001 |
| Cash Flows from Operating Activities: | | |
| Net Loss | \$ (645,590) | \$ (134,241) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 21,252 | 17,520 |
| Stock issued for services | 105,000 | -- |
| Stock issued in lieu of debt | 150,000 | -- |
| Stock issued for interest | 316,329 | -- |
| Loss on disposal of equipment | 6,380 | -- |
| Changes in assets and liabilities: | | |
| (Increase) Decrease in accounts receivable . | (81,939) | 26,042 |
| Decrease (Increase) in prepaids | 2,994 | (452) |
| Increase (Decrease) in deposits | (2,812) | -- |
| (Increase) Decrease in inventory | (57,005) | (51,974) |
| Increase in accounts payable | 61,563 | 163,116 |
| Increase (Decrease) in accrued expenses | 53,934 | 7,200 |
| Net Cash Used in Operating Activities | (69,894) | 27,211 |
| Cash Flows from Investing Activities | | |
| Capital expenditures | (1,912) | -- |
| Cash Flows Used in Investing Activities | (1,912) | -- |
| Cash Flows from Financing Activities: | | |
| Bank overdraft | (1,349) | (21,094) |
| Proceeds from sale of stock | -- | -- |
| Proceeds (payments) from notes payable - net | 79,234 | (6,117) |
| Cash Flows Provided by Financing Activities . | 77,885 | (27,211) |
| Net Increase (Decrease) in cash and cash equivalents | 6,079 | -- |
| Cash and cash equivalents - beginning of period | -- | -- |
| Cash and cash equivalents - end of period .. | \$ 6,079 | \$ -- |
| Supplemental information: | | |
| Cash paid for interest | \$ 6,170 | \$ -- |
| Cash paid for income taxes | \$ -- | \$ -- |

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Non-cash investing and financing activities:

| | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|----------------|
| Issuance of stock in exchange for cancellation of indebtedness of \$150,000 and interest expense o \$316,329 on convertible notes | \$ 466,329 ===== | \$ -- ===== |
|--------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|----------------|

See accountant's review report.

NOTE 1-GENERAL

On October 15, 2001, our Company, formerly known as Bactrol Technologies, Inc., and Military Resale Group, Inc., a Maryland corporation that was formed on October 6, 1997 ("MRG-Maryland"), executed a Stock Purchase Agreement pursuant to which, on November 15, 2001, 98.2% of MRG's stock was effectively exchanged for a controlling interest in a publicly held "shell" corporation (the "Reverse Acquisition") that concurrently changed its name to Military Resale Group, Inc. This transaction is commonly referred to as a "reverse acquisition." For financial accounting purposes, this transaction has been treated as the issuance of stock for our net monetary assets, accompanied by a recapitalization of MRG-Maryland with no goodwill or other intangible assets recorded. For financial reporting purposes, MRG-Maryland was considered the acquirer, and therefore, the historical operating results of Bactrol Technologies, Inc. are not presented.

NOTE 2 - BASIS OF PRESENTATION

In the opinion of our management, the accompanying unaudited condensed financial statements include all normal adjustments considered necessary to present fairly our financial position as of June 30, 2002, and results of operations and cash flows for the three months ended June 30, 2002 and 2001. Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements and notes are presented as permitted by Form 10-QSB, and do not contain certain information included in our audited financial statements and notes for the fiscal year ended December 31, 2001.

NOTE 3 - INVENTORY

Inventory of as June 30, 2002 consisted of the following:

| | |
|----------------|------------------------------------------|
| Finished Goods | \$309,435 ----- \$309,435 ===== |
|----------------|------------------------------------------|

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

GENERAL

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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.

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

OVERVIEW

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, the date of the Reverse Acquisition, we acquired 98.2% of the issued and outstanding capital stock of 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.

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RESULTS OF OPERATIONS - THREE MONTHS ENDED JUNE 30, 2002 COMPARED TO THREE MONTHS ENDED JUNE 30, 2001

REVENUES. Total revenue for the three months ended June 30, 2002 of \$1,721,912 reflected an increase of \$557,030, or approximately 47.8%, compared to total revenue of \$1,164,882 for the three months ended June 30, 2001. 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

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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 June 30, 2002 of \$1,657,440 reflected an increase of \$609,049, or approximately 58.1%, compared to resale revenue of \$1,048,393 for the three months ended June 30, 2001. For the three months ended June 30, 2002, approximately 75.6% of our gross profit was derived from sales involving resale revenue compared to 30.6% for the three months ended June 30, 2001. 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 revenue for the three months ended June 30, 2002 of \$64,472 reflected a decrease of \$52,017, or approximately 44.7%, compared to commission revenue of \$116,489 for the three months ended June 30, 2001. For the three months ended June 30, 2002, approximately 24.4% of our gross profit was derived from sale involving commission revenue compared to approximately 69.4% for the three months ended June 30, 2001. 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

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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 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.

Management believes our long-term success will be dependent in large part

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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 increased 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 three months ended June 30, 2002, cost of goods sold increased by \$460,561, or approximately 46.2%, to \$1,457,701 from \$997,140 for the three months ended June 30, 2001. This increase was attributable primarily to the addition of new products that we sell 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 June 30, 2002 increased by \$96,469, or approximately 57.5%, compared to the three months ended June 30, 2001, from \$167,742 for the three months ended June 30, 2001 to \$264,211 for the three months ended June 30, 2002. This increase was attributable primarily to the addition of new products that we purchase for resale to the commissaries we service.

OPERATING EXPENSES. Total operating expenses aggregated \$395,481 for the three months ended June 30, 2002 as compared to \$203,575 for the three months ended June 30, 2001, representing an increase of \$191,906, or approximately 95.3%. The increase in total operating expenses for the three month period ended June 30, 2002 was attributable primarily to increased

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professional fees of \$104,008 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 occupancy expense of \$31,808 resulting from our move to larger office and warehouse facilities in September 2001; and increased general and administrative expenses of \$38,785 resulting primarily from increased premiums on health and workers' compensation insurance.

INTEREST EXPENSE. Interest expense of \$325,422 for the three months ended June 30, 2002 reflected an increase of \$324,436 as compared to interest expense of \$986 for the three months ended June 30, 2001. The increase in interest expense was attributable primarily to interest expense of \$316,329 resulting from the debt-to-equity conversion of \$150,000 aggregate principal amount of convertible promissory notes in the second quarter of 2002, which amount represented the difference between the fair market value of the conversion shares at the time of conversion and the aggregate principal amount of such notes.

NET LOSS. For the reasons discussed above, we incurred a net loss of \$456,650 for the three months ended June 30, 2002 as compared to a net loss of

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\$36,819 for the three months ended June 30, 2001.

SIX MONTHS ENDED JUNE 30, 2002 COMPARED TO SIX MONTHS ENDED JUNE 30, 2001

REVENUE. Total revenue for the six months ended June 30, 2002 of \$3,139,170 reflected an increase of \$883,881, or approximately 39.2%, compared to total revenue of \$2,255,289 for the year ended June 30, 2001. Resale revenue for the six months ended June 30, 2001 of \$3,015,024 reflected an increase of \$941,648, or approximately 45.4%, compared to resale revenue of \$2,073,376 for the six months ended June 30, 2001. For the six months ended June 30, 2002, approximately 71.9% of our gross profit was derived from sales involving resale revenue compared to approximately 36.6% for the six months ended June 30, 2001. These increases were attributable primarily to the addition of the new products we began offering during the 2001 period, as discussed above, as well as the implementation of our long term strategy to increase the ratio of sales on a resale basis rather than a commission basis.

Commission revenues for the six months ended June 30, 2002 of \$124,146 reflected a decrease of \$57,767, or approximately 31.8%, compared to commission revenues of \$181,913 for the six months ended June 30, 2001. For the six months ended June 30, 2002, approximately 28.1% of our gross profit was derived from sales involving commission revenues as compared to approximately 63.4% for the six months ended June 30, 2001.

COST OF GOODS SOLD. During the six months ended June 30, 2002, cost of goods sold increased by approximately \$728,064, or approximately 37.0%, to \$2,696,622 from \$1,968,558 for the six months ended June 30, 2001. This increase was attributable primarily to the addition of new products that we sell on a resale basis.

GROSS PROFIT. Gross profit for the six months ended June 30, 2002 increased by approximately \$155,817, or approximately 54.3%, compared to the six months ended June 30,

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2001, from \$286,731 for the six months ended June 30, 2001 to \$442,548 for the six months ended June 30, 2002. This increase was attributable primarily to addition of new products that we purchase for resale to commissaries we service.

OPERATING EXPENSES. Total operating expenses aggregated approximately \$756,588 for the six months ended June 30, 2002 as compared to approximately \$418,721 for the six months ended June 30, 2001, representing an increase of \$337,867, or approximately 80.7%. The increase in total operating expenses was attributable primarily to increased professional fees of approximately \$189,238 resulting primarily from the costs of the preparation of the registration statement under the Securities Act of 1933 relating to a proposed offering of equity securities; increased occupancy expense of \$60,757 resulting from our move to larger office and warehouse facilities in September 2001; and increased general and administrative expenses of \$80,259 resulting primarily from increased premiums on health workers' compensation insurance.

INTEREST EXPENSE. Interest expense of \$331,592 for the six months ended June 30, 2002 reflected an increase of \$329,271 as compared to interest expense of \$2,251 for the six months ended June 30, 2001. The increase in interest expense was attributable primarily to interest expense of \$316,329 resulting from the debt-to-equity conversion of \$150,000 aggregate principal amount of convertible promissory notes in the second quarter of 2002, which amount represented the difference between the fair market value of the conversion shares at the time of conversion and the aggregate principal amount of such

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notes.

NET LOSS. Primarily as a result of the increased expenses and cost of goods sold discussed above, we incurred a net loss of \$645,590 for the six months ended June 30, 2002 as compared to a net loss of \$134,241 for the six months ended June 30, 2001.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2002, we had a cash balance of approximately \$6,000. 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 quarter 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.

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In August 2002, we issued \$100,000 aggregate principal amount of convertible promissory notes (the "8% Convertible Notes") that mature on June 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 400,000 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 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 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

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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 June 30, 2002, we had liquid assets of \$529,076, consisting of cash and accounts receivable derived from operations, and other current assets of \$336,367, consisting primarily of inventory of products for sale and/or distribution. Long term assets of \$166,690 consisted primarily of warehouse equipment used in operations.

Current liabilities of \$1,528,116 at June 30, 2002 consisted of approximately \$1,108,770 of accounts payable and \$339,755 for the current portion of capitalized leases and notes payable, of which approximately \$210,000 was payable to our officers or our other affiliates.

Our working capital deficit was \$662,673 as of June 30, 2002 for the reasons described above.

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During the six months ended June 30, 2002, we used cash of \$69,894 in operating activities primarily as a result of the net loss incurred during those period.

During the six months ended June 30, 2002, we used net cash of \$1,912 in investing activities, all of which was used for capital expenditures.

Financing activities, consisting primarily of short-term borrowings, provided net cash of \$77,885 during the six months ended June 30, 2002. Subsequent to June 30, 2002, we borrowed an additional \$100,000 from affiliates pursuant to the issuance of 8% Convertible Notes.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On October 31, 2001 an action captioned WAREHOUSE, LTD V. MILITARY RESALE GROUP, INC., Civil Action No. 01CV3230 was commenced against us and Ethan Hokit, our President and one of our directors, in the District Court, El Paso County, Colorado. In such action, the plaintiff, our former landlord, is seeking damages for an alleged breach of the terms of several lease agreements for office and warehouse space we occupied in Colorado Springs, Colorado. In its complaint, the plaintiff seeks judgment in the aggregate amount of \$122,632.29 for rent, restoration of the premises and other charges plus an undisclosed amount for late charges, litigation costs, costs of re-leasing the premises, reasonable attorneys' fees and interest. We filed an answer to the plaintiff's complaint in which we asserted affirmative defenses and made counterclaims against the plaintiff. Although this lawsuit is in its preliminary stages and the full amount of the plaintiff's claim has not been asserted, we believe the potential dollar amount of such claims will not have a material adverse effect

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on our overall operations. We intend to defend such lawsuit and pursue our counterclaims vigorously.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(a) None.

(b) None.

(c) In April 2002, we issued an aggregate of 1,993,573 restricted shares of our common stock to two holders of our convertible promissory notes in connection with the conversion of \$150,000 aggregate principal amount of such notes plus \$2,380 of accrued interest thereon into shares of our common stock in accordance with the terms thereof. Such shares were issued by us in reliance upon the exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933, as amended.

In May 2002, we issued 36,775 shares of our common stock to each of Edward Meyer and Edward Whelan, our Chairman of the Board and Chief Executive Officer, pursuant to the terms of a Consulting Agreement between the Company and such persons. Such shares were issued by us in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, on the basis that such issuance did not involve a public offering, no underwriter fees or commissions were paid by us in connection with such issuance and such persons were 'accredited investors' as defined in Regulation D under the Securities Act of 1933, as amended.

In July 2002, we issued options to purchase an aggregate of 300,000 shares of our common stock to consultants for services rendered. Such options are one-year options that have an exercise price of \$0.50 per share and expire on July 1, 2003. Such options were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of

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1933, as amended, on the basis that such issuance did not involve a public offering, no underwriter fees or commissions were paid in connection with such issuance and such persons were 'accredited investors' as defined in Regulation D under the Securities Act of 1933, as amended.

In August 2002, we issued 619,540 shares of our common stock to consultants for services performed for the Company. Such shares were issued by us in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, on the basis that such issuance did not involve a public offering, no underwriter fees or commissions were paid by us in connection with such issuance and such persons were 'accredited investors' as defined in Regulation D under the Securities Act of 1933, as amended.

In August 2002, we issued an aggregate of \$100,000 principal amount of convertible promissory notes to two affiliates of the Company. Such notes are convertible into a maximum of 436,000 shares of our common stock at the option of the noteholders at any time. Such notes were issued by us in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, on the basis that such issuance did not involve a public offering, no underwriter fees or commissions were paid by us in connection with such issuance and such persons were 'accredited investors' as defined in Regulation D under the Securities Act of 1933, as amended.

(d) None.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

EXHIBIT
NUMBER

DESCRIPTION

(a) Exhibits.

10.1 8% Convertible Promissory Note dated August 7, 2002 from the Company to Atlantic Investment Trust in the principal amount of \$50,000.

10.2 8% Convertible Promissory Note dated August 7, 2002 from the Company to Eastern Investment Trust in the principal amount of \$50,000.

(b) None.

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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 September 11, 2002.

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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