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

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

Form 10-KSB/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, 2002
- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT 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)

New York 11-2665282

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

2180 Executive Circle, Colorado Springs, Colorado 8

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

Issuer's telephone number: (719) 391-4564

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 [X] 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. [ ]

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State registrant's revenues for its most recent fiscal year. \$6,359,803  
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As of March 31, 2003, the registrant had outstanding 11,975,804 shares of its common stock.

As of March 31, 2003, the aggregate market value of the registrant's common stock held by non-affiliates was \$2,874,192.96 (based upon the closing price (\$0.24) of the registrant's common stock on The OTC Bulletin Board on such date).

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

MILITARY RESALE GROUP, INC.  
FORM 10-KSB/A  
AMENDMENT NO. 1 TO 2002 ANNUAL REPORT

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## INTRODUCTORY NOTE

We are filing this Form 10-KSB/A in order to amend our disclosure of information in Items 5, 6, 7, 9 and 11 of our Annual Report on Form 10-KSB filed with the Commission on May 2, 2003. The principal changes we made were as follows: (i) we added disclosure in Item 5 regarding sales of unregistered securities during 2001 and 2002 which were not disclosed in our Form 10-KSB, (ii) we added disclosure in Item 6 regarding two supplier contracts and the acceleration of certain capital lease obligations, (iii) we added disclosure in Item 9 regarding Section 16(a) beneficial ownership reporting compliance and (iv) we revised the beneficial ownership table in Item 11 to conform to the disclosures made in recent filings with the Commission by certain beneficial owners on Forms 3 and 4. 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 II

### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS.

#### RECENT SALES OF UNREGISTERED SECURITIES

2000       None.

2001

On August 1, 2001, Military Resale Group, Inc., a Maryland corporation ("MRG-Maryland"), issued options to purchase 1,000,000 shares of its common stock to Ronald Steenbergen, a consultant. In connection with our purchase of 98.2% of the outstanding capital stock of MRG-Maryland in a reverse acquisition (the "Reverse Acquisition"), we assumed the obligations under the option. Such options were exercisable for one year at an exercise price of \$0.50 per share and expired in August 2002 without having been exercised. Such options were issued 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 in connection with such issuance and such person was an 'accredited investor' as defined in Regulation D under the Securities Act of 1933, as amended.

In November 2001, we issued an aggregate of 5,410,000 shares of our common stock to the eleven stockholders of MRG- Maryland in connection with the Reverse Acquisition. Such shares were issued in reliance on 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 in connection with such issuance and such persons represented to us that they were 'accredited investors' as defined in Regulation D under the Securities Act of 1933, as amended.

In December 2001, we issued an aggregate of 875,000 shares of our common stock to an aggregate of 13 of our employees and directors as bonus compensation for services rendered in 2001. As no additional consideration was paid to the Company by the recipients of such shares, such issuances were not "offers" or "sales" as defined in the Securities Act of 1933, as amended, nor subject to the registration requirements of the Securities Act of 1933, as amended.

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In December 2001, we issued \$35,000 aggregate principal amount of convertible notes to two purchasers. Such notes are convertible at any time and from time to time by the noteholders into a maximum of 525,000 shares of our common stock (subject to certain anti-dilution adjustments) if such convertible notes are not in default, or a maximum of 1,050,000 shares of our common stock (subject to certain anti-dilution adjustments) if an event of default has occurred in respect of such convertible notes. The terms of such convertible notes require us to register under the Securities Act of 1933 the shares our common stock issuable upon conversion of such convertible notes not later than June 30, 2003. Such notes were issued 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 in connection with such issuance and such persons were 'accredited investors' as defined in Regulation D under the Securities Act of 1933, as amended.

2002

In the first six months of 2002, we issued \$205,000 aggregate principal amount of convertible notes to nine purchasers. At the time of issuance, such notes were convertible at any time and from time to time by the noteholders into a maximum of 3,075,000 shares of our common stock (subject to certain anti-dilution adjustments) if such convertible notes are not in default, or a maximum of 6,150,000 shares of our common stock (subject to certain anti-dilution adjustments) if an event of default has occurred in respect of such convertible notes. The terms of such convertible notes require us to register under the Securities Act of 1933 the shares our common stock issuable upon conversion of such convertible notes not later than June 30, 2003. Such notes were issued in reliance upon the

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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 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 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. 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. Such shares were issued 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 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

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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 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 75,000 shares of our common stock to a consultant for services rendered. Such shares were issued 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 in connection with such issuance and such person was an 'accredited investor' as defined in Regulation D under the Securities Act of 1933, as amended.

In August 2002, we issued an aggregate of 619,540 shares of our common stock to five consultants for services rendered. Such shares were issued 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 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 the second half of 2002, we issued \$165,000 aggregate principal amount of convertible promissory notes that mature on either June 30, 2003 or July 30, 2003 and bear interest at the rate of 8% per annum. Such 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 such notes require us to register under the Securities Act of 1933 the shares of our common stock issuable upon conversion of the notes not later than June 30, 2003. Such notes were issued 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 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 September 2002, we issued 95,861 shares of our common stock to each of Edward Meyer and Edward Whelan, our Chairman of the Board and Chief Executive Officer (or their designees), pursuant to the terms of a consulting agreement. Such shares were issued 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 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 October 2002, we issued an aggregate of 250,000 shares of our common stock to a consultant for services rendered. In connection with such issuance, we granted "piggy-back" registration rights to the consultant. Such shares were issued 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 in connection with such issuance and such person was an 'accredited investor' as defined in Regulation D under the Securities Act of 1933, as amended. The consulting agreement provides that we will issue additional shares of our common stock upon the consultant's achievement of certain performance goals.

In November 2002, we issued an aggregate of 300,000 shares of our common stock to a consultant for services rendered. In connection with such issuance, we granted "piggy-back" registration rights to the consultant. Such shares were issued 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

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issuance did not involve a public offering, no underwriter fees or commissions were paid in connection with such issuance and such person was an 'accredited investor' as defined in Regulation D under the Securities Act of 1933, as amended.

In November 2002, we granted one of our lenders a five-year option to purchase 500,000 shares of our common stock at an exercise price of \$0.50 per share in consideration of the lender's willingness to extend the term of its loan to the Company for an additional six months. Such options were issued 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 in connection with such issuance and such person was an 'accredited investor' as defined in Regulation D under the Securities Act of 1933, as amended.

In January 2003, we issued 96,207 shares of our common stock to each of Edward Meyer and Edward Whelan, our Chairman of the Board and Chief Executive Officer (or their designees), pursuant to the terms of a consulting agreement. Such shares were issued 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 in connection with such issuance and such persons were 'accredited investors' as defined in Regulation D under the Securities Act of 1933, as amended.

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### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

#### OVERVIEW

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

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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 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. 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, 2002 COMPARED TO YEAR ENDED DECEMBER 31, 2001

Revenues. Total revenue for the year ended December 31, 2002 of \$6,359,803 reflected an increase of \$1,508,370, or approximately 31.1%, compared to total revenue of \$4,851,433 for the year ended December 31, 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 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 year ended December 31, 2002 of \$6,015,406 reflected an increase of \$1,455,059, or approximately 32.0%, compared to resale revenue of \$4,560,347 for the year ended December 31, 2001. For the year

ended December 31, 2002, approximately 61.2% of our gross profit was derived from sales involving resale revenue compared to approximately 49.1% for the year ended December 31, 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 fiscal 2002, including Hillshire Farm and Kahn's product groups of Sara Lee Foods-USA, that we sell on a resale basis. In addition, during the year ended December 31, 2002, we implemented our long-term strategy to increase the ratio of our sales of products we sell on a resale

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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, 2002 of \$344,397 reflected an increase of \$53,311, or approximately 18.3%, compared to commission revenues of \$291,086 for the year ended December 31, 2001. For the year ended December 31, 2002, approximately 38.8% of our gross profit was derived from sales involving commission revenues as compared to approximately 50.9% for the year ended December 31, 2001. These decreases were attributable primarily to the implementation of our long-term strategy to increase the ratio of our 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 the third quarter of 2002, Playtex Products, Inc. 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. For the year ended December 31, 2002, approximately \$38,000 of our total revenues was derived from the sale of Playtex products.

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 did 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 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



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products may differ materially from the amounts sold by Sara Lee Foods-USA and Chattem, respectively, in 2001. Pursuant to our agreements with Chattem, Inc. and Sara Lee Foods-USA, we purchase products for resale to commissaries. 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.

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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 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 year ended December 31, 2002, cost of goods sold increased by approximately \$1,192,397, or approximately 27.9%, to \$5,471,846 from \$4,279,449 for the year ended December 31, 2001. 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 year ended December 31, 2002 increased by approximately \$315,973, or approximately 55.2%, compared to the year ended December 31, 2001, from \$571,984 for the year ended December 31, 2001 to \$887,957 for the year ended December 31, 2002. This increase was attributable primarily to addition of new products that we purchased for resale to the commissaries we service.

Operating Expenses. Total operating expenses aggregated \$2,703,864 for the year ended December 31, 2002 as compared to \$1,271,223 for the year ended December 31, 2001, representing an increase of \$1,432,641, or approximately 113%. The increase in total operating expenses was attributable primarily to increased professional fees of approximately \$348,221 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 \$460,761 resulting primarily from the issuance of shares of our common stock and options to purchase shares of our common stock to our consultants; increased occupancy expense of \$146,734 resulting from our move to larger office and warehouse facilities in September 2001; and increased general and administrative expenses of \$386,263 resulting primarily from increased truck rental expense and increased premiums on health workers' compensation insurance.

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Interest Expense. Interest expense of \$477,059 for the year ended December 31, 2002 reflected an increase of \$430,304 as compared to interest expense of \$46,755 for the year ended December 31, 2001. 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 \$370,000 aggregate principal amount of convertible promissory notes issued in the year ended December 31, 2002.

Net Loss. Primarily as a result of the increased operating and interest expenses discussed above, we incurred a net loss of \$2,319,221 for the year ended December 31, 2002 as compared to a net loss of \$745,994 for the year ended December 31, 2001.

### Liquidity and Capital Resources

At December 31, 2002, we had a cash balance of approximately \$2,100. Our principal source of liquidity has been borrowings. Since November 2001, we have funded our operations primarily from borrowings of approximately \$475,000. 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 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

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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. We intend to repay the outstanding principal and interest on such convertible notes using cash flow generated from operations and, if necessary, through additional borrowings. Management believes that our default under such convertible notes will not have a material impact on our liquidity position, nor will it materially alter our use of capital resources.

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

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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 or \$0.25 per share 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 such 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

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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 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, 2002, we had liquid assets of \$430,109, consisting of cash and accounts receivable derived from operations, and other current assets of \$501,142, consisting primarily of inventory of products for sale and/or distribution and prepaid expenses. Long term assets of \$110,146 consisted primarily of warehouse equipment used in operations.

Current liabilities of \$2,155,241 at December 31, 2002 consisted primarily of \$1,470,776 of accounts payable and accrued expenses and \$485,000 for notes payable, of which \$230,000 was payable to our officers or our other affiliates.

Our working capital deficit was \$1,223,990 as of December 31, 2002 for the reasons described above.

During the year ended December 31, 2002, we used cash of \$395,231 in operating activities primarily as a result of the net loss we incurred during this period.

During the year ended December 31, 2002, we used net cash of \$2,580 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 \$399,883 during the year ended December 31, 2002.

### ITEM 7. FINANCIAL STATEMENTS.

The revised report of Michael Johnson & Co., LLC, our independent auditors for the year ended December 31, 2001, on page F-2 attached hereto is incorporated herein by reference thereto.

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTIONS 16(A) OF THE EXCHANGE ACT.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our officers, directors and persons who beneficially own more than 10 percent of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than 10 percent shareholders are required by the Securities and Exchange Commission to furnish us with copies of all Section 16(a) forms they file.

Based solely upon our review of the copies of such forms furnished to us during the year ended December 31, 2002, and representations made by certain persons subject to this obligation that such filings were not required to be made, we believe that all reports required to be filed by these individuals and persons under Section 16(a) were filed in a timely manner, other than reports by the following persons:

- o Edward T. Whelan, one of our directors and a beneficial owner of more than 10% of our outstanding shares of common stock, failed to file (i) an Initial Statement of Beneficial Ownership of Securities on Form 3 (a "Form 3") upon his acquisition of shares, individually and as a principal stockholder of Xcel Associates, Inc. ("Xcel") and Shannon Investments, Inc., which are shareholders of the Company, in connection with our reverse acquisition of Military Resale Group, Inc., a Maryland corporation ("MRG-Maryland"), in November 2001 and (ii) a Statement of Changes in Beneficial Ownership on Form 4 (a "Form 4") upon several subsequent transactions, including his acquisition of compensatory shares in December 2001, his acquisition of shares during 2002 pursuant to consulting agreements and executive compensation arrangements with the Company, the acquisition of shares by Grace Holdings, Inc., a company controlled by Mr. Whelan ("Grace"), during 2002, and the disposition of shares pursuant to gifts by Xcel and Mr. Whelan in 2002.
- o Edward Meyer, a beneficial owner of more than 10% of our outstanding shares of common stock, failed to file (i) a Form 3 upon the acquisition of shares, individually and as a principal stockholder of Xcel in connection with our reverse acquisition of MRG- Maryland in November 2001 and (ii) a Form 4 upon several subsequent transactions, including his acquisition of shares during 2002 pursuant to a consulting agreement with the Company, the disposition of shares pursuant to gifts by Xcel in 2002 and the acquisition of shares pursuant to a gift in 2002.
- o Richard Tanenbaum, one of our directors and a beneficial owner of more than 10% of our outstanding shares of common stock, failed to file (i) a Form 3 upon the acquisition of shares in connection with our reverse acquisition of MRG-Maryland in November 2001 and (ii) a Form 4 upon the acquisition of shares pursuant to a gift in 2002, the acquisition of shares during 2002 by several trusts of which Mr. Tanenbaum serves as trustee and the receipt by such trusts of convertible promissory notes issued by the Company during 2002 which are convertible into shares of our common stock.

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- o Ethan Hokit, one of our directors, failed to file (i) a Form 3 upon the acquisition of shares in connection with our reverse acquisition of MRG-Maryland in November 2001 and (ii) a Form 4 upon his acquisition of compensatory shares in December 2001.
- o Atlantic Investment Trust, a beneficial owner of more than 10% of our outstanding shares of common stock, failed to file (i) a Form 3 upon the acquisition of shares during 2002 by it and Grace, its wholly-owned subsidiary, pursuant to gifts and (ii) a Form 4 upon several subsequent transactions, including the receipt of convertible promissory notes issued by the Company during 2002 which are convertible into shares of our common stock and the acquisition of shares by Grace during 2002.

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Except as disclosed, we are not aware of any transactions in our outstanding securities by or on behalf of any director, executive officer or 10 percent holder, which would require the filing of any report pursuant to Section 16(a) during the year ended December 31, 2002 that has not been filed with the Securities and Exchange Commission.

### Item 11. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth as of March 31, 2003 certain information regarding the beneficial ownership of our common stock by (a) each person who is known to us to be the beneficial owner of more than five percent (5%) of our common stock, (b) each director and executive officer and (c) all directors and executive officers as a group. Except as otherwise indicated, the persons or entities listed below have sole voting and investment power with respect to all shares of common stock beneficially owned by them, except to the extent such power may be shared with a spouse.

Name and Address -----	Shares of Common	
	Amount	%
Richard H. Tanenbaum ..... 7315 Wisconsin Avenue Suite 775N Bethesda, MD 20814	2,696,139 (2)	21.4%
Edward T. Whelan ..... 135 First Street Keyport, NJ 07735	1,976,125 (3)	16.5%
Edward Meyer, Jr ..... 25 Sheffield Drive Freehold, NJ 07728	1,856,137 (4)	15.5%
Atlantic Investment Trust ..... 7315 Wisconsin Avenue Suite 775N Bethesda, MD 20814	1,711,139 (5)	13.6%
The Tucker Family Spendthrift		

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Trust .....	863,454	7.2%
2500 N. Military Trail		
Suite 225		
Boca Raton, FL 33341		
The Calvo Family Spendthrift		
Trust .....	863,453	7.2%
1941 SE 51st Terrace		
Ocala, FL 34471		
Grace Holdings, Inc. ....	856,126	7.1%
7315 Wisconsin Avenue		
Suite 775N		
Bethesda, MD 20814		

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Name and Address	Shares of Common	
	Amount	%
Ethan D. Hokit.....	530,000 (6)	4.4%
3305 Blodgett Drive		
Colorado Springs, CO 80919		
Directors and executive officers as		
a group (three persons).....	4,346,138	34.6%

- (1) For purposes of this table, information as to the beneficial ownership of shares of our common stock is determined in accordance with the rules of the Securities and Exchange Commission and includes general voting power and/or investment power with respect to securities. Except as otherwise indicated, all shares of our common stock are beneficially owned, and sole investment and voting power is held, by the person named. For purposes of this table, a person or group of persons is deemed to have "beneficial ownership" of any shares of our common stock which such person has the right to acquire within 60 days after the date of this Report. For purposes of computing the percentage of outstanding shares of our common stock held by each person or group of persons named above, any shares which such person or persons has the right to acquire within 60 days after the date of this Report is deemed to be outstanding but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. The inclusion herein of such shares listed beneficially owned does not constitute an admission of beneficial ownership.
- (2) Includes 685,000 shares owned directly by Mr. Tanenbaum, 1,711,139 shares beneficially owned by Atlantic Investment Trust, of which Mr. Tanenbaum serves as trustee, and 300,000 shares beneficially owned by Eastern Investment Trust, of which Mr. Tanenbaum serves as trustee.
- (3) Includes 220,000 shares owned directly by Mr. Whelan, 856,126 shares owned of record by Grace Holdings, Inc., of which Mr. Whelan is President, 400,000 shares of record by Shannon Investments, Inc., which is controlled by Mr. Whelan for the benefit of his family, and 499,999 shares of record by Xcel Associates, Inc., of which Mr. Whelan is a principal shareholder.

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- (4) Includes 1,165,320 shares owned directly by Mr. Meyer, 499,999 shares owned of record by Xcel Associates, of which Mr. Meyer is a principal shareholder and 190,818 shares owned of record by Mr. Meyer's spouse.
- (5) Includes 555,013 shares owned of record, 300,000 shares issuable upon the conversion of \$50,000 principal amount of convertible bridge note indebtedness and 856,126 shares owned by Grace Holdings, Inc., a wholly-owned subsidiary of Atlantic Investment Trust.
- (6) Includes 400,000 shares of our common stock owned of record by Mr. Hokit's spouse.

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ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

EXHIBIT NUMBER -----	DESCRIPTION -----
10.11	Form of 9% Convertible Note.
10.14	Warehousing and Distribution Agreement dated as of May 2, 2002 between our company and Chattem Consumer Products. (Certain portions of this Exhibit have been omitted pursuant to our request for confidential treatment).
99.1	Certification of Principal Executive Officer, Edward T. Whelan, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of 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

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Ethan D. Hokit  
President and Chief Operating Officer



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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:

SIGNATURE	TITLE	DATE
/s/ Edward T. Whelan ----- Edward T. Whelan	Chairman of the Board, Chief Executive Officer (Principal Executive Officer)	June 1
/s/ Ethan D. Hokit ----- Ethan D. Hokit	President, Chief Operating Officer, Director (Principal Accounting Officer and Principal Financial Officer)	June 1
/s/ Richard H. Tanenbaum ----- Richard H. Tanenbaum	Director	June 1

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### CERTIFICATION

I, EDWARD T. WHELAN, CHIEF EXECUTIVE OFFICER of MILITARY RESALE GROUP, INC., certify that:

1. I have reviewed this Amendment No. 1 to Annual Report on Form 10-KSB/A of Military Resale Group, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officer 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 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 annual report is being prepared;

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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 annual report (the "Evaluation Date"); and

c) presented in this annual 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 officer 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 functions):

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 officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 17, 2003

/s/ Edward T. Whelan

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Edward T. Whelan  
Chief Executive Officer

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### CERTIFICATION

I, ETHAN D. HOKIT, CHIEF FINANCIAL OFFICER of MILITARY RESALE GROUP, INC., certify that:

1. I have reviewed this Amendment No. 1 to Annual Report on Form 10-KSB/A of Military Resale Group;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in

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Exchange Act Rules 13a-14 and 15d-14) for the registrant and 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 annual 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 annual report (the "Evaluation Date"); and

c) presented in this annual 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 officer 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 functions):

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 officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 17, 2003

/s/ Ethan D. Hokit

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Ethan D. Hokit  
Chief Financial Officer

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REPORT OF INDEPENDENT AUDITORS

Independent Auditor's Report

Board of Directors  
Military Resale Group, Inc.  
Colorado Springs, Colorado

We have audited the accompanying statements of operations, stockholders' equity

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and cash flows of Military Resale Group, Inc. for the year ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's recurring losses from operations and its difficulties in generating sufficient cash flow to meet its obligation and sustain its operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Military Resale Group, Inc for the year ended December 31, 2001, and, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 19 to the financial statements, certain errors were discovered by the Company, which resulted in an understatement of expenses totaling \$280,000 as of December 31, 2001. Accordingly, the 2001 financial statements have been restated to correct the error.

/s/ MICHAEL JOHNSON & CO., LLC

Denver, Colorado

February 18, 2002 (except for Note 5 and 19 as to which the date is May 1, 2003)