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MILITARY RESALE GROUP INC
Form 10QSB
December 17, 2004

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly
period ended September 30, 2004

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

52-2062187

(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 September 30, 2004, there were 37,076,712 shares of the issuer's common stock outstanding.

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

MILITARY RESALE GROUP, INC.

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ITEM 1. FINANCIAL INFORMATION

WE DID NOT OBTAIN A REVIEW OF THE INTERIM FINANCIAL STATEMENTS BY AN INDEPENDENT ACCOUNTANT USING PROFESSIONAL REVIEW STANDARDS AND PROCEDURES, ALTHOUGH THAT REVIEW IS REQUIRED BY THE FORM

MILITARY RESALE GROUP, INC. BALANCE SHEETS

	SEPTEMBER 30, 2004	DECEMBER 31, 2003
ASSETS		
(UNAUDITED)		
CURRENT ASSETS:		
Cash	\$ --	\$ 2,862
Accounts receivable - trade	654,698	765,851
Inventory	396,877	334,950
Prepaid consulting	54,428	484,506
Deposits	42,118	33,218
Prepaid interest	178,283	92,681
Prepaid expenses	57,382	--
Total Current Assets	1,383,787	1,714,068
PREPAID INTEREST, NET OF CURRENT PORTION	--	132,038
EQUIPMENT		
Office equipment	24,922	15,047
Warehouse equipment	159,444	159,444
Software	16,324	16,324
Less accumulated depreciation	200,689 (133,792)	190,815 (106,103)
Net equipment	66,897	84,712

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OTHER ASSETS

Deferred offering costs	23,947	--
Investment Property	344,772	--

Total Other Assets	368,719	--
 Total Assets	 \$ 1,819,402	 \$ 1,930,818
	=====	=====

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LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES:

Accounts payable and accrued expenses	2,164,220	2,507,544
Accounts payable, related party	137,925	72,632
Current maturities of capital lease obligations	24,315	51,981
Deferred rent	--	2,729
Current portion of accrued interest payable	127,856	99,561
Current portion of notes payable	1,500	90,235
Current portion of convertible notes payable	--	85,000
Related party demand note payable	75,000	--
Bank Overdraft	22,166	--
Other Current Liabilities	22,163	--

Total Current Liabilities

2,575,145 2,909,682

OBLIGATIONS UNDER CAPITAL LEASES, NET OF CURRENT MATURITIES

36,351 36,351

DEFERRED RENT, NET OF CURRENT PORTION

24,561 21,832

RELATED PARTIES CONVERTIBLE NOTES PAYABLE

360,000 370,000

NOTES PAYABLE, NET OF CURRENT PORTION

14,525 98,975

CONVERTIBLE NOTES PAYABLE, NET OF CURRENT PORTION

160,000 150,000

MORTGAGE PAYABLE

70,941 --

Total Liabilities

3,241,524 3,586,840

STOCKHOLDERS' EQUITY (DEFICIT):

Preferred stock, par value \$.0001, 10,000,000 shares authorized, -0- issued and outstanding	--	--
Common stock, par value \$.0001, 50,000,000 shares authorized, 12,923,288 and 37,076,712 issued and outstanding	3,329	2,144
Additional paid-in capital	5,647,772	4,248,547
Common Stock Reserved	(11,750)	--
Accumulated (deficit)	(7,061,473)	(5,906,713)

Total Stockholders' Equity (Deficit)

(1,422,122) (1,656,022)

Total Liabilities and Stockholders' Equity

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(Deficit) 1,819,402 1,930,818
 =====

SEE ACCOMPANYING NOTES TO UNAUDITED FINANCIAL STATEMENTS.

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MILITARY RESALE GROUP, INC.
 CONSOLIDATED STATEMENTS OF OPERATIONS
 THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2004 AND 2003
 UNAUDITED

	Three Months Ended	
	September 30, 2004	September 30, 2003
REVENUES:		
Resale revenue	1,659,713	\$ 1,143,846
Commission revenue	156,317	83,095
Total Revenues	1,816,030	1,226,941
COST OF GOODS SOLD	1,547,796	1,136,929
GROSS PROFIT	268,234	90,012
OPERATING EXPENSES:		
Stock based compensation	--	465,313
Salary and payroll taxes	141,111	93,280
Professional fees	(37,580)	76,535
Occupancy	59,356	58,673
General and administrative	346,132	116,587
Depreciation and amortization	9,442	4,933
Total Expenses	518,461	815,321
Net (Loss) From Operations	(250,227)	(725,309)
OTHER (EXPENSES):		
Interest expense	3,006	(25,459)
Interest income	--	136
Total Other (Expense)	3,006	(25,323)
NET (LOSS)	(253,233)	(750,632)
NET (LOSS) PER COMMON SHARE BASIC AND DILUTED	\$ (0.10)	\$ (0.05)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	2,554,524	15,114,144

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SEE ACCOMPANYING NOTES TO UNAUDITED FINANCIAL STATEMENTS

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MILITARY RESALE GROUP, INC.
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 SIX MONTHS ENDED SEPTEMBER 30, 2004 AND 2003
 UNAUDITED

	2004	2003
CASH FLOWS FROM (TO) OPERATING ACTIVITIES:		
Net (loss)	\$ (1,154,759)	\$ (1,837,311)
Adjustments to reconcile net (loss) to net cash used in operating activities:		
Depreciation and amortization	27,689	14,911
Amortization of option based interest expense	46,436	100,000
Stock issued for services	1,679,810	153,924
Options issued for services	684,032	--
Deferred offering costs	(23,947)	--
Beneficial conversion feature stock issued for liquidated damages	--	15,000
shares and warrents issued for purchase of Ohio Ptrs	1,771,750	--
274,560	274,560	--
Changes in assets and liabilities:		
Decrease (Increase) in accounts receivable	111,153	(69,768)
Decrease (Increase) in inventory	(61,927)	9,220
(Increase) in deposits	(8,900)	--
(Increase) in prepaid expenses	(57,382)	--
Increase in accounts payable and accrued expenses	(343,324)	133,805
(Decrease) in related party accounts payable	65,293	--
Increase in accrued interest payable	44,085	--
Increase in deferred rent obligation	--	2,047
Increase in mortgage payable	70,941	--
Increase in other liabilities	22,163	25,007
Net Cash Used In Operating Activities	(18,581)	(116,481)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(9,874)	(1,683)
Purchase of investment property	(344,772)	--
Net Cash Used in Investing Activities	(354,646)	(1,683)
CASH FLOWS FROM (TO) FINANCING ACTIVITIES:		

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Payments on capital lease obligations	(27,666)	(6,762)
Payments on notes payable	(183,185)	--
Proceeds from issuance of notes	75,000	125,000
Proceeds from issuance of common stock	547,500	--
Payments of offering costs	(63,450)	

Cash Flows Provided by Financing Activities	348,199	118,238
NET INCREASE IN CASH AND CASH EQUIVALENTS	138,947	74
CASH AND CASH EQUIVALENTS, beginning of period	2,862	2,072

CASH AND CASH EQUIVALENTS, end of period	\$ (22,166)	\$ 2,146
	=====	=====
Supplementary information:		
Cash paid for:		
Interest paid	\$ --	\$ 466
	=====	=====
Income taxes	\$ --	\$ --
	=====	=====

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	2004	2003
	-----	-----
Non-cash investing and financing activities:		
Issuance of stock and options in exchange for services	\$ 2,363,842	\$ 205,146
	=====	=====
Issuance of common stock and options as payment of notes payable	\$ 50,000	\$ --
	=====	=====
Issuance of common stock in payment of accrued compensation	\$ --	\$ 32,912
	=====	=====

SEE ACCOMPANYING NOTES TO UNAUDITED FINANCIAL STATEMENTS

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MILITARY RESALE GROUP, INC.
NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles

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for complete financial statements. The accompanying unaudited financial statements reflect all adjustments that, in the opinion of management, are considered necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year or for any future period. The accompanying financial statements should be read in conjunction with the audited financial statements of Military Resale Group, Inc., included in Form 10-KSB for the fiscal year ended December 31, 2003.

The financial statements have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the normal course of business.

The Company has suffered recurring losses from operations, and is in a working capital deficit position that raises substantial doubt about its ability to continue as a going concern.

The Company's management is currently pursuing equity and/or debt financing in an effort to continue operations. The future success of the Company is likely dependent on its ability to attain additional capital to develop its proposed products and ultimately, upon its ability to attain future profitable operations. There can be no assurance that the Company will be successful in obtaining such financing, or that it will attain positive cash flow from operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 2 - EARNINGS PER SHARE

The Company computes earnings per common share in accordance with Statement of Financial Accounting Standards No. 128, Earnings per Share (SFAS No. 128). This Statement simplifies the standards for computing earnings per share (EPS) previously found in Accounting Principles Board Opinion No. 15, Earnings Per Share, and makes them more comparable to international EPS standards. SFAS No. 128 replaces the presentation of primary EPS with a presentation of basic EPS. In addition, the Statement requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. However, such presentation is not required if the effect is antidilutive. Accordingly, no such presentation has been made.

NOTE 3 - PREPAID CONSULTING

Prepaid consulting expenses are recorded in connection with common stock and options issued to consultants for future services and are amortized over the agreement term. During the nine months ended September 30, 2004, the Company incurred prepayments of \$ 54,428 and stock-based compensation expense of \$ 789,320.

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MILITARY RESALE GROUP, INC. NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 4 - PREPAID INTEREST

Prepaid interest is recorded in connection with the issuances of options for the extension of various notes payable. The prepaid interest is being amortized over the extension period, with \$ 98,341 charged to interest expense during the nine

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months ended September 30, 2004.

NOTE 5 - RELATED PARTY TRANSACTIONS

On September 30, 2004 pursuant to a consulting agreement with the Company's chief executive officer, the Company issued 553,232 shares of common stock and granted options to purchase 553,232 shares of common stock at \$.25 per share for a period of five years for services rendered valued at \$36,000. The value of the stock and the value of the options was \$12,000 each based on \$12,000 each per month.

NOTE 6 - SECURITIES ISSUED FOR SERVICES

During the three months ended March 31, 2004, the Company issued an aggregate 200,000 of the Company's common shares to a consultant for services provided and expensed \$40,000 (the value of the services) as stock based compensation.

During the three months ended March 31, 2004 the Company issued 100,000 shares of the Company's common stock valued at \$9,000 to a consultant for services to be provided. The value of the stock is recorded as prepaid consulting and will be amortized over the term of the agreement.

On January 29, 2004 the Company issued 50,000 shares of common stock valued at \$11,000 as a retainer fee for services to be performed in connection with raising of capital (See Note 9). This amount is recorded as prepaid consulting and is being amortized over the term of the agreement.

During the three months ended March 31, 2004 pursuant to a consulting agreement with an unrelated party, the Company granted warrants to purchase 320,000 shares of the Company's common stock at \$.125 for a period of five years. These warrants were valued at \$52,870, the fair value using the Black-Scholes European Pricing Model. The average risk free interest rate used was 3.39%, volatility was estimated at 96% and the expected life was five years. The warrants were granted as compensation to the Company's investment banker for raising \$500,000 by selling 4,000,000 shares of common stock. This investment banker was also paid \$40,000 as commission for the sale of stock.

On April 1, 2004 the Company entered into a one-year business consulting agreement with an unrelated party for management and financial consulting services. Under the terms of the agreement the consultant will receive \$5,000 per month for the term of the agreement and receive 250,000 shares of common stock.

On May 10, 2004 the Company issued 100,000 shares of common stock to a consultant for services to be rendered over a period of 180 days.

On May 11, 2004 the Company issued 200,000 shares of common stock and granted 200,000 options to purchase common stock at \$.25 per share to a stockholder for services rendered.

On June 16, 2004 the Company issued 500,000 shares of common stock to a consultant for services.

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During the three months ended March 31, 2004 the Company sold 4,000,000 shares of common stock to several individuals at \$.125 per share for total consideration of \$460,000, net of offering costs paid of \$40,000. These individuals were also given warrants to purchase 2,000,000 shares of common stock (50% of shares issued) at \$.25 per share for a period of five years. The terms of the stock subscription agreements provide that in the event the average closing bid price of the common stock for the ten days preceding the effective date of the Registration Statement (to be filed) is \$.17 or below, then the purchase price for the shares shall be reset to a purchase price equal to the average price minus \$.05, provided that the purchase price is not less than \$.065 per share. Upon the occurrence of the price adjustment, the Company will issue to each subscriber the additional shares they are entitled to based upon the adjusted price. In addition, if the Registration Statement (to be filed) is not declared effective on or before June 30, 2004, then commencing on the first day of each month thereafter until December 1, 2004 or the declared effective date of the Registration Statement, the Company will issue each subscriber, as liquidated damages, additional shares of common stock equal to 10% of the number of shares purchased by each subscriber.

During the three months ended March 31, 2004 the Company sold 450,000 shares of common stock to several individuals for \$.10 to \$.125 per share for total consideration of \$43,250, net of offering costs of \$4,250. In accordance with the terms of the stock subscription agreements, if the Company's Registration Statement (to be filed) is not declared effective on or before June 30, 2004, then commencing on the first day of each month thereafter until December 1, 2004 or the declared effective date of the Registration Statement, the Company will issue each subscriber, as liquidated damages and not as a penalty, additional shares of common stock equal to 10% of the number of shares purchased by each subscriber.

During the six months ended June 30, 2004, the Company issued 396,000 shares of commons stock to several individuals for \$.14 per share for total consideration of \$55.440 for liquidated damages.

During the six months ended June 30, 2004 the Company sold 1,920,000 shares of common stock to an individual at \$.125 per share for total consideration of \$240,000. This individual was also given warrants to purchase 960,000 shares of common stock at \$.25 per share for a period of five years. The terms of the stock subscription agreements provide that in the event the average closing bid price of the common stock for the ten days preceding the effective date of the Registration Statement (to be filed) is \$.17 or below, then the purchase price for the shares shall be reset to a purchase price equal to the average price minus \$.05, provided that the purchase price is not less than \$.065 per share. Upon the occurrence of the price adjustment, the Company will issue to each subscriber the additional shares they are entitled to based upon the adjusted price. In addition, if the Registration Statement (to be filed) is not declared effective on or before June 30, 2004, then commencing on the first day of each month thereafter until December 1, 2004 or the declared effective date of the Registration Statement, the Company will issue each subscriber, as liquidated damages, additional shares of common stock equal to 10% of the number of shares purchased by each subscriber.

NOTE 8 - PROMISSORY NOTE PAYABLE

On March 27, 2003, the Company issued a promissory note for \$100,000 to Romano, Ltd. The note bears interest at 15% per annum and was due on March 26, 2004, subject to the following contingent payment terms upon the Company's raising or securing additional funding from any third party source:

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Additional Funding	Terms Modification
-----	-----
\$250,000	Payment of 10% of outstanding principal and accrued interest
\$500,000	Payment of 15% of outstanding principal and accrued interest
\$1,000,000 or more	Payment of 100% of outstanding principal and accrued interest

When the Company failed to secure any of the above-referenced additional funding, nor another significant event, such as a merger or acquisition of another company, the Company was required to pay \$8,000 per month commencing on July 1, 2003 until the full obligation was paid

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MILITARY RESALE GROUP, INC. NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 9 - COMMITMENTS AND CONTINGENCIES

On January 29, 2004 the Company entered into a business consulting agreement with an unrelated party for financial advisory and investment banking services and issued the consultant 50,000 shares of its common stock valued at \$11,000. The consultant will advise the Company as to issues of capital formation, assist the Company on the market awareness of its stock by setting up road shows and will assist the Company in raising \$300,000 through the issuance of common stock at \$.125 and warrants to purchase 1,200,000 shares of common stock exercisable at \$.25 per share for five years. Upon successful closing of the above raising of capital, the Company will pay the consultant a cash fee commission of 10% of the capital raised plus a cash non-accountable expense allowance of 2.5% of the capital raised. In addition, upon raising the capital, the consultant will be entitled to 300,000 warrants with similar terms as those issued in the capital raise.

The Company was the plaintiff in litigation with one of its vendors. During the six months ended June 30, 2004 the Company entered into a judgment in which they were ordered to pay the vendor \$5,356 with the amount due accruing interest at 8% per annum. As of June 30, 2004 the Company had not paid any amount to this vendor. Subsequent to March 31, 2004, the Company received a Writ of Garnishment and are expecting to have the original judgment amount of \$5,356 plus interest and other charges of \$181 garnished from one of their bank accounts.

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

GENERAL

Certain statements in this Report constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The words "believe", "expect", "anticipate", "intend" and "plan" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement

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was made. Because our common stock is considered a "penny stock," as defined by the regulations of the Securities and Exchange Commission, the safe harbor for forward-looking statements does not apply to statements by our company.

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

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

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RESULTS OF OPERATIONS - THREE MONTHS ENDED SEPTEMBER 30, 2004 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2003

Revenues. Total revenue for the three months ended September 30, 2004 of \$1,816,030 reflected an increase of \$589,089, or approximately 32%, compared to total revenue of \$1,226,941 for the three months ended September 30, 2003. 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 include (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. The increase in our total revenues was primarily due to the addition of the frozen chicken line of Tyson Foods, Inc. in December 2003, a line of health and beauty aids manufactured by Alberto Culver, Inc. in January 2004 and a frozen vegetable line produced by VIP Sales Company Inc. in January 2004, all of which we sell to commissaries on a resale basis.

Resale revenue for the three months ended September 30, 2004 of \$1,659,713 reflected an increase of \$515,867, or approximately 31%, compared to resale revenue of \$1,143,846 for the three months ended September 30, 2003. For the three months ended September 30, 2004, approximately 10.9% of our gross profit

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was derived from sales involving resale revenue compared to approximately 7.7% for the three months ended September 30, 2003. These increases were attributable primarily to addition of the suppliers discussed above. We cannot be certain as to whether this trend will continue. However, in the long term, we are seeking to increase the ratio of our sales of products sold on a resale basis, rather than a commission basis, because we believe we can increase our profitability on such sales by taking advantage of payment discounts frequently offered by the manufacturers and suppliers of such products. Provided we can generate sufficient cash from operations or financing activities, we intend to do so by seeking to add new products that we can offer to commissaries on a resale basis from our existing manufactures and suppliers and from others with whom we do not currently have a working relationship.

Commission revenues for the three months ended September 30, 2004 of \$156,317 reflected an increase of \$73,222, or approximately 47%, compared to commission revenues of \$83,095 for the three months ended September 30, 2003. For the three months ended September 30, 2004, approximately 89.1% of our gross profit was derived from sales involving commission revenues as compared to approximately 92.3% for the three months ended September 30, 2003. The increase in commission revenues was attributable primarily to a change in our supplier of fresh chicken products in the third quarter of 2003 from Tyson Foods, Inc., whose products we sold on a resale basis, to ConAgra Foods, Inc., whose products we sell on a commission basis.

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, are dependent on our ability to obtain additional capital to fund new business development and increased sales and marketing efforts. We are currently in discussions with a number of other manufacturers and suppliers in an effort to reach an agreement under which we can distribute their products to the military market. While there can be no assurance that we will do so, we believe we will be successful in negotiating agreements with a number of such suppliers and manufacturers.

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

Cost of Goods Sold. Cost of goods sold consists of our cost to acquire products from manufacturers and suppliers for resale to commissaries. In instances when we sell products on a commission basis, there is no cost of goods sold because we act as an agent for the manufacturer or supplier and earn only a commission on such sales. During the three months ended September 30, 2004, cost of goods sold increased by \$410,867, or approximately 27%, to \$1,547,796 from \$1,136,929 for the three months ended September 30, 2003. This increase was attributable primarily to increased sales of products that we sold on a resale basis as discussed above. 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 September 30, 2004 increased by \$178,222, or approximately 66%, compared to the three months ended September 30, 2003, from \$90,012 for the three months ended September 30, 2003 to \$268,234 for the three months ended September 30, 2004.

Operating Expenses. Total operating expenses aggregated \$518,461 for the three months ended September 30, 2004 as compared to \$815,321 for the three months ended September 30, 2003, representing a decrease of \$296,860, or approximately

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36%.

Interest Expense. Interest expense of \$ 3,006 for the three months ended September 30, 2004 reflected a decrease of \$22,317 as compared to interest expense of \$25,323 for the three months ended September 30, 2003. The decrease in interest expense was attributable primarily to decreased interest expense resulting from the recognition of the beneficial conversion feature (the right to convert debt into shares of our common stock at a discount to the fair market value of our common stock) of convertible promissory notes.

Net Loss. Primarily as a result of the decreased operating expenses discussed above, we incurred a net loss of \$253,233 for the three months ended September 30, 2004 as compared to a net loss of \$750,632 for the three months ended September 30, 2003.

NINE MONTHS ENDED SEPTEMBER 30, 2004 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2003

Revenues. Total revenue for the nine months ended September 30, 2004 of \$5,971,747 reflected an increase of \$1,680,927, or approximately 28.1%, compared to total revenue of \$4,655,469 for the nine months ended September 30, 2003.

Resale revenue for the nine months ended September 30, 2004 of 5,481,042 reflected an increase of \$1,190,222, or approximately 21.7%, compared to resale revenue of \$4,290,820 for the nine months ended September 30, 2003. For the nine months ended September 30, 2004, approximately 52% of our gross profit was derived from sales involving resale revenue compared to approximately 45.7% for the nine months ended September 30, 2003. These increases were attributable primarily to addition of the suppliers discussed above. We cannot be certain as to whether this trend will continue. However, in the long term, we are seeking to increase the ratio of our sales of products sold on a resale basis, rather than a commission basis, because we believe we can increase our profitability on such sales by taking advantage of payment discounts frequently offered by the manufacturers and suppliers of such products. Provided we can generate sufficient cash from operations or financing activities, we intend to do so by seeking to add new products that we can offer to commissaries on a resale basis from our existing manufacturers and suppliers and from others with whom we do not currently have a working relationship.

Commission revenues for the nine months ended September, 2004 of \$490,705 reflected an increase of \$126,056, or approximately 26%, compared to commission revenues of \$364,649 for the nine months ended September 30, 2003. For the nine months ended September 30, 2004, approximately 49% of our gross profit was derived from sales involving commission revenues as compared to approximately 54.3% for the nine months ended September 30, 2003. The increase in commission revenues was attributable primarily to a change in our supplier of fresh chicken products in the third quarter of 2003 from Tyson Foods, Inc., whose products we sold on a resale basis, to ConAgra Foods, Inc., whose products we sell on a commission basis.

Cost of Goods Sold. Cost of goods sold for the nine months ended September 30, 2004, cost of goods sold increased by \$1,045,673, or approximately 20.8%, to \$5,029,295 from \$3,983,622 for the nine months ended September 30, 2003. This increase was attributable primarily to increased sales of products that we sold on a resale basis as discussed above. 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 nine months ended September 30, 2004 increased by \$270,606, or approximately 28.7%, compared to the nine months ended September 30, 2003, from \$671,847 for the nine months ended September 30, 2003 to \$942,453 for the nine months ended September 30, 2004.

Operating Expenses. Total operating expenses aggregated \$ 2,239,803 for the nine months ended September 30, 2004 as compared to \$ 2,250,539 for the nine months ended September 30, 2003, representing an decrease of \$ 10,736, or approximately .47%.

Interest Expense. Interest expense of \$98,341 for the nine months ended September 30, 2004 reflected a decrease of \$160,278 as compared to interest expense of \$258,619 for the nine months ended September 30, 2003.

Net Loss. Primarily as a result of the decreased operating expenses discussed above, we incurred a net loss of \$1,199,008 for the nine months ended September 30, 2004 as compared to a net loss of \$1,837,311 for the nine months ended September 30, 2003.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2004, we had a cash balance of approximately \$22,166. Since 2001, we have funded our operations primarily from borrowings of approximately \$850,000 through the issuance of demand notes and convertible

Notes bearing interest at either 8% or 9% per annum and having original maturity dates of three to five months following the date of issuance of such convertible notes. At September 30, 2004, none of such demand notes was outstanding and \$98,975 aggregate principal amount of convertible notes were outstanding 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 3, 2006.

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 shares of our common stock. In December 2001, we filed with the Securities and Exchange Commission a registration statement relating to such shares for gross sales proceeds of up to \$5,000,000. 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 and the sale of unregistered shares of our common stock in private placements to accredited investors.

In the event we are able to generate sales proceeds of at least \$750,000 in our proposed public 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 2003 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.

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Assuming that we receive net proceeds of at least \$750,000 from our proposed offering (of which there can be no assurance), we expect capital expenditures to be approximately \$100,000 during the next 12 months, primarily for the acquisition of an inventory control system and a web-based marketing software program. 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 public offering of common stock.

At September 30, 2004, we had liquid assets of \$632,532, consisting of cash and accounts receivable derived from operations, and other current assets of \$729,089, consisting primarily of inventory of products for sale and/or distribution and prepaid expenses. Long term assets of \$435,616 consisted primarily of warehouse equipment used in operations and the long-term portion of prepaid interest.

Current liabilities of \$2,552,979 at September 30, 2004 consisted primarily of \$2,302,145 of accounts payable and accrued expenses, including related party amounts.

Our working capital deficit was \$1,422,122 as of September 30, 2004 for the reasons described above.

During the three months ended September 30, 2004, we used cash of \$18,581 in operating activities, primarily as a result of the net loss we incurred during this period.

During the three months ended September 30, 2004, we used net cash of \$354,646 in investing activities, all of which was used for capital expenditures.

Financing activities, consisting primarily of proceeds from the sale and issuance of shares of our common stock, provided net cash of \$348,199 during the three months ended September 30, 2004.

OFF BALANCE SHEET ARRANGEMENTS

At September 30, 2004, we had no off-balance sheet arrangements that had or were reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our stockholders.

ITEM 3. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures. Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our company's disclosure controls and procedures (as much term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of such period, our company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

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(b) Internal Control Over Financial Reporting. There have been not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

(c) Recent Sales of Unregistered Securities.

(i) In the three months ended June 30, 2004, we issued to investors in a private placement investment units consisting of an aggregate of 1,920,000 shares of our common stock and five-year warrants to purchase an aggregate of 960,000 shares of our common stock at \$0.125 per share for gross proceeds to us of \$360,000. In connection with such issuances, we granted registration rights to such investors. Such shares and warrants 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 and such persons were "accredited investors" as defined in Regulation D under the Securities Act of 1933, as amended.

(ii) In the three months ended June 30, 2004, we issued an aggregate of 200,000 shares of our common stock and five year warrants to purchase an aggregate of 200,000 shares of our common stock at \$0.125 to a consultant for business consulting services to be rendered to the Company, which services were valued at \$49,000 in the aggregate. 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.

(iii) In the three months ended June 30, 2004, we issued 247,560 shares of our common stock and five-year options to purchase 247,560 shares of our common stock at \$0.25 per share to our Chief Executive Officer for services rendered during the three months ended June 30, 2004 pursuant to the terms of his employment arrangement. The services were valued at \$72,000. 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.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

EXHIBIT INDEX

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EXHIBIT NO.	DESCRIPTION
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10.1	Form of Warrant issued to certain investors during the three months ended September 30, 2004.
10.2	Description of Registration Rights granted to certain investors during the three months ended September 30, 2004.
31.1	Certification of our Principal Executive Officer, Lee Brukman, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of our Principal Financial Officer, Ethan D. Hokit, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of our Principal Executive Officer, Lee Brukman, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of our Principal Financial Officer, Ethan D. Hokit, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in Colorado Springs, Colorado on December 17, 2004.

MILITARY RESALE GROUP, INC.

By: /s/ Ethan D. Hokit

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

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