MOORE MEDICAL CORP
Form 10-Q
August 09, 2002

FORM 10 - Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 29, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934

For the transition period from ________ to ______________

Commission file number 1-8903

MOORE MEDICAL CORP.

(Exact name of registrant as specified in its charter)

Delaware (State of incorporation)	22-1897821 (I.R.S. Employer Identification Number)

389 John Downey Drive
P.O. Box 1500, New Britain, CT 06050
(Address of principal executive offices)

860-826-3600
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 _____

3,156,218 number of shares of Common Stock outstanding as of June 29, 2002.

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MOORE MEDICAL CORP. & SUBSIDIARY

Consolidated Balance Sheets

(Amounts in thousands, except par value)	June 29, 2002 Unaudited	December 29, 2001
ASSETS		
Current Assets		
Cash	$ -	$ 835
Accounts receivable, less allowances of $1,278 and $933	15,345	15,122
Inventories	10,162	10,829
Prepaid expenses and other current assets	2,306	1,875
Deferred income taxes	3,045	1,523
Total Current Assets	30,858	30,184
Noncurrent Assets		
Equipment and leasehold improvements, net	7,221	8,271
Other assets	2,275	2,673
Total Noncurrent Assets	9,496	10,944
	$ 40,354	$ 41,128
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	10,681	$ 11,204
Accrued expenses	2,058	1,873
Current portion long term debt	708	1,356
Total Current Liabilities	13,447	14,433
Deferred Income Taxes	925	-
Long Term Notes Payable	2,765	3,970
Shareholders' Equity		
Preferred stock, no shares outstanding	-	-
Common stock - $.01 par value; Shares authorized - 10,000 Shares issued - 3,246	32	32
Capital in excess of par value	21,551	21,548
Note receivable	(307)	(298)
Retained earnings	2,739	2,263
	24,015	23,545
Less treasury shares, at cost, 90 and 92 shares	(798)	(820)
Total Shareholders' Equity	23,217	22,725

	$ 40,354	$ 41,128

The accompanying notes are an integral part of the consolidated financial statements.

MOORE MEDICAL CORP. & SUBSIDIARY

Consolidated Statements of Operations For The Three Months Ended
Unaudited

(Amounts in thousands, except per share data)	June 29, 2002	June 30, 2001
Net sales	$33,441	$32,620
Cost of products sold	24,267	24,019
Gross profit	9,174	8,601
Sales and marketing expenses	2,703	3,484
General and administrative expenses	5,991	6,147
Operating income (loss)	480	(1,030)
Interest expense, net	40	108
Income (loss) before income taxes	440	(1,138)
Income tax provision (benefit)	159	(378)
Net income (loss)	$ 281	$ (760)
Basic net income (loss) per share	$ 0.09	$ (0.24)
Diluted net income (loss) per share	$ 0.09	$ (0.24)
Basic common shares outstanding*	3,156	3,154
Diluted common shares outstanding*	3,181	3,154

*weighted average

2001 Net Sales and Gross Profit reflect reclassifications due to the impact of EITF 00-10 "Accounting for Shipping and Handling Fees and Costs."

The accompanying notes are an integral part of the consolidated financial statements.

MOORE MEDICAL CORP. & SUBSIDIARY

Consolidated Statements of Operations For The Six Months Ended
Unaudited

(Amounts in thousands, except per share data)	June 29, 2002	June 30, 2001
Net sales	$65,878	$64,985
Cost of products sold	47,708	47,965
Gross profit	18,170	17,020
Sales and marketing expenses	5,269	6,934
General and administrative expenses	12,071	12,954
Operating income (loss)	830	(2,868)
Interest expense, net	87	72
Income (loss) before income taxes	743	(2,940)
Income tax provision (benefit)	267	(1,083)
Net income (loss)	$ 476	$ (1,857)
Basic net income (loss) per share	$ 0.15	$ (0.59)
Diluted net income (loss) per share	$ 0.15	$ (0.59)
Basic common shares outstanding*	3,155	3,135
Diluted common shares outstanding*	3,179	3,135

*weighted average

2001 Net Sales and Gross Profit reflect reclassifications due to the impact of EITF 00-10 "Accounting for Shipping and Handling Fees and Costs."

The accompanying notes are an integral part of the consolidated financial statements.

MOORE MEDICAL CORP. & SUBSIDIARY

Consolidated Statements of Cash Flows For The Six Months Ended
Unaudited

(Amounts in thousands)	June 29, 2002
Cash Flows From Operating Activities	
Net income (loss)	$ 476
Adjustments to reconcile net income (loss) to net cash flows provided by (used in) operating activities:	
Depreciation and amortization	1,506
Changes in operating assets and liabilities:	
Accounts receivable	(223)
Inventories	667
Other assets	(630)
Accounts payable	(523)
Accrued expenses	185
Net cash flows provided by (used in) operating activities	1,458
Cash Flows From Investing Activities	
Equipment and leasehold improvements acquired	(456)
Net cash flows (used in) investing activities	(456)
Cash Flows From Financing Activities	
Revolving line of credit	2,765
Sale of treasury stock	25
Note receivable	(9)
Long term notes payable	(4,618)
Net cash flows (used in) financing activities	(1,837)
(Decrease) in cash	(835)
Cash at the beginning of year	835
Cash At End Of Period	$ -

The accompanying notes are an integral part of the consolidated financial statements.

MOORE MEDICAL CORP. & SUBSIDIARY

Consolidated Statement of Shareholders' Equity

Unaudited

(Amounts in thousands)	Common Stock $.01 par value Shares Issued	Par Value	Capital in Excess of Par Value	Retained Earnings	Treasury S Shares	
Balance at 12/30/00	3,246	$ 32	$ 21,700	$ 3,913	(145)	$
Net (loss)	-	-	-	(1,858)	-	
Stock options/stock compensation	-	-	(144)	-	53	
Balance at 6/30/01	3,246	$ 32	$ 21,556	$ 2,055	(92)	$
Balance at 12/29/01	3,246	$ 32	$ 21,548	$ 2,263	(92)	$
Net income	-	-	-	476	-	
Stock options/stock Compensation	-	-	3	-	2	
Balance at 6/29/02	3,246	$ 32	$ 21,551	$ 2,739	(90)	$

The accompanying notes are an integral part of the consolidated financial statements.

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MOORE MEDICAL CORP. & SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

The Company

Moore Medical is an Internet-enabled multi-channel marketer and distributor of medical, surgical and pharmaceutical products to over 100,000 health care practices and facilities in non-hospital settings nationwide, including: physicians, emergency medical technicians, schools, correctional institutions, municipalities, occupational/industrial health doctors and nurses, and other specialty practice communities. Moore Medical also serves the medical/surgical supply needs of over 26 customer community affiliates. We market to and serve our customers through direct mail, industry-specialized telephone support staff, field sales representatives, and the Internet. Our direct marketing and distribution business has been in operation for over 50 years.

Basis of Presentation

Moore Medical has prepared the accompanying unaudited financial statements in accordance with generally accepted accounting principles for interim financial statements. In the opinion of management, all adjustments necessary for a fair presentation of the results for the interim period have been made. The results for the three and six month periods ended June 29, 2002 do not necessarily indicate the results to be expected for the fiscal year ended December 28, 2002 or any other future period. The fiscal quarters ended on June 29, 2002 and June 30, 2001.

The accompanying unaudited financial statements should be read in conjunction with the Notes to Financial Statements and Management's Discussion and Analysis of Results of Operations and Financial Condition included in the Company's 2001 Annual Report filed on Form 10-K and in this Form 10-Q Quarterly Report.

Certain prior year amounts have been reclassified to conform with the current year presentation.

Recent Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets."

SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. The Company has not been

involved with any business combinations subsequent to June 30, 2001, and therefore there is no action required with respect to this pronouncement.

SFAS No. 142 changes the accounting for goodwill and certain other intangible assets from an "amortization" method to an "impairment only" approach. Due to the adoption of SFAS No. 142, the Company will not amortize goodwill beginning in fiscal 2002. The goodwill amortization expense during fiscal 2001 was $137,771. The Company does not anticipate the adoption of this standard will result in a material write down during fiscal 2002.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." The statement, effective for fiscal years beginning after June 15, 2002, requires companies to record a liability for asset retirement obligations in the period in which they are incurred, which typically could be upon completion of construction or shortly thereafter. The Company does not believe that the adoption of this standard will have a material impact on its consolidated financial statements.

In October 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." The statement is effective for fiscal years beginning after December 15, 2001. SFAS No. 144 will supersede SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS No. 144 changes the criteria for classifying an asset as held-for-sale. The Company does not believe that the adoption of this standard will have a material impact on its consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statement No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The Statement is effective for fiscal years beginning after May 15, 2002. The Company does not believe that the adoption of this standard will have a material impact on its consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RECLASSIFICATION

Certain prior year amounts have been reclassified to conform with the current year presentation.

RESULTS OF OPERATIONS

Three Months Ended June 29, 2002 compared to Three Months Ended June 30, 2001.

Net sales for the second quarter increased to $33.4 million, an increase of $0.8 million or 2.5% from net sales of $32.6 million for the same period a year ago. The Company's growth was primarily experienced in its public sector, podiatry and primary care specialty markets which had growth rates of 17.3%, 5.9% and 4.4%, respectively, over the prior year's second quarter. The Company's continued emphasis on multi-channeled marketing and distribution initiatives resulted in continued growth in the Company's Internet based revenues.

Gross profit increased $0.6 million or 7.0% to $9.2 million compared to $8.6 million for the same period a year ago. Overall gross profit margins increased to 27.4% in the second quarter 2002 from 26.4% in second quarter 2001, primarily attributable to product and market mix, and the realization of benefits from our supply chain initiatives.

Sales and marketing expenses decreased by $0.8 million or 22.9% to $2.7 million in 2002 from $3.5 million in 2001 due to continued efforts to establish and implement more effective targeted marketing campaigns and increased efforts to develop vendor co-operative programs. General and administrative expenses decreased by $0.1 million or 1.6% to $6.0 million in 2002 from $6.1 million in 2001 reflecting the continued realization of benefits from third and fourth quarter 2001 cost containment initiatives. As a percentage of net sales, total S,G&A decreased to 26.0% in the second quarter 2002 from 29.4% for the same period a year ago. The Company believes its existing cost structure continues to be adequate to support future growth.

Interest expense for the second quarter of 2002 decreased to $40 thousand from $108 thousand for the same period a year ago. The decrease is attributable to the refinancing of the government settlement note with the revolving credit facility to take advantage of the lower interest rates.

The effective income tax rate of 36.1% for the second quarter of 2002 was higher than the prior fiscal year's effective income tax benefit rate of 33.0%, due to the impact of the government settlement and consolidation activities within the Company's distribution network on the 2001 tax benefit rate. The effective income tax rate for the second quarter of 2002 was also impacted by the Company's successful attainment of a net income position compared to a net loss for fiscal year 2001.

Net income increased to $0.3 million, or $0.09 earnings per share compared to a net loss of ($0.8) million, or ($0.24) loss per share, for the same period a year ago.

Six Months Ended June 29, 2002 Compared to Six Months Ended June 30, 2001

For the first two quarters of 2002, net sales were $65.9 million, an increase of

$0.9 million or 1.4% from $65.0 million for the comparable period in 2001. The revenue base that was established during 2001 has been maintained and supplemented through the development and implementation of more effective targeted marketing campaigns. The overall net sales growth reflects strong revenue growth for the Company's Internet-based revenue, which increased $1.9 million, or 33.9%, to $7.5 million for the first six months of the fiscal year, compared to $5.6 million for the same period a year ago. Internet based revenue represented 11.5% of the first two quarters net sales versus 8.7% in the same period a year ago.

Gross profit increased $1.2 million or 7.1% to $18.2 million, compared to $17.0 million for the same period in 2001. Overall gross profit margin increased to 27.6% from 26.2% in 2001. The increase is primarily attributable to the increased sales volume, product mix and continuing improvements in our supply chain operations.

Sales and marketing expenses decreased by $1.6 million or 23.2% to $5.3 million in 2002 from $6.9 million in 2001 due to continued efforts to establish and implement more effective targeted marketing campaigns and increased efforts to develop vendor co-operative programs. General and administrative expenses decreased by $0.9 million or 6.9% to $12.1 million in 2002 from $13.0 million in 2001 reflecting the continued realization of benefits from cost containment initiatives. As a percentage of net sales, total S,G&A decreased to 26.4% in the first two quarters of 2002 from 30.6% for the same period a year ago. The Company believes its existing cost structure continues to be adequate to support future growth.

Interest expense for the first two quarters of 2002 increased to $87 thousand from $72 thousand for the same period a year ago. The slight increase is attributable to the higher interest rate on the government settlement note for the period prior to refinancing.

The effective income tax rate of 35.9% for the first two quarters of 2002 was higher than the prior year's effective income tax benefit rate of 33.0% due to the impact of the government settlement and the closure of the Lemont facility and consolidation of remaining distribution center operations. The effective income tax rate for the first six months of 2002 was also impacted by the Company's successful attainment of a net income position compared to a net loss for fiscal year 2001.

Net income increased to $0.5 million or $0.15 earnings per share compared to ($1.9) million, or ($0.59) loss per share, for the same period in 2001.

LIQUIDITY AND CAPITAL RESOURCES

The Company ended the second quarter 2002 with a zero balance in cash and cash equivalents, a $0.8 million decrease from December 29, 2001. The liquidity decline was the result of the decision to refinance the government settlement note on February 13, 2002 with a combination of cash on hand and the draw-down of the collateralized revolving credit facility. According to the design of the collateralized revolving credit facility, all amounts of cash and cash equivalents are offset against outstanding loan balances. As of June 29, 2002, the Company had $2.8 million outstanding on its collateralized revolving credit facility.

The Company's operations provided $1.4 million in cash during the first six months 2002. The primary sources of cash from operations were: net income of $0.5 million, depreciation expense of $1.5 million, sources of cash from working capital consisting of a $0.7 million reduction in inventory, offset by uses of working capital consisting of a $0.2 million increase in accounts receivable, $0.6 million increase in other assets which was due to the timing of advertising material, and a $0.5 million decrease in accounts payable.

Investing activities used $0.5 million for the first two quarters 2002 compared with $0.8 million in 2001. Capital expenditures were made for technology and operating efficiency initiatives which will produce future benefits for the Company.

Financing activities used $1.8 million during the first two quarters of 2002, which is the net of the government settlement note refinancing offset by the incremental borrowings on the Company's collateralized revolving credit facility. As a result, the Company's reported borrowings were $1.8 million less than that which was reported at 2001 year-end.

On January 26, 2001, the Company entered into a three-year bank financing agreement which will provide up to $15 million in a collateralized revolving credit facility. The credit facility provides the Company with the latitude it needs to implement strategic initiatives as they arise. During the first quarter of 2002, the Company utilized its collateralized revolving credit facility to refinance the government settlement note in full to take advantage of the current low interest rate environment.

The Company believes that cash flows from operations and available cash and cash equivalents are adequate to fund the Company's operations for the foreseeable future.

FORWARD-LOOKING INFORMATION

This report contains statements about future events and expectations that constitute forward-looking statements within the meaning of the Private Securities Litigation

Reform Act of 1995. Forward-looking statements are based on management's beliefs, assumptions and expectations of the Company's future economic performance, taking into account the information that is currently available to management. These statements are not statements of historical fact. Forward-looking statements involve risks and uncertainties (including, but not limited to, economic, competitive, governmental and technological factors outside our control) that may cause the Company's actual results, performance or financial condition to differ materially from the expectations of future results, performance or financial condition we express or imply in any forward-looking statements. Factors that could contribute to these differences include, but are not limited to:

Business Strategy Factors

o The inability to generate adequate revenues and income from our strategy to transform the Company to a multi-channel e-commerce enabled business.

o Changes in demand for the Company's products.

o Pressures on revenues resulting from, for example, customer consolidations or changes in customer buying patterns.

o Changes in the availability or salability of products manufactured by our suppliers.

Operating Factors

- Unforeseen web site hosting or other service disruptions, or online credit card fraud or security breaches in the Company's web site.

- Failure to keep up with rapidly changing technologies or Internet developments.

- Our internal systems are located in a single facility, the loss of which would significantly impact our continued business operations.

- Disruptions in or cost increases for services or systems upon which we are dependent, such as the trucking companies that deliver products from our suppliers, common carriers (such as United Parcel Service and Federal Express) that deliver products to our customers, telecommunication services, computer systems services, and printing services.

Competitive Factors

- Intense competition in health care product distribution from distributor consolidations, new online entrants and pricing pressures from larger distributors able to benefit from economies of scale or other operating efficiencies.

Governmental Factors

- Changes in, or compliance with, laws regulating the distribution of drugs and medical devices.

- Changes in governmental support or insurance coverage of health care products or services, including potential governmental reductions in health care funding affecting our customers' services or revenues.

- New governmental regulation of the Internet.

- New sales tax collection obligations.

General Economic Factors

- The effect of general economic conditions, inflation and interest rates.

- Changes in currency exchange rates and political and economic conditions nationwide.

Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, we can give no assurance that the Company's expectations will be achieved. We qualify any forward-looking statements entirely by these cautionary factors, and readers are cautioned not to place undue reliance on forward-looking statements.

The words "believe," "may," "will," "could," "should," "would," "anticipate," "estimate," "expect," "intend," "project," "objective," "seek," "strive," "might," "seeks," "likely result," "build," "grow," "plan," "goal," "expand," "position," or similar words, or the negatives of these words, or similar terminology, identify forward-looking statements.

The forward-looking statements contained in this report only speak as of the date of this report. The Company disclaims any obligation or undertaking to provide any updates or revisions to any forward-looking statements to reflect any change in management's expectations or any change in events, conditions or circumstances on which the forward-looking statements are based.

ITEM 3. Quantitative & Qualitative Disclosures About Market Risk

We have no material market risk exposure associated with activities in derivative financial statements, other financial instruments, or derivative commodity instruments. The Company does not expect changes in interest rates to have a material effect on income or cash flows in fiscal 2002, although there can be no assurances that interest rates will not significantly change.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

(a) The 2002 Annual Meeting of Shareholders of the Company was held May 23, 2002.

(b) At the Annual Meeting, the Company's shareholders voted on the following:

1. Election of directors

Name of Nominee	For	Withheld
Linda M. Autore	2,779,946	128,852
Christopher Brody	2,779,946	128,852
Peter A. Derow	2,779,946	128,852
Steven Kotler	2,779,946	128,852
Robert H. Steele	2,779,946	128,852
Wilmer J. Thomas, Jr.	2,779,946	128,852
Dan K. Wassong	2,779,946	128,852

2. Ratification of appointment of Independent Auditors

For	2,864,316
Against	15,100

Item 5. Other Matters

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit

99.1 Certification Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.2 Certification Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

No Report on Form 8-K was filed during the quarter.

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.

MOORE MEDICAL CORP.
(REGISTRANT)

BY: /s/ Linda M. Autore	BY: /s/ John M. Zinzarella
Linda M. Autore, President and Chief Executive Officer August 9, 2002	John M. Zinzarella, Vice President, Controller and Interim Chief Financial Officer August 9, 2002