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MILITARY RESALE GROUP INC  
Form 10QSB  
November 15, 2002

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, 2002

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 000-26463  
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MILITARY RESALE GROUP, INC.

(Name of small business issuer as specified in its charter)  
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New York  
-----

11-2665282  
-----

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

2180 Executive Circle  
Colorado Springs, Colorado 80906  
-----

(Address of principal executive offices)

(719) 391-4564  
-----

(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

As of September 30, 2002, there were 10,833,389 shares of the issuer's common stock outstanding.

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

MILITARY RESALE GROUP, INC.

FORM 10-QSB

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ITEM 1. FINANCIAL INFORMATION

MILITARY RESALE GROUP, INC  
Balance Sheet  
(Unaudited)

ASSETS	September 30, 2002	December 31, 2001
	-----	-----
Current Assets		
Cash	\$ 17,548	\$ -
Accounts receivable - trade	802,363	441,058
Prepays	3,714	6,708
Inventory	282,076	252,430
Deposits	23,218	20,406
	-----	-----
Total Currents Assets	1,128,919	720,602

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Fixed Assets:		
Office equipment	4,607	9,121
Warehouse equipment	205,044	203,132
Vehicles	64,366	64,366
Leasehold improvements	2,440	2,440
Software	16,324	15,609
	292,781	294,668
Less accumulated depreciation	(138,501)	(102,257)
Net Fixed Assets	154,280	192,411
TOTAL ASSETS	\$ 1,283,199	\$ 913,013
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable - trade	\$ 1,374,062	\$ 1,047,207
Accrued expenses	95,329	-
Accrued interest payable	247,648	60,657
Bank overdraft	-	1,349
Capitalized leases/Notes payable - current portion	341,718	260,522
Total Current Liabilities	2,058,757	1,369,735
Long-term debt		
Notes payable	185,975	91,121
Total Long-term debt	185,975	91,121
Total Liabilities	2,244,732	1,460,856
Stockholders' Equity		
Common stock, par value \$.0001, 60,000,000 shares authorized: 10,833,389 and 7,505,004 issued and outstanding at September 30, 2002 and December 31, 2001, respectively	1,083	750
Additional paid-in capital	1,313,083	407,150
Retained deficit	(2,275,699)	(955,743)
Total Stockholders' Equity	(961,533)	(547,843)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,283,199	\$ 913,013

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MILITARY RESALE GROUP, INC  
Statement of Operations  
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2002	2001	2002	2001
<b>REVENUES:</b>				
Gross Sales	\$1,548,384	\$1,181,690	\$ 4,561,198	\$3,362,747
Commission sales - net	102,706	102,755	226,690	176,987
<b>Total Revenues</b>	<b>1,651,090</b>	<b>1,284,445</b>	<b>4,787,888</b>	<b>3,539,734</b>
<b>COST OF GOODS SOLD:</b>				
	1,373,106	1,124,434	4,069,592	3,092,992
<b>GROSS PROFIT</b>	<b>277,984</b>	<b>160,011</b>	<b>718,296</b>	<b>446,742</b>
<b>EXPENSES:</b>				
Salary and payroll taxes	146,923	96,046	362,885	294,826
Professional fees	421,111	2,988	621,557	165,633
Occupancy	55,262	25,604	165,787	71,433
General and administrative	92,025	60,636	430,503	169,791
Amortization/depreciation	15,160	9,009	36,413	27,027
Lease and auto/truck expense	19,372	9,995	65,690	46,039
<b>Total Operating Expenses</b>	<b>749,853</b>	<b>204,278</b>	<b>1,682,835</b>	<b>774,749</b>
<b>OTHER REVENUES &amp; EXPENSES:</b>				
Interest expense	(115,563)	(3,978)	(355,826)	(6,229)
Interest/Other income	367	-	409	-
<b>Total Other Revenues &amp; Expenses</b>	<b>(115,196)</b>	<b>(3,978)</b>	<b>(355,417)</b>	<b>(6,229)</b>
<b>NET LOSS</b>	<b>\$ (587,065)</b>	<b>\$ (48,245)</b>	<b>\$ (1,319,956)</b>	<b>\$ (334,236)</b>
Per share information				
Weighted average number of common shares outstanding	9,072,936	5,360,000	9,460,023	6,580,004
<b>Net Loss per common share</b>	<b>\$ (0.06)</b>	<b>\$ (0.01)</b>	<b>\$ (0.14)</b>	<b>\$ (0.05)</b>

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MILITARY RESALE GROUP, INC  
Statement of Stockholders' Deficit  
(Unaudited)

	Common Stock		Additional Paid-In Capital	Retained Deficit	Total Stockhol Equity
	Shares	Amount			
Balance -October 6, 1997	-	\$ -	\$ -	\$ -	\$ -
Issuance of common stock for cash	800,000	80	120	-	2
Net loss	-	-	-	(6,756)	(6,756)
Balance - December 31, 1997	800,000	80	120	(6,756)	(6,556)
Issuance of common stock for cash	40,000	4	14,996	-	15,000
Issuance of common stock for services	3,000,000	300	(300)	-	3,000
Net loss	-	-	-	(43,372)	(43,372)
Balance - December 31, 1998	3,840,000	384	14,816	(50,128)	(34,928)
Issuance of common stock for cash	1,520,000	152	134,848	-	135,000
Net loss	-	-	-	(145,948)	(145,948)
Balance - December 31, 1999	5,360,000	536	149,664	(196,076)	(45,816)
Net loss	-	-	-	(13,673)	(13,673)
Balance - December 31, 2000	5,360,000	536	149,664	(209,749)	(59,555)
Stock issued for services	875,000	87	253,663	-	253,750
Stock issued for subsidiary	1,270,004	127	3,823	-	3,950
Net loss	-	-	-	(745,994)	(745,994)
Balance - December 31, 2001	7,505,004	750	407,150	(955,743)	(547,843)
Stock issued for services	300,000	30	92,970	-	93,000
Stock issued for services	73,550	7	22,058	-	22,000
Stock issued in lieu of debt	576,923	58	149,942	-	150,000
Stock issued for beneficial conversation feature as interest	576,923	58	149,942	-	150,000
Stock issued for services	639,727	64	166,265	-	166,300

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Stock issued for services	350,000	35	122,465	-	122,5
Stock issued for services	619,540	62	148,628	-	148,6
Stock issued for services	95,861	10	26,831	-	26,8
Stock issued for services	95,861	9	26,832	-	26,8
Net loss for period	-	-	-	(1,319,956)	(1,319,9
	-----	-----	-----	-----	-----
Balance - September 30, 2002	10,833,389	\$ 1,083	\$1,313,083	\$ (2,275,699)	\$ (961,5
	=====	=====	=====	=====	=====

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MILITARY RESALE GROUP, INC  
Statement of Cash Flows  
(Unaudited)

	For the Nine Months Ended September 30,	
	2002	2001
	-----	-----
Cash Flows from Operating Activities:		
Net Loss	\$ (1,319,956)	\$ (334,236)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	36,244	26,027
Stock issued for services	606,266	79,250
Stock issued in lieu of debt	150,000	-
Stock issued for interest	150,000	-
Loss on disposal of equipment	6,380	-
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	(361,305)	16,516
Decrease (Increase) in prepaids	2,994	(22,388)
Increase (Decrease) in deposits	(2,812)	-
(Increase) Decrease in inventory	(29,646)	(82,698)
Increase in accounts payable	326,855	231,423
Increase (Decrease) in accrued expenses	282,320	5,260
	-----	-----
Net Cash Used in Operating Activities	(152,660)	(80,846)
	-----	-----
Cash Flows from Investing Activities		
Capital expenditures	(4,493)	(7,313)
	-----	-----
Cash Flows Used in Investing Activities	(4,493)	(7,313)
	-----	-----
Cash Flows from Financing Activities:		
Bank overdraft	(1,349)	-
Proceeds from sale of stock	-	-
Proceeds (payments) from notes payable - net	176,050	100,944

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Cash Flows Provided by Financing Activities	174,701	100,944
Net Increase (Decrease) in cash and cash equivalents	17,548	12,785
Cash and cash equivalents - beginning of period	-	-
Cash and cash equivalents - end of period	\$ 17,548	\$ 12,785
Supplemental information:		
Cash paid for interest	\$ 6,170	\$ 6,229
Cash paid for income taxes	\$ -	\$ -
Non-cash investing and financing activities:		
Issuance of stock in exchange for cancellation of indebtedness of \$150,000 and interest expense of \$150,000 on convertible notes	\$ 300,000	\$ -

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NOTE 1-GENERAL

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

NOTE 2 - BASIS OF PRESENTATION

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

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

NOTE 3 - INVENTORY

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

Finished Goods	282,076
	-----
	\$282,076
	=====

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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 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 effectiveness of our technologies and the addition of new products and suppliers; (3) our ability to maintain, attract and integrate management personnel; (4) our ability to complete the development of our proposed product line in a timely manner; (5) our ability to effectively market and sell our products and services to current and new customers; (6) our ability to negotiate and maintain suitable strategic partnerships and corporate relationships with suppliers and manufacturers; (7) the intensity of competition; and (8) general economic conditions. As a result of these and other factors, we may experience material fluctuations in future operating results on a quarterly or annual basis, which could materially and adversely affect our business, financial condition, operating results and stock price.

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

Prior to November 15, 2001, we did not generate any significant revenue, and accumulated no significant assets, as we explored various business opportunities. On November 15, 2001, we acquired 98.2% of the issued and outstanding capital stock of Military Resale Group, Inc., a Maryland corporation ("MRG-Maryland"), in exchange for a controlling interest in our publicly-held "shell" corporation (the "Reverse Acquisition"). For financial reporting

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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 - THREE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO THREE MONTHS SEPTEMBER, 2001

Revenue. Total revenue for the three months ended September 30, 2002 of \$1,651,090 reflected an increase of \$366,645, or approximately 29%, compared to total revenue of \$1,284,445 for the three months ended September 30, 2001. Our revenues are derived in either one of two ways. In the majority of instances, we purchase products from manufacturers and suppliers for resale to the commissaries we service. In such cases, we resell the manufacturer's or supplier's products to the commissaries at generally the same prices we pay for such products, which prices generally are negotiated between the manufacturer or supplier and the Defense Commissary Agency ("DeCA"). Revenue is recognized as the gross sales amount received by us from such sales ("resale revenues"), which includes (i) the purchase price paid by the commissary plus (ii) a negotiated storage and delivery fee paid by the manufacturer or supplier. In the remaining instances, we act as an agent for the manufacturer or supplier of the products we sell, and earn a commission paid by the manufacturer or supplier, generally in an amount equal to a percentage of the manufacturer's or supplier's gross sales amount ("commission revenues"). In such cases, revenue is recognized as the commission we receive on the gross sales amount.

Resale revenue for the three months ended September 30, 2002 of \$1,548,384 reflected an increase of \$366,694, or approximately 31%, compared to resale revenue of \$1,181,690 for the three months ended September 30, 2001. For the three months ended September 30, 2002, approximately 63% of our gross profit was derived from sales involving resale revenue compared to approximately 36% for the three months ended September 30, 2001. These increases were attributable primarily to the addition of the new products we began supplying to commissaries during the fourth quarter of fiscal 2001, including Slimfast, L'eggs, Bush Beans and Rayovac Batteries, and during the first and second quarters of fiscal 2002, including a line of feminine hygiene products and a line of infant feeding products supplied by Playtex Products, Inc., which we sell on a resale basis, as well as the implementation of our long-term strategy to increase our ratio of sales of products we sell on a resale basis, rather than a commission basis, due to the payment discounts we often receive from the manufacturers and suppliers of the goods we purchase for resale.

Commission revenue for the three months ended September 30, 2002 of \$102,706 reflected a decrease of \$49, or less than 1%, compared to commission revenue of \$102,755 for the three months ended September 30, 2001. For the three months ended September 30, 2002, approximately 37% of our gross profit was derived from sales involving commission revenue compared to approximately 64% for the three months ended September 30, 2001. These decreases were attributable primarily to the implementation of our long-term strategy to increase our ratio of sales of products sold on a resale basis, rather than a commission basis. We cannot be certain as to whether or not these trends will continue; however, in the long term we are seeking to increase the ratio of our sales of products sold

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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.

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In March 2002, we entered into an agreement with Playtex Products, Inc. to distribute, on a resale basis, approximately 70 Stock Keeping Units (SKUs) manufactured or supplied by Playtex, including a line of feminine hygiene products and a line of infant feeding products. We have been advised by Playtex, and verified with DeCA, that sales by Playtex in 2001 to the commissaries we currently service amounted to approximately \$350,000. However, there can be no assurance that our sales of Playtex products will reach such amount, and the amount of our actual sales of Playtex products may differ materially from the amounts sold by Playtex in 2001 as a result of one or more of the factors described above, among others.

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

In October 2002, we added to our supplier network the Hillshire Farm and Kahn's product groups of Sara Lee Foods-USA and certain consumer products distributed by Chattem, Inc. Hillshire Farm and Kahn's are product lines of packaged meats and hams. Chattem is a manufacturer of branded consumer products, principally over-the-counter healthcare products, including Aspercreme, Gold Bond, Sportscreme, Pamprin, Dexatrim, Rejuvex and Flexall. We have been advised by Sara Lee Foods-USA, and verified with DeCA, that sales of Hillshire Farm and Kahn's products in 2001 to the commissaries we currently service amounted to approximately \$950,000. We have been advised by Chattem, and verified with DeCA, that sales of Chattem's line of products in 2001 to the commissaries we currently service amounted to approximately \$200,000. However, there can be no assurance that our annual sales of these products will reach such amounts, and the amount of our actual sales of Hillshire Farm and Kahn's Products and Chattem products may differ materially from the amounts sold by Sara Lee Foods-USA and Chattem, respectively, in 2001.

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

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the military market. While there can be no assurance that we will do so, we believe we will be successful in negotiating agreements with a number of such suppliers and manufacturers.

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

**COST OF GOODS SOLD.** Cost of goods sold consists of our cost to acquire products from manufacturers and suppliers for resale to commissaries. In instances where we sell products on a commission basis, there is no cost of goods sold because we act as an agent for the manufacturer or supplier and earn only a commission on such sales. During the three months ended September 30, 2002, cost of goods sold increased by \$248,672, or approximately 22%, to \$1,373,106 from \$1,124,434 for the three months ended September 30, 2001. This increase was attributable primarily to the addition of new products that we sell on a resale basis. We cannot be certain as to whether or not this trend will

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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, 2002 increased by \$117,973, or approximately 74%, compared to the three months ended September 30, 2001, from \$160,011 for the three months ended September 30, 2001 to \$277,984 for the three months ended September 30, 2002. This increase was attributable primarily to the addition of new products that we purchase for resale to the commissaries we service.

**OPERATING EXPENSES.** Total operating expenses aggregated \$749,853 for the three months ended September 30, 2002 as compared to \$204,278 for the three months ended September 30, 2001, representing an increase of \$545,575, or approximately 267%. The increase in total operating expenses for the three month period ended September 30, 2002 was attributable primarily to increased professional fees of \$418,123, resulting primarily from the issuance of shares of our common stock for consulting services rendered to the Company and to legal and accounting costs associated with the preparation of a registration statement under the Securities Act of 1933 relating to a proposed offering of equity securities; increased occupancy expense of \$29,658 resulting from our move to larger office and warehouse facilities in September 2001; increased salary expenses and payroll taxes of \$50,877; and increased general and administrative expenses of \$31,389 resulting primarily from increased premiums on health and workers' compensation insurance.

**INTEREST EXPENSE.** Interest expense of \$115,563 for the three months ended September 30, 2002 reflected an increase of \$111,585 as compared to interest expense of \$3,978 for the three months ended September 30, 2001. The increase in interest expense was attributable primarily to interest expense of \$105,000 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 \$105,000 aggregate principal amount of convertible promissory notes issued in the third quarter of 2002.

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**NET LOSS.** For the reasons discussed above, we incurred a net loss of \$587,065 for the three months ended September 30, 2002 as compared to a net loss of \$48,245 for the three months ended September 30, 2001.

**NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2001**

**REVENUE.** Total revenue for the nine months ended September 30, 2002 of \$4,787,888 reflected an increase of \$1,248,154, or approximately 35%, compared to total revenue of \$3,539,734 for the nine months ended September 30, 2001. Resale revenue for the nine months ended September 30, 2002 of \$4,561,198 reflected an increase of \$1,198,451, or approximately 34%, compared to resale revenue of \$3,362,747 for the nine months ended September 30, 2001. For the nine months ended September 30, 2002, approximately 68% of our gross profit was derived from sales involving resale revenue compared to approximately 60% for the nine months ended September 30, 2001. These increases were attributable primarily to the addition of the new products we began offering during the 2001 period, as discussed above, as well as the implementation of our long term strategy to increase the ratio of sales on a resale basis rather than a commission basis.

**COMMISSION REVENUES** for the nine months ended September 30, 2002 of \$226,690 reflected an increase of \$49,703, or approximately 28%, compared to commission revenues of \$176,987 for the nine months ended September 30, 2001. For the nine months ended September 30, 2002, approximately 32% of our gross

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profit was derived from sales involving commission revenues as compared to approximately 40% for the nine months ended September 30, 2001.

**COST OF GOODS SOLD.** During the nine months ended September 30, 2002, cost of goods sold increased by approximately \$976,600, or approximately 32%, to \$4,069,592 from \$3,092,992 for the nine months ended September 30, 2001. This increase was attributable primarily to the addition of new products that we sell on a resale basis.

**GROSS PROFIT.** Gross profit for the nine months ended September 30, 2002 increased by \$271,554, or approximately 61%, compared to the nine months ended September 30, 2001, from \$446,742 for the nine months ended September 30, 2001 to \$718,296 for the nine months ended September 30, 2002. This increase was attributable primarily to addition of new products that we purchase for resale to commissaries we service.

**OPERATING EXPENSES.** Total operating expenses aggregated \$1,682,835 for the nine months ended September 30, 2002 as compared to \$774,749 for the nine months ended September 30, 2001, representing an increase of \$908,086, or approximately 117%. The increase in total operating expenses was attributable primarily to increased professional fees of \$455,924, resulting primarily from the issuance of shares of our common stock for consulting services rendered to the Company and to legal and accounting costs associated with the preparation of a registration statement under the Securities Act of 1933 relating to a proposed offering of equity securities; increased occupancy expense of \$94,354 resulting from our move to larger office and warehouse facilities in September 2001;

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increased salary expenses and payroll taxes of \$68,059; and increased general and administrative expenses of \$260,712 resulting primarily from increased premiums on health workers' compensation insurance.

**INTEREST EXPENSE.** Interest expense of \$355,826 for the nine months ended September 30, 2002 reflected an increase of \$349,597 as compared to interest expense of \$6,229 for the nine months ended September 30, 2001. The increase in interest expense was attributable primarily to interest expense of \$330,000 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 \$330,000 aggregate principal amount of convertible promissory notes issued in the nine months ended September 30, 2002.

**NET LOSS.** Primarily as a result of the increased operating and interest expenses discussed above, we incurred a net loss of \$1,319,956 for the nine months ended September 30, 2002 as compared to a net loss of \$334,236 for the nine months ended September 30, 2001.

### LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2002, we had a cash balance of \$17,548. Our principal source of liquidity has been borrowings. Since November 2001, we have funded our operations primarily from borrowings of approximately \$525,000. In the fourth quarter of 2001 and the first and second quarters of 2002, we issued \$260,000 aggregate principal amount of convertible promissory notes (the "9% Convertible Notes") that mature on December 31, 2002 and bear interest at the rate of 8% per annum prior to June 30, 2002 and 9% per annum thereafter. In April 2002, \$150,000 aggregate principal amount of 9% Convertible Notes (and \$2,380 accrued interest thereon) was converted by the holders into an aggregate of 1,993,573 shares of our common stock. The remaining 9% Convertible Notes are convertible at any time and from time to time by the noteholders into a maximum of 1,153,900 shares of our common stock (subject to certain anti-dilution adjustments) if the 9% Convertible Notes are not in default, or a maximum of

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2,307,800 shares of our common stock (subject to certain anti-dilution adjustments) if an event of default has occurred in respect of such notes. The terms of the 9% Convertible Notes require us to register under the Securities Act of 1933 the shares our common stock issuable upon conversion of the 9% Convertible Notes not later than December 31, 2002.

In the third quarter of 2002, we issued \$105,000 aggregate principal amount of convertible promissory notes (the "8% Convertible Notes") that mature on either June 30, 2003 or July 30, 2003 and bear interest at the rate of 8% per annum. The 8% Convertible Notes are convertible at any time and from time to time by the noteholders into a maximum of 489,667 shares of our common stock (subject to certain anti-dilution adjustments). The terms of the 8% Convertible Notes require us to register under the Securities Act of 1933 the shares of our common stock issuable upon conversion of the 8% Convertible Notes not later than December 31, 2002.

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In the third quarter of 2002, we borrowed \$10,000 from a single lender. In connection with each such loan, we executed a demand promissory note that bears interest at the rate of 8% per annum and matures on December 31, 2002.

Our current cash levels, together with the cash flows we generate from operating activities, are not sufficient to enable us to execute our business strategy. As a result, we intend to seek additional capital through the sale of up to 5,000,000 shares of our common stock. In December 2001, we filed with the Securities and Exchange Commission a registration statement relating to such shares. Such registration statement has not yet been declared effective, and there can be no assurance that the Securities and Exchange Commission will declare such registration statement effective in the near future, if at all. In the interim, we intend to fund our operations based on our cash position and the near term cash flow generated from operations, as well as additional borrowings. In the event we sell only a nominal number of shares (i.e. 500,000 shares) in our proposed offering, we believe that the net proceeds of such sale, together with anticipated revenues from sales of our products, will satisfy our capital requirements for at least the next 12 months. However, we would require additional capital to realize our strategic plan to expand distribution capabilities and product offerings. These conditions raise substantial doubt about our ability to continue as a going concern. Our actual financial results may differ materially from the stated plan of operations.

Assuming that we receive a nominal amount of proceeds from our proposed offering of common stock, we expect capital expenditures to be approximately \$200,000 during the next twelve months, primarily for the acquisition of an inventory control system. It is expected that our principal uses of cash will be to provide working capital, to finance capital expenditures, to repay indebtedness and for other general corporate purposes, including sales and marketing and new business development. The amount of spending for any particular purpose is dependent upon the total cash available to us and the success of our offering of common stock.

At September 30, 2002, we had liquid assets of \$819,911, consisting of cash and accounts receivable derived from operations, and other current assets of \$309,008, consisting primarily of inventory of products for sale and/or distribution. Long term assets of \$154,280 consisted primarily of warehouse equipment used in operations.

Current liabilities of \$2,058,757 at September 30, 2002 consisted of \$1,374,062 of accounts payable and \$341,718 for the current portion of capitalized leases and notes payable, of which approximately \$210,000 was payable to our officers or our other affiliates.

Our working capital deficit was \$929,838 as of September 30, 2002 for the

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reasons described above.

During the nine months ended September 30, 2002, we used cash of \$152,660 in operating activities, primarily as a result of the net loss incurred during this period.

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During the nine months ended September 30, 2002, we used net cash of \$4,493 in investing activities, all of which was used for capital expenditures.

Financing activities, consisting primarily of short-term borrowings, provided net cash of \$174,701 during the nine months ended September 30, 2002.

### ITEM 3. CONTROLS AND PROCEDURES

(a) Based upon an evaluation performed within 90 days of this Report, our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have each concluded that our disclosure controls and procedures are effective to ensure that material information relating to our Company is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared, and that our internal controls are effective to provide reasonable assurances that our financial condition, results of operations and cash flows are fairly presented in all material respects.

(b) The CEO and CFO each note that, since the date of his evaluation until the date of this Report, there have been no significant changes in internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

### PART II. OTHER INFORMATION

#### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(a) None.

(b) None.

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

In August 2002, we issued to two affiliates of the Company an aggregate of \$100,000 principal amount of convertible promissory notes that mature on June 30, 2003 and bear interest at 8% per annum. Such notes are convertible into a maximum of 436,000 shares of our common stock at the option of the noteholders at any time. The terms of such notes require us to register under the Securities

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Act of 1933 the shares of our common stock issuable upon conversion of such notes not later than December 31, 2002. Such notes were issued by us in

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reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, on the basis that such issuance did not involve a public offering, no underwriter fees or commissions were paid by us in connection with such issuance and such persons were 'accredited investors' as defined in Regulation D under the Securities Act of 1933, as amended.

In September 2002, we issued to a single purchaser a convertible promissory note in the principal amount of \$5,000 that matures on July 30, 2003 and bears interest at the rate of 8% per annum. Such note is convertible at any time and from time to time by the noteholder into a maximum of 53,667 shares of our common stock (subject to certain anti-dilution adjustments). The terms of the such note require us to register under the Securities Act of 1933 the shares of our common stock issuable upon conversion of the note not later than December 31, 2002. Such note was 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.

(d) None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) None.

(b) On August 15, 2002, the Company filed a Current Report on Form 8-K providing certifications of its Chief Executive Officer and Chief Financial Officer with respect to its Quarterly Report on Form 10-QSB/A for the period ended June 30, 2002 as required by 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).

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 November 14, 2002.

MILITARY RESALE GROUP, INC.

By: /s/ Ethan D. Hokit\_\_\_\_\_

Name: Ethan D. Hokit

Title: President (Principal Accounting Officer and Principal Financial Officer)

Certification of Principal Executive Officer

Pursuant to 18 U.S.C. 1350  
(SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002)

I, Edward T. Whelan, certify that:

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1. I have reviewed this quarterly report on Form 10-QSB of Military Resale Group, Inc.;

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

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

4. The registrant's other certifying officers 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 we 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 quarterly 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 quarterly report (the "Evaluation Date"); and

c) presented in this quarterly 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 officers 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 function):

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

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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 officers and I have indicated in this quarterly report whether or not 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.

By: /s/ Edward T. Whelan

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Name: Edward T. Whelan

Title: Chief Executive Officer

November 14, 2002

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Certification of Principal Financial Officer  
Pursuant to 18 U.S.C. 1350  
(SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002)

I, Ethan D. Hokit, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Military Resale Group, Inc.;

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

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

4. The registrant's other certifying officers 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 we 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 quarterly 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 quarterly report (the "Evaluation Date"); and

c) presented in this quarterly 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 officers 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 function):

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

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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 officers and I have indicated in this quarterly report whether or not 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.

By: /s/ Ethan D. Hokit  
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Name: Ethan D. Hokit  
Title: Chief Financial Officer

November 14, 2002