MILITARY RESALE GROUP INC
Form 10QSB
August 23, 2004

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

FORM 10-QSB

(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 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	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 [X] No [ ]

As of August 15, 2004, there were 31,113,832 shares of the issuer's common stock outstanding.

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

MILITARY RESALE GROUP, INC.

FORM 10-QSB

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ITEM 1. FINANCIAL INFORMATION

MILITARY RESALE GROUP, INC.
BALANCE SHEETS

ASSETS

	CONSOLIDATED AS OF JUNE 30, 2004	DECEMBER 31, 2003
CURRENT ASSETS:	(UNAUDITED)	
Cash	$ 6,277	$ 2,862
Accounts receivable - trade	699,189	765,851
Inventory	417,925	334,950
Prepaid consulting	102,236	484,506
Deposits	37,118	33,218

Prepaid interest	46,245	92,681
Prepaid expenses	14,030	--
Total Current Assets	1,323,020	1,714,068
PREPAID INTEREST, NET OF CURRENT PORTION	132,038	132,038
EQUIPMENT		
Office equipment	24,507	15,047
Warehouse equipment	159,444	159,444
Software	16,324	16,324
	200,275	190,815
Less accumulated depreciation	(124,350)	(106,103)
Net equipment	75,925	84,712
OTHER ASSETS		
Deferred offering costs	23,947	--
Investment Property	345,468	--
Total Other Assets	369,415	--
Total Assets	$ 1,900,398	$ 1,930,818

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 2,258,151	$ 2,507,544
Accounts payable, related party	154,056	72,632
Current maturities of capital lease obligations	28,402	51,981
Deferred rent	2,729	2,729
Current portion of accrued interest payable	127,856	99,561
Current portion of notes payable	16,025	90,235
Current portion of convertible notes payable	65,000	85,000
Related party demand note payable	75,000	--
Other Current Liabilities	7,655	--
Total Current Liabilities	2,734,874	2,909,682

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MILITARY RESALE GROUP, INC.
BALANCE SHEETS
(CONTINUED)

OBLIGATIONS UNDER CAPITAL LEASES, NET OF CURRENT MATURITIES	36,351	36,351
DEFERRED RENT, NET OF CURRENT PORTION	21,832	21,832
RELATED PARTIES CONVERTIBLE NOTES PAYABLE	360,000	360,000

NOTES PAYABLE, NET OF CURRENT PORTION	98,975	98,975
CONVERTIBLE NOTES PAYABLE, NET OF CURRENT PORTION	160,000	160,000
MORTGAGE PAYABLE	71,187	--
Total Liabilities	3,483,219	3,586,840
STOCKHOLDERS' EQUITY (DEFICIT):		
Preferred stock, par value $.0001, 10,000,000 shares authorized, -0- issued and outstanding	--	--
Common Stock Reserved	(11,750)	--
Common stock, par value $.0001, 50,000,000 shares authorized, 30,293,832 and 21,448,011 issued and outstanding	3,030	2,144
Additional paid-in capital	5,475,071	4,248,547
Accumulated (deficit)	(7,049,172)	(5,906,713)
Total Stockholders' Equity (Deficit)	(1,582,821)	(1,656,022)
Total Liabilities and Stockholders' Equity (Deficit)	$ 1,900,398	$ 1,930,818

SEE ACCOMPANYING NOTES TO UNAUDITED FINANCIAL STATEMENTS.

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

	CONSOLIDATED FOR THE THREE MONTHS ENDED JUNE 30, 2004	THREE MONTHS ENDED JUNE 30, 2003	CONSOLIDATED FOR THE SIX MONTHS ENDED JUNE 30, 2004	S M JU
REVENUES:				
Resale revenue	$ 1,859,784	$ 1,534,377	$ 3,821,328	$
Commission revenue	160,957	135,188	334,389	
Total Revenues	2,020,741	1,669,565	4,155,717	
COST OF GOODS SOLD	1,698,938	1,334,367	3,481,499	
GROSS PROFIT	321,803	335,198	674,218	
OPERATING EXPENSES:				

Stock based compensation	378,493	356,484	789,320	
Salary and payroll taxes	193,879	141,971	356,668	
Professional fees	72,507	136,056	101,599	
Occupancy	59,356	59,356	118,712	
General and administrative	197,181	126,734	336,795	
Depreciation and amortization	8,805	2,670	18,247	
Total Expenses	910,221	823,271	1,721,341	
Net (Loss) From Operations	(588,418)	(488,073)	(1,047,123)	
OTHER (EXPENSES):				
Interest expense	(38,229)	(97,911)	(95,336)	
Total Other (Expense)	(38,229)	(97,911)	(95,336)	
NET (LOSS)	$ (626,647)	$ (585,984)	$ (1,142,459)	$
NET (LOSS) PER COMMON SHARE BASIC AND DILUTED	$ (0.02)	$ (0.05)	$ (0.04)	$
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	27,913,739	12,533,035	25,705,861	

SEE ACCOMPANYING NOTES TO UNAUDITED FINANCIAL STATEMENTS

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

	CONSOLIDATED FOR THE SIX MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003
CASH FLOWS FROM (TO) OPERATING ACTIVITIES:		
Net (loss)	$ (1,142,459)	$(1,086,679)
Adjustments to reconcile net (loss) to net cash used in operating activities:		
Depreciation and amortization	18,247	17,661
Amortization of option based interest expense	46,436	133,333
Stock issued for services	682,770	491,580
Options issued for services	94,800	--
Beneficial conversion feature	--	75,000

Stock issued for liquidated damages	11,750	--
Changes in assets and liabilities:		
Decrease (Increase) in accounts receivable	66,662	(388,512)
Decrease (Increase) in inventory	(82,975)	(50,335)
(Increase) in other assets	--	(3,856)
(Increase) in deposits	(3,900)	--
(Increase) in prepaid expenses	(13,642)	--
Increase in accounts payable and accrued expenses	(249,395)	577,635
Increase in related party accounts payable	81,425	--
Increase in accrued interest payable	44,085	--
Increase in deferred rent obligation	--	4,094
Decrease in mortgage payable	(109)	--
Increase in other liabilities	7,655	54,533
Net Cash (Used In) Operating Activities	(438,650)	(175,546)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(9,459)	(1,765)
Net Cash (Used in) Investing Activities	(9,459)	(1,765)
CASH FLOWS FROM (TO) FINANCING ACTIVITIES:		
Payments on capital lease obligations	(23,579)	(8,941)
Payments on notes payable	(60,000)	--
Proceeds from issuance of notes	75,000	185,000
Proceeds from issuance of common stock	547,500	--
Payments of offering costs	(63,450)	--
Payments on deferred offering costs	(23,947)	--
Cash Flows Provided by Financing Activities	451,524	176,059
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,415	(1,252)
CASH AND CASH EQUIVALENTS, beginning of period	2,862	2,072
CASH AND CASH EQUIVALENTS, end of period	$ 6,277	$ 820

MILITARY RESALE GROUP, INC.
STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2004 AND 2003
UNAUDITED
(CONTINUED)

Supplementary information:		
Cash paid for:		
Interest paid	$ 3,921	$ 466

Income taxes	$ --	$ --
	2004	2003
Non-cash investing and financing activities:		
Issuance of stock and options in exchange for services	$ 263,300	$ 716,202
Issuance of common stock and options as payment of notes payable	$ 50,000	$ --
Issuance of common stock in payment of accrued compensation	$ --	$ 52,445
Issuance of stock options in exchange for note extensions	$ --	$ 364,500

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 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 has a working capital deficit 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.

PRINCIPLES OF CONSOLIDATION
The consolidated financial statements include the accounts of the following entities, collectively referred to as "Company" or "DGTL". All significant inter-company transactions have been eliminated.

Military Resale Group, Inc.	Corporation
Ohio Street Partners, Inc.	Corporation

Military Resale Group, Inc. acquired Ohio Street Partners, Inc. on June 10, 2004 and is now a wholly owned subsidiary of Military Resale Group, Inc. (See Note 11).

RECLASSIFICATION Certain amounts in the prior period financial statements have been reclassified for comparative purposes to conform to the presentation in the current period financial statements.

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. As of June 30, 2004, the Company had a balance of $102,236 in prepaid consulting expense.

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 $46,436 charged to interest expense during the six months ended June 30, 2004.

NOTE 5 - RELATED PARTY TRANSACTIONS

On March 31, 2004 and June 30, 2004 pursuant to a consulting agreement with the Company's former chief executive officer, the Company issued 247,560 and 303,261 shares of common stock, respectively, and granted options to purchase 247,560 and 303,261 shares of common stock, respectively, at $.25 per share for a period of five years for services rendered valued at $144,000. The value of the stock and the value of the options was $72,000 each based on $12,000 each per month. The number of shares and options issued was determined by dividing $36,000 by 80% of the average low price of the common stock in each quarter.

NOTE 6 - SECURITIES ISSUED FOR SERVICES

During the six months ended June 30, 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 six months ended June 30, 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 six month 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 six month term of the agreement.

During the six months ended June 30, 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.

During the six months ended June 30, 2004 the Company issued 100,000 shares of common stock valued at $17,000 to a consultant for services to be rendered over a period of 180 days. This amount is recorded as prepaid consulting and is being amortized over the term of the agreement.

During the six months ended June 30, 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 received 250,000 shares of common stock valued at $47,500. This amount is recorded as prepaid consulting and is being amortized over the term of the agreement.

During the six months ended June 30, 2004 the Company issued 500,000 shares of common stock to a consultants for services rendered and expensed $70,000 (the fair value of the common stock on the date of issuance) as stock based compensation.

During the six months ended June 30, 2004 the Company issued 200,000 shares of common stock and granted warrants to purchase 200,000 shares of the Company's common stock at $.25 per share for a period of five years to a stockholder for services rendered. The stock was valued at $34,000 (the fair value of the common stock on the date of issuance) and expensed as stock based compensation. The warrants were valued at $22,800, the fair value using the Black-Scholes European Pricing Model and expensed as stock based compensation. The average risk free interest rate used was 3.96%, volatility was estimated at 93% and the expected life was five years.

NOTE 7 - COMMON STOCK

During the six months ended June 30, 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 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 (See Note 12).

During the six months ended June 30, 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 (See Note 12).

During the six months ended June 30, 2004, the Company issued 62,500 shares of common stock valued at $11,750 to a stockholder as liquidated damages for the Company not registering the stockholder's common stock by January 31, 2004. The Company also recorded common stock reserved of $11,750 for an additional 62,500 shares of common stock that should have been issued as additional liquidated damages.

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:

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.

The Company repaid $25,000 during the year ended December 31, 2003 and repaid the remaining $75,000 principal balance during the three months ended March 31, 2004. The Company paid $25,000 and 400,000 shares of the Company's common stock and warrants to purchase 250,000 shares of the Company's common stock exercisable at $.25 per share for a period of three years. The value of the common stock and warrants was $50,000, based upon the fair market value of the note. At the time the note was exchanged for stock and warrants, the Company had entered into private placements of common stock on terms similar to the exchange transaction.

The Company signed a $30,000 note with Romano, Ltd., for the accrued interest on the original $100,000 loan with interest at 15% per annum, payable beginning on April 1, 2004 with equal consecutive installments payable on the fifteenth of every month in the amount of $5,000 until paid in full or March 26, 2005. At June 30, 2004 the balance remaining on this note was $15,000.

NOTE 9 - RELATED PARTY DEMAND NOTE PAYABLE

During the six months ended June 30, 2004 the Company issued a note payable to a related party who is now the Company's Chief Executive Officer and Chairman of the Board of Directors in the amount of $75,000. The note is due on demand or September 10, 2004, or upon the sale of the San Diego condominium (See Note 11), whichever occurs sooner and bears interest at the rate of 8% per annum.

NOTE 10 - 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 raised. No capital has been raised as of June 30, 2004.

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 but has accrued $5,437 at June 30, 2004. 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. Subsequent to June 30, 2004 this amount was garnished from the Company's bank account.

NOTE 11 - PURCHASE OF OHIO STREET PARTNERS, INC.

On June 10, 2004 the Company acquired Ohio Street Partners, Inc. ("Ohio"), a Delaware corporation from Data Recovery Continuum, Inc. ("DRCI"). As consideration for all of the outstanding shares of the common stock of Ohio, the Company issued 1,920,000 shares of common stock valued at $211,200 (the fair market value of the common stock on the date the agreement was signed) and five year warrants to purchase 960,000 shares of common stock at $.25 to DRCI. The warrants were valued at $63,360, the fair value using the Black-Scholes European Pricing Model. The average risk free interest rate used was 3.96%, volatility was estimated at 93% and the expected life was five years. Ohio's sole asset was a single-family residential condominium located in San Diego, California. The property is valued at $345,468 (based upon the common stock and warrants issued and debt assumed) and is subject to a mortgage of $71,297. Subsequent to June 30, 2004, in accordance with the terms of the agreement, the owner of DRCI was appointed to the Board of Directors of the Company and as of August 9, 2004, became the Company's Chief Executive Officer and Chairman of the Board of Directors (See Note 12).

As part of the acquisition, the owner of DRCI loaned the Company $75,000 evidenced by a demand note (See Note 9). DRCI signed a subscription agreement with the Company for the 1,920,000 shares of common stock issued. The terms of the stock subscription agreement 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 DRCI 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 DRCI, as liquidated damages, additional shares of common stock equal to 10% of the number of shares issued to DRCI. (See Note 12)

NOTE 12 - SUBSEQUENT EVENTS

On July 16, 2004 the Company sold 400,000 shares of common stock under a stock subscription agreement to a stockholder at $.125 per share for total consideration of $50,000. The stockholder was also granted warrants to purchase 200,000 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 August 31, 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 12 - SUBSEQUENT EVENTS (CONTINUED)

On August 7, 2004 Ed Whelan resigned as the Company's Chief Executive Officer and Chairman of the Board of Directors. Mr. Whelan entered into an agreement, release and waiver. In consideration for his resignation, Mr. Whelan will be paid monthly in arrears for a period of six months, for the period beginning September 1, 2004 in restricted shares of the Company's common stock according to the same formula he was paid prior to his resignation (See Note 5). Mr. Whelan will also receive an equal amount of five-year warrants to purchase the Company's common stock at $0.25 per share. The Company will pay for Mr. Whelan's cost of healthcare from September 1, 2004 to February 28, 2005. In addition Mr. Whelan will be reimbursed $84,751 for expenses incurred by him directly in connection with his role and obligations as Chief Executive Officer and Chairman of the Board, payable in equal monthly installments by the Company over a twenty-four month period beginning on September 30, 2004 and will be evidenced by a promissory note. Mr. Whelan will also receive as further consideration, two-year warrants to purchase 1,000,000 shares of common stock of the Company at $0.25 per share and two-year warrants to purchase 1,000,000 shares of common stock of the Company at $5.00 per share to be issued within 45 days of execution of the agreement.

On August 7, 2004 Richard Tannenbaum resigned as both counsel to and from the Company's Board of Directors. Mr. Tannenbaum entered into an agreement, release and waiver. In consideration for his resignation, Mr. Tannenbaum will be paid for past services rendered in the amount of $111,954 payable in equal monthly installments over the twenty-four month period beginning on September 30, 2004 and will be evidenced by a promissory note. Mr. Tannenbaum will also receive as further consideration, two-year warrants to purchase 400,000 shares of common stock of the Company at $0.25 per share and two-year warrants to purchase 1,000,000 shares of common stock of the Company at $5.00 per share to be issued within 45 days of execution of the agreement.

In connection with the acquisition of Ohio Street Partners, Inc., (See Note 11) Mr. Lee Brukman was appointed to the Company's Board of Directors on July 6, 2004. On August 9, 2004 after the resignation by Ed Whelan as Chief Executive Officer and Chairman of the Board of Directors and Richard Tannenbaum as legal counsel and member of the Board of Directors, the Company appointed Lee Brukman as Chairman of the Board of Directors and Chief Executive Officer.

Subsequent to June 30, 2004 pursuant to their stock subscription agreements entered into during the six months ended June 30, 2004 (See Notes 7 and 11) the Company issued 440,000 shares of common stock value at $61,600 (the fair market value of the common stock on July 1, 2004) to several shareholders as liquidated damages for the month of July 2004. In addition, pursuant to the terms of their stock agreements entered into during 2003 and the six months ended June 30, 2004, the Company should have issued an additional 257,000 shares of common stock valued at $35,980 (the fair market value of the common stock on July 1, 2004) to several additional shareholders as liquidated damages for the month of July 2004. Pursuant to the terms of the agreements, each shareholder is entitled to ten percent of the original shares purchased each month beginning July 1, 2004 if the common stock was not registered by June 30, 2004. In addition, because the registration statement has not been declared effective as of August 1, 2004, these same shareholders are entitled to an additional 697,000 shares of common stock valued at $90,610 (the fair market value of the common stock on August 2, 2004) as liquidated damages for the month of August.

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 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.

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

Revenues. Total revenue for the three months ended June 30, 2004 of $2,020,741 reflected an increase of $351,176, or approximately 21%, compared to total revenue of $1,669,565 for the three months ended June 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 June 30, 2004 of $1,859,784 reflected an increase of $325,407, or approximately 21.2%, compared to resale revenue of $1,534,377 for the three months ended June 30, 2003. For the three months ended June 30, 2004, approximately 50% of our gross profit was derived from sales involving resale revenue compared to approximately 59.7% for the three months ended June 30, 2003. The increase in resale revenue was 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 June 30, 2004 of $160,957 reflected an increase of $25,679, or approximately 19%, compared to commission revenues of $135,188 for the three months ended June 30, 2003. For the three months ended June 30, 2004, approximately 50% of our gross profit was derived from sales involving commission revenues as compared to approximately 40.3% for the three months ended June 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, is dependent on our ability to obtain additional capital to fund new business development and increased sales and marketing efforts. We are currently in discussions with a number of other manufacturers and suppliers in an effort to reach an agreement under which we can distribute their products to the military market. While there can be no assurance that we will do so, we believe we will be successful in negotiating agreements with a number of such suppliers and manufacturers.

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

Cost of Goods Sold. Cost of goods sold consists of our cost to acquire products from manufacturers and suppliers for resale to commissaries. In instances when we sell products on a commission basis, there is no cost of goods sold because we act as an agent for the manufacturer or supplier and earn only a commission on such sales. During the three months ended June 30, 2004, cost of goods sold increased by $364,571, or approximately 27.3%, to $1,698,938 from $1,334,367 for the three months ended June 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 June 30, 2004 decreased by $13,395, or approximately 4.2%, compared to the three months ended June 30, 2003, from $335,198 for the three months ended June 30, 2003 to $321,803 for the three months ended June 30, 2004.

Operating Expenses. Total operating expenses aggregated $910,221 for the three months ended June 30, 2004 as compared to $823,271 for the three months ended June 30, 2003, representing a increase of $86,949, or approximately 10.6%.

Interest Expense. Interest expense of $38,229 for the three months ended June 30, 2004 reflected a decrease of $59,682 as compared to interest expense of 97,911 for the three months ended June 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. We issued $60,000 aggregate principal amount of convertible promissory notes in the three months ended June 30, 2003, but did not issue any convertible notes in the three months ended June 30, 2004

Net Loss. Primarily as a result of the increased operating expenses discussed above, we incurred a net loss of $626,647 for the three months ended June 30, 2004 as compared to a net loss of $585,984 for the three months ended June 30, 2003.

SIX MONTHS ENDED JUNE 30, 2004 COMPARED TO SIX MONTHS ENDED JUNE 30, 2003

Revenues. Total revenue for the six months ended June 30, 2004 of $4,155,717 reflected an increase of $727,189, or approximately 21.2%, compared to total revenue of $3,428,528 for the six months ended June 30, 2003.

Resale revenue for the six months ended June 30, 2004 of $3,821,328 reflected an increase of $674,354, or approximately 21.4%, compared to resale revenue of $3,146,974 for the six months ended June 30, 2003. For the six months ended June 30, 2004, approximately 50.4% of our gross profit was derived from sales involving resale revenue compared to approximately 51.6% for the six months ended June 30, 2003. The increase in resale revenue was 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 six months ended June 30, 2004 of $334,389 reflected an increase of $52,835, or approximately 18.8%, compared to commission revenues of $281,554 for the six months ended June 30, 2003. For the six months ended June 30, 2004, approximately 49.6% of our gross profit was derived from sales involving commission revenues as compared to approximately 48.4% for the six months ended June 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 six months ended June 30, 2004, cost of goods sold increased by $634,806, or approximately 22.3%, to $3,481,499 from $2,846,693 for the six months ended June 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 six months ended June 30, 2004 increased by $92,383, or approximately 15.9%, compared to the six months ended June 30, 2003, from $581,835 for the six months ended June 30, 2003 to $674,218 for the six months ended June 30, 2004.

Operating Expenses. Total operating expenses aggregated $1,721,341 for the six months ended June 30, 2004 as compared to $1,435,218 for the six months ended June 30, 2003, representing an increase of $286,123, or approximately 19.9%.

Interest Expense. Interest expense of $95,336 for the six months ended June 30, 2004 reflected a decrease of $137,960 as compared to interest expense of 233,296 for the six months ended June 30, 2003.

Net Loss. Primarily as a result of the increased operating expenses discussed above, we incurred a net loss of $1,142,459 for the six months ended June 30, 2004 as compared to a net loss of $1,086,679 for the six months ended June 30, 2003.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2004, we had a cash balance of $6,277. Since 2001, we have funded our operations primarily from the sale of common stock and 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 June 30, 2004, none of such demand notes was outstanding and $585,000 aggregate principal amount of convertible notes were outstanding, of which $520,000 aggregate principal amount mature on or about June 3, 2006 and $65,000 aggregate principal amount have matured but have not yet been paid. 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. The terms of our convertible notes provide generally that the holders may convert, at any time and from time to time, all or a portion of the outstanding balance under each convertible note into a number of shares (subject to certain anti-dilution adjustments) of our common stock that will allow the noteholder to receive common stock having a market value equal to 150% of the converted balance of the note. To achieve this result, the conversion price of such notes has been initially set at $0.25; provided, that the closing price per share of our common stock as reported on the OTC Bulletin Board on the date of conversion is at least $0.375 per share. If such closing price is less than $0.375 per share, the conversion price shall be proportionately reduced, but in no event to a conversion price that is less than $0.25 per share, to permit the noteholder to receive the number of shares discussed above.

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 six months ended June 30, 2004, we sold and issued shares of our common stock to accredited investors for aggregate gross proceeds of $547,500. Such proceeds were used for the repayment of current liabilities and for working capital purposes.

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.

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 June 30, 2004, we had liquid assets of $705,466, consisting of cash and accounts receivable derived from operations, and other current assets of $617,554, consisting primarily of inventory of products for sale and/or distribution and prepaid expenses. Long term assets of $577,378 consisted primarily of warehouse equipment used in operations, the investment property and the long-term portion of prepaid interest.

Current liabilities of $2,734,874 at June 30, 2004 consisted primarily of $2,412,207 of accounts payable and accrued expenses, including related party amounts.

Our working capital deficit was $1,411,854 as of June 30, 2004 for the reasons described above.

During the three months ended June 30, 2004, we used cash of $ 438,650 in operating activities, primarily as a result of the net loss we incurred during this period.

During the three months ended June 30, 2004, we used net cash of $ 9,459 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 $451,524 during the three months ended June 30, 2004.

OFF BALANCE SHEET ARRANGEMENTS

At June 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.

(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.

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.

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

EXHIBIT NO.	DESCRIPTION
10.1	Agreement, Realease & Waiver, dated August 5, 2004, between Edward Whelan and the Company.
10.2	Agreement, Realease & Waiver, dated August 7, 2004, between Richard Tanenbaum and the Company.
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.

(b) Reports on Form 8-K.

On June 29, 2004 we filed a current report on Form 8-K providing a copy of the transcript from management's teleconference presentation on June 21, 2004

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 August 10, 2004.

MILITARY RESALE GROUP, INC.

By: /s/ Ethan D. Hokit

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