MILITARY RESALE GROUP INC
Form 10QSB/A
November 05, 2002

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

Form 10QSB/A
Amendment No. 2

(Mark One)

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

[X] For the quarterly period ended June 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

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 June 30, 2002, there were 9,672,127 shares of the issuer's common stock outstanding.

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

MILITARY RESALE GROUP, INC.

FORM 10QSB/A
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INTRODUCTORY NOTE

We are filing this Form 10-QSB/A in order to amend and restate the information disclosed in Items 1 and 2 of Part I. The principal changes we made were as follows: (i) we revised our statement of operations for the three and six month periods ended June 30, 2002 (x) to eliminate the recognition of certain interest expense for the beneficial conversion feature of $150,000 aggregate principal amount of convertible promissory notes that were converted into shares of our common stock in the second quarter of 2002 and (y) to include interest expense for the beneficial conversion feature of $20,000 and $225,000 aggregate principal amount of convertible promissory notes that were issued in the three and six month periods ended June 30, 2002, respectively, and (ii) we revised the manner in which we accounted for the issuance of shares of our common stock in the three months ended June 30, 2002 to certain consultants of the Company, including Edward T. Whelan, our Chief Executive Officer. This Form 10-QSB/A does not necessarily reflect events occurring after the filing of Amendment No. 1 to Form 10-QSB for the quarter ended June 30, 2002.

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ITEM 1. FINANCIAL INFORMATION

MILITARY RESALE GROUP, INC.
Balance Sheets
(unuadited)

ASSETS	June 30, 2002	December 3 2001
Current Assets		

Cash	$ 6,079	$ --
Accounts receivable - trade	522,997	441,058
Prepaids	3,714	6,708
Inventory	309,435	252,430
Deposits	23,218	20,406
Total Currents Assets	865,443	720,602
Fixed Assets:		
Office equipment	2,741	9,121
Warehouse equipment	205,044	203,132
Vehicles	64,366	64,366
Leasehold improvements	2,440	2,440
Software	15,609	15,609
	290,200	294,668
Less accumulated depreciation	(123,510)	(102,257)
Net Fixed Assets	166,690	192,411
TOTAL ASSETS	$ 1,032,133	$ 913,013
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable - trade	$ 1,108,770	$ 1,047,207
Accrued expenses	47,221	--
Accrued interest payable	142,370	60,657
Bank overdraft	--	1,349
Capitalized leases/Notes payable - current portion	339,755	260,522
Total Current Liabilities	1,638,116	1,369,735
Long-term debt		
Notes payable	91,121	91,121
Total Long-term debt	91,121	91,121
Total Liabilities	1,729,237	1,460,856
Stockholders' Equity		
Common stock, par value $.0001, 60,000,000 shares authorized: 9,672,127 and 7,505,004 issued and outstanding at June 30, 2002 and December 31, 2001, respectively	967	750
Additional paid-in capital	988,327	407,150
Retained deficit	(1,686,398)	(955,743)
Total Stockholders' Equity	(697,104)	(547,843)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,032,133	$ 913,013

See accountant's review report.

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MILITARY RETAIL GROUP, INC.
Statement of Operations
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months June 30,	
	2002	2001	2002	
REVENUES:				
Gross Sales	$ 1,657,440	$ 1,048,393	$ 3,015,024	$ 2,
Commission sales - net	64,472	116,489	124,146	
Total Revenues	1,721,912	1,164,882	3,139,170	2,
COST OF GOODS SOLD:	1,457,701	997,140	2,696,622	1,
GROSS PROFIT	264,211	167,742	442,548	
EXPENSES:				
Salary and payroll taxes	125,797	106,713	215,962	
Professional fees	107,446	3,438	200,446	
Occupancy	55,263	23,455	110,525	
General and administrative	250,833	35,654	338,478	
Amortization/depreciation	10,626	8,760	21,253	
Lease and auto/truck expense ...	21,910	25,555	46,318	
Total Operating Expenses	571,875	203,575	932,982	
OTHER REVENUES & EXPENSES:				
Interest expense	(29,093)	(986)	(240,263)	
Interest income	42	--	42	
Total Other Revenues & Expenses	(29,051)	(986)	(240,221)	
NET LOSS	$ (336,715)	$ (36,819)	$ (730,655)	$ (
Per share information Weighted average number of common shares outstanding	8,949,752	5,360,000	8,327,378	5,
Net Loss per common share	$ (0.04)	$ (0.01)	$ (0.08)	$

See accountant's review report.

MILITARY RETAIL GROUP, INC.
Statement of Stockholders' Equity
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retai[ned] Defi[cit]
Balance -October 6, 1997	--	$ --	$ --	$
Issuance of common stock for cash	800,000	80	120	
Net loss	--	--	--	(6
Balance - December 31, 1997	800,000	80	120	(6
Issuance of common stock for cash	40,000	4	14,996	
Issuance of common stock for services ..	3,000,000	300	(300)	
Nel loss	--	--	--	(43
Balance - December 31, 1998	3,840,000	384	14,816	(50
Issuance of common stock for cash	1,520,000	152	134,848	
Nel loss	--	--	--	(14
Balance - December 31, 1999	5,360,000	536	149,664	(19
Net loss	--	--	--	(1
Balance - December 31, 2000	5,360,000	536	149,664	(20
Stock issued for services	875,000	87	253,663	
Stock issued for subsidiary	1,270,004	127	3,823	
Net loss	--	--	--	(74
Balance - December 31, 2001	7,505,004	750	407,150	(95
Stock issued for services	300,000	30	92,970	
Stock issued for services	73,550	7	22,058	
Stock issued in lieu of debt	576,923	58	149,942	
Stock issued for beneficial conversation feature as interest	576,923	58	149,942	
Stock issued for services	639,727	64	166,265	
Net loss	--	--	--	(73
Balance - June 30, 2002	9,672,127	$ 967	$ 988,327	$ (1,68

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See accountant's review report.

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MILITARY RETAIL GROUP, INC.
Statement of Cash Flows
(Unaudited)

	For the Six Months Ended June 30, 2002	2001
Cash Flows from Operating Activities:		
Net Loss	$(730,655)	$(134,241)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	21,252	17,520
Stock issued for services	281,394	--
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	(81,939)	26,042
Decrease (Increase) in prepaids	2,994	(452)
Increase (Decrease) in deposits	(2,812)	--
(Increase) Decrease in inventory	(57,005)	(51,974)
Increase in accounts payable	61,563	163,116
Increase (Decrease) in accrued expenses	128,934	7,200
Net Cash Used in Operating Activities	(69,894)	27,211
Cash Flows from Investing Activities		
Capital expenditures	(1,912)	--
Cash Flows Used in Investing Activities	(1,912)	--
Cash Flows from Financing Activities:		
Bank overdraft	(1,349)	(21,094)
Proceeds from sale of stock	--	--
Proceeds (payments) from notes payable - net	79,234	(6,117)
Cash Flows Provided by Financing Activities	77,885	(27,211)
Net Increase (Decrease) in cash and cash equivalents	6,079	--
Cash and cash equivalents - beginning of period	--	--
Cash and cash equivalents - end of period	$ 6,079	$ --

	=========	=========
Supplemental information:		
Cash paid for interest	$ 6,170	$ --
	=========	=========
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	$ --
	=========	=========

See accountant's review report.

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 June 30, 2002, and results of operations and cash flows for the three months ended June 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

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

Finished Goods	$309,435

	$309,435
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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 signification 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 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 JUNE 30, 2002 COMPARED TO THREE

MONTHS ENDED JUNE 30, 2001

Revenue. Total revenue for the three months ended June 30, 2002 of $1,721,912 reflected an increase of $557,030, or approximately 47.8%, compared to total revenue of $1,164,882 for the three months ended June 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 June 30, 2002 of $1,657,440 reflected an increase of $609,049, or approximately 58.1%, compared to resale revenue of $1,048,393 for the three months ended June 30, 2001. For the three months ended June 30, 2002, approximately 75.6% of our gross profit was derived from sales involving resale revenue compared to 30.6% for the three months ended June 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 quarter 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 June 30, 2002 of $64,472 reflected a decrease of $52,017, or approximately 44.7%, compared to commission revenue of $116,489 for the three months ended June 30, 2001. For the three months ended June 30, 2002, approximately 24.4% of our gross profit was derived from sale involving commission revenue compared to approximately 69.4% for the three months ended June 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 on a resale basis, rather than a commission basis, because we believe we can increase our profitability on such sales by taking advantage of payment discounts

frequently offered by the manufacturers and suppliers of such products. To do so, we intend to continue to seek to add new products that we can offer to commissaries on a resale basis from our existing manufactures and suppliers and from others with whom we do not currently have a working relationship.

In March 2002, we entered into an agreement with Playtex Products, Inc. to distribute, on a resale basis, approximately 70 Stock Keeping Units (SKUs) manufactured or supplied by Playtex, including a line of feminine hygiene products and a line of infant feeding products. We have been advised by

Playtex, and verified with DeCA, that sales by Playtex in 2001 to the commissaries we currently service amounted to approximately $350,000. However, there can be no assurance that our 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 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.

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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 June 30, 2002, cost of goods sold increased by $460,561, or approximately 46.2%, to $1,457,701 from $997,140 for the three months ended June 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 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, 2002 increased by $96,469, or approximately 57.5%, compared to the three months ended June 30, 2001, from $167,742 for the three months ended June 30, 2001 to $264,211 for the three months ended June 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 $571,875 for the three months ended June 30, 2002 as compared to $203,575 for the three months ended June 30, 2001, representing an increase of $368,300, or approximately 180%. The increase in total operating expenses for the three month period ended June 30, 2002 was attributable primarily to increased professional fees of $104,008 resulting primarily from the costs of the preparation of a registration statement under the Securities Act of 1933 relating to a proposed offering of equity securities; increased occupancy expense of $31,808 resulting from our move to larger office and warehouse facilities in September 2001; and increased general and administrative expenses of $215,179 resulting primarily from increased premiums on health and workers' compensation insurance and the issuance of shares of our common stock for consulting services rendered to the Company.

Interest Expense. Interest expense of $29,051 for the three months ended June 30, 2002 reflected an increase of $28,107 as compared to interest expense of $986 for the three months ended June 30, 2001. The increase in interest expense was attributable primarily to interest expense resulting from the recognition of the beneficial conversion feature (the right to convert debt into shares of our common stock at a discount to the fair market value of our common stock) of $20,000 aggregate principal amount of convertible promissory notes issued in the second quarter of 2002.

Net Loss. For the reasons discussed above, we incurred a net loss of $336,715 for the three months ended June 30, 2002 as compared to a net loss of $36,819 for the three months ended June 30, 2001.

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SIX MONTHS ENDED JUNE 30, 2002 COMPARED TO SIX MONTHS ENDED JUNE 30, 2001

Revenue. Total revenue for the six months ended June 30, 2002 of $3,139,170 reflected an increase of $883,881, or approximately 39.2%, compared to total revenue of $2,255,289 for the six months ended June 30, 2001. Resale revenue for the six months ended June 30, 2001 of $3,015,024 reflected an increase of $941,648, or approximately 45.4%, compared to resale revenue of $2,073,376 for the six months ended June 30, 2001. For the six months ended June 30, 2002, approximately 71.9% of our gross profit was derived from sales involving resale revenue compared to approximately 36.6% for the six months ended June 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 six months ended June 30, 2002 of $124,146 reflected a decrease of $57,767, or approximately 31.8%, compared to commission revenues of $181,913 for the six months ended June 30, 2001. For the six months ended June 30, 2002, approximately 28.1% of our gross profit was derived from sales involving commission revenues as compared to approximately 63.4% for the six months ended June 30, 2001. These decreases were attributable primarily to the implementation of our long-term strategy discussed above.

Cost of Goods Sold. During the six months ended June 30, 2002, cost of goods sold increased by approximately $728,064, or approximately 37.0%, to $2,696,622 from $1,968,558 for the six months ended June 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 six months ended June 30, 2002 increased by approximately $155,817, or approximately 54.3%, compared to the six months ended June 30, 2001, from $286,731 for the six months ended June 30, 2001 to $442,548 for the six months ended June 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 $932,982 for the six months ended June 30, 2002 as compared to $418,721 for the six months ended June 30, 2001, representing an increase of $514,261, or approximately 120%. The increase in total operating expenses was attributable primarily to increased professional fees of approximately $189,238 resulting primarily from the costs of the preparation of the registration statement under the Securities Act of 1933 relating to a proposed offering of equity securities; increased occupancy expense of $60,757 resulting from our move to larger office and warehouse facilities in September 2001; and increased general and administrative expenses of $256,653 resulting primarily from increased premiums on health workers' compensation insurance and the issuance of shares of our common stock for consulting services rendered to the Company.

Interest Expense. Interest expense of $240,263 for the six months ended June 30, 2002 reflected an increase of $238,012 as compared to interest expense of $2,251 for the six months ended June 30, 2001. The increase in interest expense was attributable primarily to interest expense resulting from the recognition of the beneficial conversion feature (the right to convert debt into

shares of our common stock at a discount to the fair market value of our common stock) of $225,000 aggregate principal amount of convertible promissory notes issued in the six months ended June 30, 2002.

Net Loss. Primarily as a result of the increased operating and interest expenses discussed above, we incurred a net loss of $730,655 for the six months ended June 30, 2002 as compared to a net loss of $134,241 for the six months ended June 30, 2001.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2002, we had a cash balance of approximately $6,000. Our principal source of liquidity has been borrowings. Since November 2001, we have funded our operations primarily from borrowings of approximately $410,000. 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

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.

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 June 30, 2002, we had liquid assets of $529,076, consisting of cash and accounts receivable derived from operations, and other current assets of $336,367, consisting primarily of inventory of products for sale and/or distribution. Long term assets of $166,690 consisted primarily of warehouse equipment used in operations.

Current liabilities of $1,638,116 at June 30, 2002 consisted of approximately $1,108,770 of accounts payable and $339,755 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 $772,673 as of June 30, 2002 for the reasons described above.

During the six months ended June 30, 2002, we used cash of $69,894 in operating activities primarily as a result of the net loss incurred during this period.

During the six months ended June 30, 2002, we used net cash of $1,912 in investing activities, all of which was used for capital expenditures.

Financing activities, consisting primarily of short-term borrowings, provided net cash of $77,885 during the six months ended June 30, 2002. Subsequent to June 30, 2002, we borrowed an additional $105,000 pursuant to the issuance of 8% Convertible Notes.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in Colorado Springs, Colorado on November 4, 2002.

MILITARY RESALE GROUP, INC.

By: /s/ Ethan D. Hokit

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

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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:

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

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

Name: Edward T. Whelan
Title: Chief Executive Officer

November 4, 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

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

Name: Ethan D. Hokit
Title: Chief Financial Officer

November 4, 2002