MOORE MEDICAL CORP
Form 10-Q
May 13, 2002

FORM 10 - Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended March 30, 2002

OR

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

For the transition period from ________ to ______________

Commission file number 1-8903

MOORE MEDICAL CORP.
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No _____ ----------

3,156,443 number of shares of Common Stock outstanding as of March 30, 2002.

MOORE MEDICAL CORP. & SUBSIDIARY

Consolidated Balance Sheets

(Amounts in thousands, except par value)	March 30, 2002 Unaudited	December 29, 2001
ASSETS		
Current Assets		
Cash	$ 55	$ 835
Accounts receivable, less allowances of $1,062 and $933	14,496	15,122
Inventories	10,116	10,829
Prepaid expenses and other current assets	2,354	1,875
Deferred income taxes	2,523	1,523
Total Current Assets	29,544	30,184
Noncurrent Assets		
Equipment and leasehold improvements, net	7,731	8,271
Other assets	2,421	2,673
Total Noncurrent Assets	10,152	10,944
	$ 39,696	$ 41,128
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 10,719	$ 11,204
Accrued expenses	1,494	1,873
Current portion long term debt	716	1,356
Total Current Liabilities	12,929	14,433
Deferred Income Taxes	403	--
Long Term Notes Payable	3,428	3,970
Shareholders' Equity		
Preferred stock, no shares outstanding	--	--
Common stock - $.01 par value; Shares authorized - 10,000 Shares issued - 3,246	32	32
Capital in excess of par value	21,547	21,548
Note receivable	(303)	(298)
Retained earnings	2,458	2,263
	23,734	23,545
Less treasury shares, at cost, 90 and 92 shares	(798)	(820)
Total Shareholders' Equity	22,936	22,725
	$ 39,696	$ 41,128

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

MOORE MEDICAL CORP. & SUBSIDIARY

Consolidated Statements of Operations For The Three Months Ended
Unaudited

(Amounts in thousands, except per share data)	March 30, 20	March 31, 2001
Net sales	$ 32,437	$ 32,36
Cost of products sold	23,441	23,94
Gross profit	8,996	8,41
Sales and marketing expenses	2,566	3,45
General and administrative expenses	6,080	6,80
Operating income (loss)	350	(1,83
Interest expense (income), net	47	(3
Income (loss) before income taxes	303	(1,80
Income tax provision (benefit)	108	(70
Net income (loss)	$ 195	$ (1,09
Basic net income (loss) per share	$ 0.06	$ (0.3
Diluted net income (loss) per share	$ 0.06	$ (0.3
Basic common shares outstanding*	3,154	3,11
Diluted common shares outstanding*	3,177	3,11

*weighted average

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

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

MOORE MEDICAL CORP. & SUBSIDIARY

Consolidated Statements of Cash Flows For The Three Months Ended
Unaudited

(Amounts in thousands)	March 30, 2002	March 31,
Cash Flows From Operating Activities		
Net income (loss)	$ 195	$(1
Adjustments to reconcile net income (loss) to net cash flows provided by (used in) operating activities:		
Depreciation and amortization	753	
Changes in operating assets and liabilities:		
Accounts receivable	626	(1
Inventories	713	
Other assets	(824)	(1
Accounts payable	(485)	1
Other liabilities	(384)	
Net cash flows provided by (used in) operating activities	594	(3
Cash Flows From Investing Activities		
Equipment and leasehold improvements acquired	(214)	
Net cash flows (used in) investing activities	(214)	
Cash Flows From Financing Activities		
Revolving Line of Credit	3,428	
Sale of Treasury Stock	22	
Note Receivable	(5)	
Long term notes payable	(4,605)	
Net cash flows (used in) provided by financing activities	(1,160)	
(Decrease) in cash	(780)	(3
Cash at the beginning of year	835	5
Cash At End Of Period	$ 55	$ 1

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

MOORE MEDICAL CORP. & SUBSIDIARY

Consolidated Statement of Shareholders' Equity
Unaudited

(Amounts in thousands)	Common Stock $.01 par value Shares Issued	Common Stock $.01 par value Par Value	Capital in Excess of Par Value	Retained Earnings	Treasury Stock Shares	Treasury Stock Cost
Balance at 12/30/00	3,246	$ 32	$ 21,700	$ 3,913	(145)	$ (1,
Net (loss)						
Stock options/stock compensation			(165)	(1,097)	53	
Balance at 3/31/01	3,246	$ 32	$ 21,535	$ 2,816	(92)	$ (
Balance at 12/29/01	3,246	$ 32	$ 21,548	$ 2,263	(92)	$ (
Net income				195		
Stock options/stock compensation			(1)		2	
Balance at 3/30/02	3,246	$ 32	$ 21,547	$ 2,458	(90)	$ (

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

MOORE MEDICAL CORP. & SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

The Company

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

Basis of Presentation

Moore Medical has prepared the accompanying unaudited financial statements in accordance with generally accepted accounting principles for interim financial statements. In the opinion of management, all adjustments necessary for a fair presentation of the results for the interim period have been made. The results for the three months ended March 30, 2002 do not necessarily indicate the results to be expected for the fiscal year ended December 28, 2002 or any other future period. The fiscal quarters ended on March 30, 2002 and March 31, 2001.

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

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

Recent Pronouncements

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

SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. The Company has not been involved with any business combinations subsequent to June 30, 2001, therefore there is no action required with respect to this pronouncement.

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

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

In October 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." The statement is effective for fiscal years beginning after December 15, 2001. SFAS No. 144 will supersede SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS No. 144 changes the criteria for classifying an asset as held-for-sale. SFAS No. 144 will supersede APB Opinion No. 30 with regards to reporting the effects of a disposal of a segment of a business and will require expected future operating losses from discontinued operations to be displayed in discontinued operations in the period(s) in which the losses are incurred, rather than as of the measurement date as presently required by APB Opinion No. 30. The new pronouncement also expands the amount of dispositions that will qualify for discontinued operations treatment in the income statement. The Company does not believe that the adoption of this standard will have a material impact on its consolidated financial statements.

MOORE MEDICAL CORP. & SUBSIDIARY

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

RECLASSIFICATION

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

RESULTS OF OPERATIONS

Three Months Ended March 30, 2002 compared to Three Months Ended March 31, 2001.

Net sales for the first quarter were $32.44 million, as compared to $32.37 million in the first quarter 2001. The Company's revenue attainment in the first quarter 2001 was sustained through the development and implementation of more effective targeted marketing campaigns. The Company continued to experience growth in its public sector markets led by the corrections market which had a growth rate of 22.7%, over the prior year's first quarter. During the first quarter, the Company's Internet based net sales grew 41.4% over the prior year's quarter to $3.3 million representing 10.3% of the Company's total net sales.

Gross profit increased $0.6 million or 7.1%, to $9.0 million compared to $8.4 million for the same period a year ago. Overall gross profit margins increased to 27.7% in the first quarter 2002 from 26.0% in first quarter 2001, primarily attributable to product and market mix, and the realization of benefits from our supply chain initiatives.

Sales and marketing expenses decreased by $0.9 million or 25.7% to $2.6 million in 2002 from $3.5 million in 2001 due to the on-going effort to establish and implement more effective targeted marketing campaigns. As a percentage of net sales, sales and marketing expenses decreased to 8.0% in the first quarter 2002 from 10.8% for the same period a year ago. General and administrative expenses decreased by $0.7 million or 10.3% to $6.1 million in 2002 from $6.8 million in 2001 reflecting the continued realization of benefits from third and fourth quarter 2001 cost containment initiatives. As a percentage of net sales, general and adminstrative expenses decreased to 18.8% in the first quarter 2002 from 21.0% for the same period a year ago. The Company believes the existing cost structure continues to be adequate to support future growth.

Interest expense for the first quarter of 2002 increased to $47.3 thousand from interest income of ($36.0) thousand for the same period a year ago. The increase was attributable to the government settlement note payable, which was executed February 1, 2001 and a higher marketable security balance in the first quarter 2001.

The effective income tax rate of 35.5% was lower than the prior year's effective income tax benefit rate due to impact of the government settlement on 2001's tax benefit rate.

Net income increased to $0.2 million, or $0.06 earnings per share compared to a net loss of ($1.1) million, or ($0.35) loss per share, the same period a year ago.

Three Months Ended March 31, 2001 Compared to Three Months Ended April 1, 2000

Net sales for the first quarter ended March 31, 2001 increased to $32.4 million, an increase of $2.8 million or 9.4% from the same period a year ago. This marked the highest year-over-year quarterly growth rate in more than five years and the third consecutive quarterly increase of over 6% on a year-to-year basis. The Company's sales growth in the first quarter was primarily attributable to the acceleration of numerous marketing programs, which were planned to be initiated during the second quarter of the year, to early in the first quarter of 2001. These programs include direct mail catalogs, flyers and letters, e-marketing initiatives, customer support center representatives and specialty practice sales representatives. The sales and marketing strategy focused on optimizing direct marketing and channel deliverables resulting in a 12.2% increase in the number of customer sales orders processed in the period from the same period in 2000. The Company's e-commerce net sales quadrupled to nearly $2.4 million for the period from $0.6 million in 2000. The Company has achieved continued growth in its online web site since the opening of its integrated e-business site on May 30, 2000. Online sales growth for the three months ended March 31, 2001 was reflected across all market communities and was the result of direct marketing initiatives such as e-mail campaigns, web site promotions, investments in online communities and web affiliations.

Gross profit increased $0.9 million or 12.0% to $8.4 million, compared to $7.5 million for the same period in 2000. Overall gross profit margins increased to 26.0% from 25.4% in 2000. The increase is primarily attributable to the increased sales volume, product mix and continuing improvements in our supply chain operations.

Selling, general and administrative expenses (S,G&A) increased by $2.3 million or 28.8% to $10.3 million in 2001 from $8.0 million in 2000. S,G&A as a percentage of net revenue was 31.8% as compared to 27.0% in 2000. The increase was attributable to the timing of publication and distribution of our direct mail catalog, increased salary expenses relating to filling key management and staff positions, outside consulting primarily associated with e-commerce initiatives and freight and distribution expenses proportionate to net revenue growth. Besides the timing of certain marketing expenses compared to 2000, the increase in S,G&A was primarily a result of the Company's transformation from an online catalog direct marketer to a multi-channel Internet enabled marketer. The Company continues to improve efficiencies in its cost structure but believes it is adequate to attain future growth.

Net loss increased to ($1.1) million or ($0.35) loss per share compared to ($0.3) million, or ($0.09) loss per share, the same period in 2000.

LIQUIDITY AND CAPITAL RESOURCES

The Company ended the first quarter 2002 with $55 thousand in cash and cash equivalents, a $0.8 million decrease from December 29, 2001. The liquidity decline was primarily the result of the decision to refinance the government settlement note on February 13, 2002 with a combination of cash on hand and the draw-down of the collateralized revolving credit facility.

The Company's operations provided $0.6 million in cash during the first quarter 2002. The primary sources of cash from operations were: net income of $0.2 million, depreciation expense of $0.8 million, sources of cash from working capital consisting of a $0.6 million reduction in accounts receivable, a $0.7 million reduction in inventory, offset by uses of working capital consisting of a $0.8 million increase in other assets which was due to the timing of advertising material, a $0.5 million decrease in accounts payable and a $0.4 million decrease in accrued expenses.

Investing activities used $0.2 million for the first quarter 2002 compared with $0.3 million in 2001. Investments were made for technology and operating efficiency initiatives which will produce future benefits for the Company.

Financing activities used $1.2 million during the first quarter, which is the net of the government settlement note re-financing offset by the incremental borrowings on the Company's collateralized revolving credit facility. As a result, the Company reported borrowings were $1.2 million less than that which was reported at 2001 year-end.

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

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

FORWARD-LOOKING INFORMATION

This report contains statements about future events and expectations that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on management's beliefs, assumptions and expectations of the Company's future economic performance, taking into account the information that is currently available to management. These statements are not statements of historical fact.

Forward-looking statements involve

risks and uncertainties (including, but not limited to, economic, competitive, governmental and technological factors outside our control) that may cause the Company's actual results, performance or financial condition to differ materially from the expectations of future results, performance or financial condition we express or imply in any forward-looking statements. Factors that could contribute to these differences include, but are not limited to:

Business Strategy Factors

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

.. Changes in demand for the Company's products.

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

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

Operating Factors

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

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

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

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

Competitive Factors

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

Governmental Factors

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

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

.. New governmental regulation of the Internet.

.. New sales tax collection obligations.

General Economic Factors

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

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

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

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

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

ITEM 3. QUANTITATIVE & QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit

2002 Bonus Program Exhibit 10.21

(b) Reports on Form 8-K

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

SIGNATURES

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

MOORE MEDICAL CORP.
(REGISTRANT)

BY: /s/ Linda M. Autore
Linda M. Autore, President
and Chief Executive Officer
May 13, 2002

BY: /s/ James R. Simpson
James R. Simpson, Executive
Vice President and Chief
Financial Officer
May 13, 2002

BY: /s/ John M. Zinzarella
John M. Zinzarella, Vice President
and Controller
May 13, 2002