MOORE MEDICAL CORP
Form 10-Q
November 02, 2001

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 September 29, 2001

OR

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

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 _____

3,153,943 number of shares of Common Stock outstanding as of October 27, 2001.

MOORE MEDICAL CORP.

Balance Sheets

(Amounts in thousands, except par value)	September 29, 2001 (Unaudited)	December 30, 2000
ASSETS		
Current Assets		
Cash	$ 872	$ 5,233
Accounts receivable, less allowances of $ 246 and $201	16,451	12,326
Inventories	9,879	9,554
Prepaid expenses and other current assets	2,644	2,152
Deferred income taxes	3,692	3,692
Total Current Assets	33,538	32,957
Noncurrent Assets		
Equipment and leasehold improvements, net.	8,466	9,672
Other assets	2,269	2,500
Total Noncurrent Assets	10,735	12,172
	$44,273	$45,129
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$13,633	$10,192
Accrued expenses	1,041	2,984
Total Current Liabilities	14,674	13,176
Deferred Income Taxes	2,387	2,387
Long Term Notes Payable	4,804	5,208
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	21,543	21,700
Note receivable	(294)	-
Retained earnings	1,947	3,913
	23,228	25,645
Less treasury shares, at cost, 92 and 145 shares	(820)	(1,287)
Total Shareholders' Equity	22,408	24,358
	$44,273	$45,129

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

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MOORE MEDICAL CORP.

Statements of Operations

(Amounts in thousands, except per share data)	Third Quarter 2001 (Unaudited)	Third Quarter 2000 (Unaudited)
Net sales	$34,472	$33,038
Cost of products sold	24,008	23,127
Gross profit	10,464	9,911
Selling, general & administrative expenses	10,597	10,890
Operating loss	(133)	(979)
Interest expense (income), net	67	(65)
Loss before income taxes	(200)	(914)
Income tax benefit	(74)	(347)
Net loss	$ (126)	$ (567)
Basic net loss per share	$ (0.04)	$ (0.18)
Basic common shares outstanding*	3,154	3,083

* weighted average

Note: The third quarters end as of September 29, 2001 and September 30, 2000.

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

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MOORE MEDICAL CORP.

Statements of Operations

(Amounts in thousands, except per share data)	First Three Quarters

	2001	2000
	(Unaudited)	
Net sales	$99,197	$92,808
Cost of products sold	69,171	65,146
Gross profit	30,026	27,662
Selling, general & administrative expenses	33,026	29,017
Operating loss	(3,000)	(1,355)
Interest expense (income), net	140	(168)
Loss before income taxes	(3,140)	(1,187)
Income tax benefit	(1,157)	(444)
Net loss	$(1,983)	$ (743)
Basic net loss per share	$ (0.63)	$ (0.24)
Basic common shares outstanding*	3,141	3,033

* weighted average

Note: The first three quarters end as of September 29, 2001 and September 30, 2000.

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

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MOORE MEDICAL CORP.

Statements of Cash Flows

(Amounts in thousands)	First Three Quarters	
	2001	2000
	(Unaudited)	
Cash Flows From Operating Activities		
Net loss	$(1,983)	$ (743)

Adjustments to reconcile net loss to net cash flows (used in) provided by operating activities:		
Depreciation and amortization	2,306	2,036
Changes in operating assets and liabilities:		
Accounts receivable	(4,125)	(2,518)
Inventories	(325)	2,803
Other current & noncurrent assets	(364)	(879)
Accounts payable	3,441	3,723
Other current liabilities	(1,944)	39
Net cash flows (used in) provided by operating activities	(2,994)	4,461
Cash Flows From Investing Activities		
Equipment & leasehold improvements acquired	(997)	(1,503)
Acquisition of business	-	(1,684)
Net cash flows used in investing activities	(997)	(3,187)
Cash Flows From Financing Activities		
(Decrease) increase in long term notes payable	(404)	500
Sale of treasury stock	34	1,444
Net cash flows (used in) provided by financing activities	(370)	1,944
(Decrease) increase in cash	(4,361)	3,218
Cash at beginning of period	5,233	744
Cash At End Of Period	$ 872	$ 3,962

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

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MOORE MEDICAL CORP.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

The Company

Moore Medical Corp. is a multi-channel, Internet-enabled marketer and distributor of medical/surgical products and pharmaceuticals. We provide these products to over 100,000 health care practices and facilities in non-hospital settings nationwide, including: physicians, emergency medical technicians, medical departments at industrial sites, municipalities, university and school health services, correctional facilities and other specialty practice communities. We market and serve our customers through the Internet, direct mail, industry specialized telephone support representatives, and key opportunity sales representatives. Moore Medical's direct marketing and distribution business has more than fifty years of operating experience.

Basis of Presentation

Moore Medical has prepared the accompanying unaudited financial statements in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulations S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for fair presentation have been included. The results for the three months ended September 29, 2001 do not necessarily indicate the results to be expected for the fiscal year ended December 29, 2001 or any other future period. The fiscal quarters ended on September 29, 2001 and September 30, 2000.

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 2000 Annual Report filed on Form 10-K and in this Form 10-Q Quarterly Report.

Basic earnings per common share are based on net loss divided by the weighted average of common shares outstanding during the period.

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

Recent Pronouncements

Statement of Financial Accounting Standards No. 141, "Business Combinations," ("FAS 141"), effective for business combinations initiated after June 30, 2001 provides guidance on accounting for business combinations and requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001.

Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," ("FAS 142"), effective for fiscal years beginning after December 15, 2001, requires that goodwill recorded from business combinations completed on or before June 20, 2001 shall no longer be amortized after the effective date. In addition, goodwill recorded as a result of a business combination completed after June 30, 2001 will not be amortized. Goodwill, however, must be reviewed for impairment in connection with the implementation of this standard and subsequently on an annual basis.

The effect of adopting FAS 141 and 142 is still being assessed.

MOORE MEDICAL CORP.

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

OVERVIEW

Moore Medical's mission is to provide medical professionals with the supplies and safety products they need to improve wellness and save lives. With more than fifty years of business experience, we currently market and distribute medical/surgical and pharmaceutical products through multiple channels to over 100,000 health care practices and facilities in non-hospital settings nationwide. Moore Medical continues to move forward with a renewed dedication to understanding the needs of the customer communities we serve and delivering quality medical products and services to our customers.

RESULTS OF OPERATIONS

Third Quarter Ended September 29, 2001 Compared to September 30, 2000

Net sales for the third quarter were $34.5 million, the Company's highest quarterly sales since exiting the wholesale pharmaceutical distribution business in the fourth quarter 1997. Net sales increased 4.3% from $33.0 million in the same period a year ago. This revenue growth was driven by consistent application of direct marketing towards targeted health care specialties and enhanced functionality of the Company's web site. As a result, Internet-based revenue grew 123.8% over the prior year quarter and a 5.8% increase in our overall customer base was realized compared to the third quarter

2000. Internet based revenue represents 8.6% of third quarter net sales versus 4.0% in the same period a year ago.

For the third quarter, gross profit increased by 6.1% to $10.5 million from $9.9 million for the period a year ago. This was the highest quarterly gross profit since exiting the wholesale pharmaceutical distribution business in 1997. Overall gross profit margins continued to remain above 30.0% in third quarter at 30.4% versus 30.0% for the same period a year ago. The Company continued to maintain these margins through increased sales volume in higher margin products and continued improvement of our supply chain operations.

Selling, general and administrative expenses for the third quarter 2001 were $10.6 million versus $10.9 million in the same period a year ago. S,G&A expenses expressed as a percentage of net sales were 30.7% for the third quarter 2001 compared to 33.0% for the same period in 2000. This is the third consecutive quarter in which S,G&A expenses expressed as a percentage of net sales have decreased. The decrease from prior year demonstrates the positive impact of leveraging earlier investments in the areas of technology, recruiting, e-commerce and supply chain to generate operational synergy and efficiency. The Company's supply chain efficiency initiatives include the closure of the Lemont, IL distribution facility and successful diversion of that warehouse's workload to two of the three remaining distribution centers. A provision of $0.5 million was established during the fourth quarter of 2000 and the facility was successfully shutdown during the third quarter without impacting customer service or requiring additional provision.

Interest expense increased in the third quarter 2001 to $0.1 million from interest income of $0.1 million for the same period a year ago. This increase was attributable to the interest bearing, long term settlement note, dated February 1, 2001, to the U.S. Government.

Net loss for the third quarter 2001 of ($0.1) million or ($0.04) per share is an improvement of $0.5 million or $0.14 per share over the prior year quarter which was a net loss of ($0.6) million or ($0.18) per share. The loss for the current quarter reflects the continuation of the Company's planned investment program that is nearing completion in the areas of marketing, customer care and operating efficiency initiatives. Earnings improvements have been attained for three consecutive quarters due to the leveraging of these earlier investments to gain operational synergy and efficiency.

First three Quarters Ended September 29, 2001 Compared to September 30, 2000

For the first three quarters of 2001 net sales were $99.2 million, an increase of nearly 7.0% from $92.8 million in the comparable period of 2000. The overall net sales growth also reflects strong revenue growth for the Company's Internet-based revenue, which increased $4.9 million, or 175.3%, to $7.7 million for the first nine months of the fiscal year, compared to $2.8 million for the same period a year ago. Internet based revenue

represents 7.8% of the first three quarters net sales versus 3.0% in the same period a year ago.

Gross profit increased by 8.5% to $30.0 million for the nine months ended September 29, 2001 compared to $27.7 million for the same period a year ago. Overall gross profit margins increased to 30.3% from 29.8% in 2000. The increased gross profit margin was primarily attributable to increased sales volume in higher margin products and to continued improvement of our supply chain operations.

Selling, general and administrative expenses during the nine months of 2001 increased $4.0 million to $33.0 million compared to $29.0 million in the nine months of 2000. S,G&A expenses as a percentage of sales were 33.3% in comparison to 31.3% a year ago. Contributing to the year-over-year increase, are expenses related to the continuing transformation of the Company to a multi-channel direct marketer, on going expenses related to the acquisitions of Podiatry Online and MERGInet.com, higher depreciation and amortization expense related to the Company's prior investments in technology, and the filling of key management and staff positions. The increase in expenses was partially offset by the realization of efficiencies in the supply chain, including the closing of the Lemont distribution facility during the third quarter 2001. Continued leveraging of supply chain initiatives without impacting customer service levels should continue to reduce fulfillment costs and overall operating costs.

Interest expense for the nine months of 2001 increased to $0.1 million from interest income of $0.2 million for the same period a year ago. This increase was attributable to the interest bearing, long term settlement note, dated February 1, 2001, to the U.S. Government.

Results for the first three quarters of 2001 showed a net loss of ($2.0) million, or ($0.63) per share, compared with a net loss of ($0.7) million, or ($0.24) per share, in the same period of 2000.

LIQUIDITY AND CAPITAL RESOURCES

The Company ended the third quarter with $0.9 million in cash and short-term investments, a $4.4 million decrease from December 30, 2000. The liquidity decline was the result of net cash used in operating and investing activities.

The Company's operations used $3.0 million in cash during the nine months of 2001. The primary sources of cash were: a $3.4 million increase in accounts payable, attributable to supply chain management which resulted in an increase in inventory turns, and non cash sources of $2.3 million related to depreciation and amortization ,mainly associated with increased technology investments. The primary uses of cash included ($2.0) million of net loss, an increase in accounts receivable of $4.1 million attributable to an increase in net sales, and $2.6 million in other assets, liabilities and inventory.

Investing activities used $1.0 million in the nine months of 2001 as called for in management's strategic plan primarily for technology and operating efficiency initiatives which compares favorably to investing activities of $3.2 million in the nine months of 2000, which included investments in the Podiatry Online and MERGInet.com acquisitions.

Financing activities used $0.4 million for the nine months of 2001, primarily attributable to payments relating to the settlement with the U.S. Government.

On January 26, 2001, the Company entered into a three-year bank financing agreement, which will provide up to $15.0 million in a revolving credit line. Our business continues not to be materially impacted by seasonal factors. The Company expects that available cash and the existing line of credit will be sufficient to meet its normal operating requirements including increased demands due to anticipated capital expenditures, business growth and expansion and projected debt service requirements.

FORWARD-LOOKING INFORMATION

From time to time, the Company may make forward-looking statements, that is statements about the future rather than of past or present fact. Statements about our mission, strategy or plans, or which are about an expectation, intention, anticipation, projection or belief concerning the future, are also forward-looking. Words such as "believes", "expects", "anticipates", "intends", "plans", "estimates", "should" or similar expressions, also identify forward looking statements. You should not place undue reliance on such statements because actual events or results may differ materially from those described therein by reason of many factors, including:

- issues regarding 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;
- intensified competition resulting (for example) from further distributor consolidations or from larger distributors able to benefit from economies of scale;
- disruptions in, or cost increases for services or systems on which the Company is dependant, such as (for example) deliveries of inventory to customers;
- unforeseen disruptions or security breaches in the Company's web sites; online security breaches;
- failure to keep up with rapidly changing technologies or Internet developments; and
- new governmental regulation of the Internet.

These factors are not all-inclusive. Others may be referred to, from time to time, in other filings of the Company with the Securities and Exchange Commission. In addition, management may not be able to identify all factors. Moreover, new ones may emerge and the Company does not necessarily update its forward-looking statements. Accordingly, they should not be relied upon as assurances regarding the future.

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.

PART II. OTHER INFORMATION

ITEM 5. OTHER MATTERS

As of September 29, 2001, the members of the Board of Directors of the Company and of its Committees, were:

Director	Committees
Linda M. Autore	--
Christopher Brody	Compensation.
Steven Kotler	Executive (Chairman); Audit; Nominating; Compensation.
Robert H. Steele (Chairman)	Executive; Audit (Chairman).
Peter C. Sutro	--
Wilmer J. Thomas, Jr.	Executive; Audit; Compensation; Nominating.
Dan K. Wassong	--

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Stock Repurchase Program, adopted September 17, 2001	Exhibit 3.4

(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
November 2, 2001

BY: /s/ James R. Simpson

James R. Simpson, Executive
Vice President and Chief
Financial Officer
November 2, 2001

BY: /s/ John M. Zinzarella

John M. Zinzarella, Vice President
and Controller
November 2, 2001