

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2002

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 0-14324

MOORE-HANDLEY, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
Incorporation of organization)

63-0819773

(I.R.S Employer
Identification No.)

3140 PELHAM PARKWAY, PELHAM, ALABAMA

(Address of principal executive offices)

35124

(Zip Code)

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 filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, \$.10 par value
Class

1,773,243 Shares
Outstanding at June 30, 2002

MOORE-HANDLEY, INC.
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MOORE-HANDLEY, INC.
CONDENSED BALANCE SHEETS
JUNE 30, 2002 AND 2001 AND DECEMBER 31, 2001

| | JUNE 30 | | DECEMBER 31 |
|--|----------------------|----------------------|----------------------|
| | 2002 | 2001 | 2001 |
| | (unaudited) | (unaudited) | (Note 1) |
| ASSETS: | | | |
| Current assets: | | | |
| Cash | \$ 47,000 | \$ 54,000 | \$ 50,000 |
| Trade receivables, net | 23,346,000 | 23,769,000 | 15,815,000 |
| Other receivables | 4,664,000 | 4,820,000 | 5,413,000 |
| Merchandise inventory | 17,488,000 | 17,562,000 | 17,377,000 |
| Prepaid expenses | 631,000 | 167,000 | 209,000 |
| Deferred income taxes | 610,000 | 615,000 | 610,000 |
| Total current assets | <u>46,786,000</u> | <u>46,987,000</u> | <u>39,474,000</u> |
| Prepaid pension cost | 630,000 | 905,000 | 786,000 |
| Property and equipment | 19,902,000 | 18,692,000 | 19,505,000 |
| Less accumulated depreciation | <u>(11,412,000)</u> | <u>(10,304,000)</u> | <u>(10,732,000)</u> |
| Net property and equipment | 8,490,000 | 8,388,000 | 8,773,000 |
| Deferred charges, net | <u>-</u> | <u>7,000</u> | <u>-</u> |
| | <u>\$ 55,906,000</u> | <u>\$ 56,287,000</u> | <u>\$ 49,033,000</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | | |
| Current liabilities: | | | |
| Trade payables | \$ 17,216,000 | \$ 20,328,000 | \$ 14,673,000 |
| Accrued payroll | 644,000 | 523,000 | 893,000 |
| Other accrued liabilities | 1,164,000 | 1,844,000 | 1,333,000 |
| Long-term debt due in one year | <u>334,000</u> | <u>1,158,000</u> | <u>334,000</u> |
| Total current liabilities | 19,358,000 | 23,853,000 | 17,233,000 |
| Long-term debt | 22,155,000 | 19,143,000 | 18,025,000 |
| Deferred income taxes | 926,000 | 671,000 | 926,000 |
| Commitments (Note 4) | - | - | - |
| Stockholders' equity | | | |
| Common stock, \$.10 par value; | | | |
| 10,000,000 shares authorized, | | | |
| 2,510,000 shares issued | 251,000 | 251,000 | 251,000 |
| Other stockholders' equity | <u>13,216,000</u> | <u>12,369,000</u> | <u>12,598,000</u> |
| Total stockholders' equity | <u>13,467,000</u> | <u>12,620,000</u> | <u>12,849,000</u> |
| | <u>\$ 55,906,000</u> | <u>\$ 56,287,000</u> | <u>\$ 49,033,000</u> |

See accompanying notes.

MOORE-HANDLEY, INC.
STATEMENTS OF OPERATIONS
(UNAUDITED)

| | THREE MONTHS ENDED JUNE 30 | | SIX MONTHS ENDED JUNE 30 | |
|--|-------------------------------|-------------------|-----------------------------|-------------------|
| | 2002 | 2001 | 2002 | 2001 |
| Net sales | \$ 40,379,000 | \$ 39,830,000 | \$ 79,617,000 | \$ 79,232,000 |
| Cost of merchandise sold | 33,910,000 | 33,554,000 | 67,034,000 | 66,566,000 |
| Warehouse and delivery expenses | 2,301,000 | 2,252,000 | 4,618,000 | 4,549,000 |
| Cost of sales | <u>36,211,000</u> | <u>35,806,000</u> | <u>71,652,000</u> | <u>71,115,000</u> |
| Gross profit | 4,168,000 | 4,024,000 | 7,965,000 | 8,117,000 |
| Selling and administrative expenses | <u>3,427,000</u> | <u>3,294,000</u> | <u>6,559,000</u> | <u>6,561,000</u> |
| Operating income | 741,000 | 730,000 | 1,406,000 | 1,556,000 |
| Interest expense, net | <u>222,000</u> | <u>333,000</u> | <u>423,000</u> | <u>767,000</u> |
| Income before income tax | 519,000 | 397,000 | 983,000 | 789,000 |
| Income tax | <u>191,000</u> | <u>142,000</u> | <u>362,000</u> | <u>284,000</u> |
| Net income | <u>\$ 328,000</u> | <u>\$ 255,000</u> | <u>\$ 621,000</u> | <u>\$ 505,000</u> |
| Net income per common share - basic | <u>\$ 0.18</u> | <u>\$ 0.14</u> | <u>\$ 0.35</u> | <u>\$ 0.28</u> |
| Weighted-average common shares outstanding - basic | <u>1,773,000</u> | <u>1,809,000</u> | <u>1,773,000</u> | <u>1,809,000</u> |
| Net income per common share - diluted | <u>\$ 0.17</u> | <u>\$ 0.14</u> | <u>\$ 0.32</u> | <u>\$ 0.28</u> |
| Weighted-average common shares outstanding - diluted | <u>1,967,000</u> | <u>1,809,000</u> | <u>1,931,000</u> | <u>1,809,000</u> |

See accompanying notes.

STATEMENTS OF CASH FLOW
(UNAUDITED)

| | SIX MONTHS ENDED JUNE 30 | |
|---|-----------------------------|-------------------------|
| | 2002 | 2001 |
| Cash flows from operating activities: | | |
| Net income | \$ 621,000 | \$ 505,000 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 680,000 | 596,000 |
| Provision for doubtful accounts | 180,000 | 150,000 |
| Gain on sale of equipment | - | (11,000) |
| Change in assets and liabilities: | | |
| Trade and other receivables | (6,979,000) | (3,138,000) |
| Merchandise inventory | (111,000) | 60,000 |
| Trade payables and accrued expenses | 2,125,000 | 4,075,000 |
| Other assets | (266,000) | 471,000 |
| Total adjustments | <u>(4,371,000)</u> | <u>2,203,000</u> |
| Net cash provided by (used in) operating activities | (3,750,000) | 2,708,000 |
| Cash flows from investing activities: | | |
| Capital expenditures | (397,000) | (171,000) |
| Proceeds from sale of equipment | - | 11,000 |
| Collections on notes receivable | 17,000 | - |
| Net cash used in investing activities | <u>(380,000)</u> | <u>(160,000)</u> |
| Cash flows from financing activities: | | |
| Purchase of treasury stock | (3,000) | (11,000) |
| Net borrowings (repayments) under bank loans | 4,309,000 | (1,892,000) |
| Principal payments under long-term debt | (179,000) | (629,000) |
| Net cash provided by (used in) financing activities | <u>4,127,000</u> | <u>(2,532,000)</u> |
| Net increase (decrease) in cash | (3,000) | 16,000 |
| Cash at beginning of period | <u>50,000</u> | <u>38,000</u> |
| Cash at end of period | <u><u>\$ 47,000</u></u> | <u><u>\$ 54,000</u></u> |

See accompanying notes.

MOORE-HANDLEY, INC.
NOTES TO FINANCIAL STATEMENTS
(INFORMATION PERTAINING TO THE THREE MONTHS AND SIX MONTHS
ENDED JUNE 30, 2002 AND 2001 IS UNAUDITED)

1. Basis of Presentation

The financial statements included herein have been prepared by Moore-Handley, Inc. without audit in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in complete financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading. The balance sheet at December 31, 2001 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. For further information, these financial statements should be read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K filed with the Commission on March 29, 2002.

The financial information presented herein reflects all adjustments (consisting only of normal recurring adjustments) which are, in our opinion, necessary for a fair presentation of the results of the interim periods. The results for interim periods are not necessarily indicative of results to be expected for the year.

2. Description of Business and Significant Accounting Policies

We are a full-service distributor of plumbing and electrical supplies, power and hand tools, paint and paint sundries, lawn and garden equipment and other hardware and building materials products. We service customers throughout the Southeast including retail home centers, hardware stores, building materials dealers, paint stores, combination stores, a limited number of mass merchandisers, businesses and institutions.

Our current customers are located primarily in Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia. We also have active customers in 26 other states.

Cash

We consider all highly liquid securities with maturity at the time of purchase of three months or less to be cash. As of June 30, 2002, we had no such instruments.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts to reflect expected credit losses. We provide for bad debts based on collection history and specific risks identified on a customer-by-customer basis. A considerable amount of judgment is required to assess the ultimate realization of accounts receivable and the creditworthiness of each customer. Furthermore, these judgments must be continually evaluated and updated. If the financial condition of our customers were to deteriorate, resulting in impairment in their ability to make payments, additional allowances may be required in future periods.

Certain Concentrations

We are a wholesaler of hardware and building materials products and as such grant credit to our customers, most of whom are independent retailers located in the Southeast. We perform periodic credit evaluations of our customers' financial condition and obtain personal guarantees and/or security interests where we deem necessary.

Merchandise Inventory

We state our inventory at the lower of average cost or market. An allowance for obsolete or excess inventory is maintained to reflect the estimated net realizable value of the inventory based on current market conditions and the inventory's recent historical movement and future demands. If actual market conditions and future demand are less favorable than we project, additional inventory provisions may be required.

Other Receivables

Other receivables consist primarily of vendor rebates and vendor allowances receivable. We record the credits and payments as a reduction of cost of sales at the point in time at which the activities required by the supplier related to the credit or payment are completed, the amount is fixed and determinable, and collectibility is reasonably assured. Arrangements with suppliers for volume incentives are typically based on a contractual arrangement covering a one-year or less period of time providing for incentives based on purchasing volume. We are not obligated to purchase a specified volume of any product.

Property and Equipment

Property and equipment is stated at cost and depreciation is computed using the straight-line method over estimated useful lives.

Income Taxes

Deferred income taxes are provided for temporary differences between financial and income tax reporting, primarily related to depreciation, inventory valuation and certain accrued costs. We continuously assess the need for valuation allowances on recorded deferred tax assets and establish an allowance when we believe it is more likely than not that the asset will not be realized.

Impairment and Depreciation of Long-Lived Assets

We estimate the depreciable lives of property and equipment when purchased and evaluate those lives when facts and circumstances change. In regards to impairment, we adopted Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which supercedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets to be Disposed Of*. Under SFAS No. 144, when events and circumstances indicate that the long-lived assets used in operations may be impaired and the undiscounted cash flows estimated to be generated from those assets are less than their carrying values, we record an impairment loss equal to the excess of the carrying value over the fair value. Long-lived assets held for disposal are valued at the lower of the carrying value or fair value less disposal costs. The adoption of SFAS 144 had no significant impact on our financial condition or results of operations.

Pensions

We have pension benefit costs and credits that are developed from actuarial valuations. Inherent in these valuations are key assumptions including discount rates and expected return on plan assets. We are required to consider current market conditions, including changes in interest rates, in selecting these assumptions. Periodic changes in these key assumptions, along with changes in head count, could have a significant impact on future pension costs and recorded pension liabilities.

Stock Option Accounting

We account for our stock compensation arrangements under the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), under which no compensation cost has been recognized.

Net Income or Loss per Common Share

Basic net income per share is based on the weighted average number of common shares outstanding and net income. Diluted net income per share is based on the weighted average number of common shares outstanding plus the effect of dilutive employee stock options on net income. Diluted earnings per share were slightly different for the second quarter of 2002, compared to the second quarter of 2001, due to the diluted effect of stock options with exercise prices less than the current market value of common shares.

Revenue Recognition

We recognize revenues, net of estimated sales returns, discounts and allowances, when goods are shipped, title has passed, the sales price is fixed and the collectibility is reasonably assured. We assume no significant obligations after goods are shipped. Regarding our direct shipment program, sales are recorded gross in our statements of operations since we act as principal in the sales transaction and assume the credit risk.

We record provisions for estimated sales returns and allowances on sales in the same period as the related sales are recorded. These estimates are based on historical sales returns and analyses of credit memo data and other known factors. If the historic data we use to calculate these estimates do not properly reflect future returns and allowances, net sales could either be understated or overstated.

In September 2000, the Emerging Issues Task Force issued EITF 00-10, *Accounting for Shipping and Handling Fees and Costs* (EITF 00-10). EITF 00-10 requires shipping and handling fees billed to customers to be classified as revenue and shipping and handling costs to be either classified as cost of sales or disclosed in the notes to the consolidated financial statements. Shipping and handling costs associated with inbound freight are included in cost of sales.

Statement of Position 93-7, *Reporting on Advertising Costs*, requires the disclosure of advertising costs. We expense the cost of advertising when incurred. Advertising expense was immaterial and did not have a significant impact on expenses for the three and six month periods ended June 30, 2002 and 2001.

Derivative Instruments and Hedging Activities

We adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, effective January 1, 2001. SFAS No. 133 requires us to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either offset against the change in fair value of the hedged item through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The adoption of this statement did not have a significant impact on our financial statements.

Impact of Recently Issued Accounting Standards

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 eliminates amortization of goodwill and requires an impairment-only model to record the value of goodwill. SFAS No. 142 requires that impairment be tested at least annually at the reporting unit level, using a two-step impairment test. Purchased intangibles with indefinite economic lives will be tested for impairment annually using a lower of cost or market approach. Other intangibles will continue to be amortized over their useful lives and reviewed for impairment when the facts and circumstances suggest that they may be impaired. The adoption of SFAS No. 142 is not expected to have a significant impact on our financial condition and results of operation.

3. Long-Term Debt

Long-Term Debt at June 30, 2002 and 2001 and December 31, 2001 includes obligations under capital leases, a term loan and a revolving line of credit all of which approximate fair value. Long-term debt at June 30, 2002 and 2001 and December 31, 2001 consisted of:

| | JUNE 30 | | DECEMBER 31 |
|---|----------------------|----------------------|----------------------|
| | 2002 | 2001 | 2001 |
| Industrial development bonds (paid in full at June 30, 2002 and December 31, 2001, variable rate of 6.21% at June 30, 2001) | \$ - | \$ 368,000 | \$ - |
| Term loan (fixed rate of 8.25%; due January 2004) | 452,000 | 738,000 | 595,000 |
| Line of credit (variable rate of 4.42%, 6.68% and 4.64% at June 30, 2002 and 2001, and December 31, 2001, respectively; due April 2005) | 21,827,000 | 19,177,000 | 17,517,000 |
| Capital lease obligations | 210,000 | 18,000 | 247,000 |
| | 22,489,000 | 20,301,000 | 18,359,000 |
| Less current maturities | (334,000) | (1,158,000) | (334,000) |
| | <u>\$ 22,155,000</u> | <u>\$ 19,143,000</u> | <u>\$ 18,025,000</u> |

We were party to lease agreements with an industrial development board, which were accounted for as asset purchases. Under the agreements, industrial development bonds were issued and the proceeds used to purchase land of \$534,000 and building and equipment of \$8,881,000. We had an unconditional obligation to pay the principal and interest at 92% of the prime rate on the bonds and had options to purchase the property for a nominal cost at the expiration of the lease. The bonds were paid in full in December 2001 and we exercised our option to purchase the property for a nominal cost in February 2002.

We have financed the purchase of transportation and computer equipment with leases. These leases are being accounted for as capital leases. The amortization expense relating to these leases is combined with depreciation expense.

We have financed a \$2,000,000 warehouse modernization program with a term loan payable in equal monthly principal payments through January 2004, together with interest at 8.25%.

In February 2002, we executed an extension and amendment to our working capital line. This line allows for a maximum borrowing of \$28,000,000 and will be secured with trade receivables and inventory. The loan is limited to the lesser of \$28,000,000 or 85% of eligible trade receivables and 50% of eligible inventory up to \$11,000,000. The interest rate on the facility will remain at prime or, at our option, 2 1/2% over LIBOR (2 1/4% beginning the third quarter of 2002 since we met certain requirements).

4. Commitments

Commitments consist of future rental payments under miscellaneous non-cancelable operating leases of which the last expires in 2006.

5. Pension Plans

We have two trustee, noncontributory, qualified defined benefit pension plans covering substantially all of our employees. Retirement benefits are provided based on years of service and earnings for salaried employees and years of service for hourly employees. Contributions to the pension plans are based on the amount necessary to fund the net periodic pension cost. Contributions are limited to the amount that can be currently deducted for federal income tax purposes and are based on the amount necessary to fund the minimum level required by the Employee Retirement Income Security Act of 1974.

6. Incentive Compensation Plan

On May 23, 1991, the stockholders approved the 1991 Incentive Compensation Plan pursuant to which a maximum aggregate of 460,000 shares of common stock may be issued to employees and directors until April 12, 2001. No further options could be granted under the 1991 Incentive Compensation Plan. On April 26, 2001, the stockholders approved the 2001 Incentive Compensation Plan pursuant to which a maximum aggregate of 460,000 shares of common stock may be issued to employees and directors until March 23, 2011.

We have elected to follow APB No. 25 and related interpretations in accounting for our employee stock options. Under APB No. 25, because the exercise price for the employees' stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. These options vest either in six months after the date of grant or in equal annual installments over five years.

7. Common Stock Subscriptions Receivable

During 1998, the stockholders approved the Employee Stock Purchase Plan (the "Plan"). In connection with the Plan, certain individuals issued three-year promissory notes to us whereby the individuals are obligated to pay annual interest of 8.5% and a balloon principal payment no later than June 30, 2001. These notes are secured by related shares of common stock. In June 2001, one note was paid in full and the others were amended to extend their maturity date to June 2003. The amended promissory notes are also payable on demand and the interest rates have been reset to our average cost of borrowing plus 2.25%.

8. Net Income Per Share

Net income per share calculated in accordance with SFAS No. 128, *Earnings Per Share*, are as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|---------------------|-----------------------------|---------------------|
| | 2002 (unaudited) | 2001 (unaudited) | 2002 (unaudited) | 2001 (unaudited) |
| Net income | \$ 328,000 | \$ 255,000 | \$ 622,000 | \$ 505,000 |
| Basic calculation: | | | | |
| Weighted-average common shares outstanding - basic | 1,773,000 | 1,809,000 | 1,773,000 | 1,809,000 |
| Net income per common share-basic | \$ 0.18 | \$ 0.14 | \$ 0.35 | \$ 0.28 |
| Diluted calculation: | | | | |
| Weighted-average common shares outstanding | 1,773,000 | 1,809,000 | 1,773,000 | 1,809,000 |
| Shares issuable on exercise of dilutive stock options | 194,000 | - | 158,000 | - |
| Weighted-average common shares outstanding - diluted | 1,967,000 | 1,809,000 | 1,931,000 | 1,809,000 |
| Net income per common share-diluted | \$ 0.17 | \$ 0.14 | \$ 0.32 | \$ 0.28 |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(UNAUDITED)

NET SALES

Net sales for the quarter ended June 30, 2002 increased \$549,000 or 1.4% from the same quarter in 2001. Gross margin increased \$193,000 or 3.1% mainly due to improved margins on warehouse shipments. As a result of the increase in net sales and gross margin dollars, net income improved \$73,000 compared to the same quarter last year.

Gross margins on factory direct shipments are lower than gross margins on warehouse shipments; however, expenses related to factory direct shipments are also lower. We believe that factory direct shipments are an important part of our business as a full-service wholesale distributor.

The following table sets forth the trend in net sales for 2001 and the first and second quarters of 2002:

| | | Net Sales | Increase (Decrease) | |
|----------------|-----------|----------------|---------------------|---------|
| | | Amount | vs. Same Quarter | |
| | | | in Previous Year | |
| | | (in thousands) | Amount | Percent |
| <u>Quarter</u> | | | (in thousands) | Change |
| 2001 - | 1st | \$ 39,402 | \$ (4,353) | -9.9 % |
| | 2nd | 39,830 | 1,188 | 3.1 |
| | 3rd | 39,858 | 955 | 2.5 |
| | 4th | 33,700 | 935 | 2.9 |
| 2002 - | 1st | 39,238 | (164) | -0.4 |
| | 2nd | 40,379 | 549 | 1.4 |

OPERATIONS

The following table sets forth certain financial data as a percentage of net sales for the periods indicated:

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|---------|------------------|---------|
| | June 30, | | June 30, | |
| | 2002 | 2001 | 2002 | 2001 |
| Net sales | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Gross margin | 16.0 | 15.7 | 15.8 | 16.0 |
| Warehouse and delivery expenses | 5.7 | 5.6 | 5.8 | 5.7 |
| Gross profit | 10.3 | 10.1 | 10.0 | 10.3 |
| Selling and administrative expenses | 8.5 | 8.3 | 8.2 | 8.3 |
| Operating income | 1.8 | 1.8 | 1.8 | 2.0 |
| Interest expense, net | 0.5 | 0.8 | 0.5 | 1.0 |
| Income before provision for income tax | 1.3 % | 1.0 % | 1.3 % | 1.0 % |

GROSS MARGIN

The gross margin percentage for the quarter ended June 30, 2002 was 16.0%, up slightly from 15.7% in the second quarter of 2001 primarily due to improved margins on warehouse shipments.

The following table sets forth the gross margin dollars, gross margin percentages and year-over-year changes for 2001 and the first and second quarters of 2002:

| Quarter | Gross Margin | | Increase (Decrease) vs. Same Quarter in Previous Year | |
|------------------|----------------|------------|---|------------|
| | Amount | Percentage | Amount | Percentage |
| | (in thousands) | of Sales | (in thousands) | Points |
| 2001 - 1st | \$ 6,390 | 16.2 % | \$ (526) | 0.4 % |
| 2nd | 6,276 | 15.7 | (230) | (1.0) |
| 3rd | 6,244 | 15.7 | 143 | 0.0 |
| 4th | 5,696 | 16.9 | 1,062 | 2.8 |
| 2002 - 1st | 6,115 | 15.6 | (275) | (0.6) |
| 2nd | 6,469 | 16.0 | 193 | 0.3 |

WAREHOUSE AND DELIVERY EXPENSES

As a percentage of warehouse shipments, warehouse and delivery expenses increased to 9.0% in the second quarter of 2002 from 8.7% in the same quarter last year mainly as a result of a decrease in backhaul revenue and an increase in contract carrier expense.

The following table sets forth the trend in warehouse and delivery expenses in 2001 and the first and second quarters of 2002:

| Quarter | Warehouse and Delivery Expenses | | Increase (Decrease) vs. Same Quarter in Previous Year | |
|------------------|------------------------------------|-------------------------|---|------------|
| | Amount | Percent of Warehouse | Amount | Percentage |
| | (in thousands) | Shipments | (in thousands) | Points |
| 2001 - 1st | \$ 2,297 | 8.9 % | \$ (359) | (0.3) % |
| 2nd | 2,252 | 8.7 | (294) | (0.9) |
| 3rd | 2,316 | 9.3 | (135) | (0.3) |
| 4th | 2,365 | 10.3 | (114) | (0.6) |
| 2002 - 1st | 2,317 | 9.4 | 20 | 0.5 |
| 2nd | 2,301 | 9.0 | 49 | 0.3 |

SELLING AND ADMINISTRATIVE EXPENSES

Net selling and administrative expenses for the second quarter of 2002 increased by \$133,000 or 4.0% over the same period in 2001 primarily as a result of an increase in salaries and benefits and other costs associated with our national sales initiatives which includes serving customers outside our historic (Southeastern) trading area.

The following table sets forth the quarterly trend in selling and administrative expenses in 2001 and the first and second quarters of 2002:

| | | | Selling and Administrative Expenses | | Increase (Decrease) vs. Same Quarter in Previous Year | | | |
|----------------|-----|-------|-------------------------------------|------------|---|------------|-------|---------|
| | | | Amount | Percentage | Amount | Percentage | | |
| | | | (in thousands) | of Sales | (in thousands) | Points | | |
| <u>Quarter</u> | | | | | | | | |
| 2001 - | 1st | | \$ | 3,267 | 8.3 % | \$ | (505) | (0.3) % |
| | 2nd | | | 3,294 | 8.3 | | (518) | (1.6) |
| | 3rd | | | 3,387 | 8.5 | | 78 | 0.0 |
| | 4th | | | 2,921 | 8.7 | | (873) | (2.9) |
| 2002 - | 1st | | | 3,132 | 8.0 | | (135) | (0.3) |
| | 2nd | | | 3,427 | 8.5 | | 133 | 0.2 |

INTEREST EXPENSE

Interest expense decreased \$111,000 or 33.3% during the second quarter of 2002 compared to the same period during 2001. The decrease was primarily due to a reduction in the prime and LIBOR based interest rates. Interest-sensitive borrowings increased \$3,012,000 or 15.7% during the second quarter 2002 compared to the same period in 2001. Average borrowings during the second quarter of 2002 increased \$1,217,000 or 6.8% from the second quarter of 2001 due to an increase in purchases from certain vendors with more accelerated terms.

LIQUIDITY AND CAPITAL RESOURCES

From December 31, 2001 to June 30, 2002, our net trade receivables increased by \$7,531,000 or 47.6%. The increase was primarily due to sales generated at our May Dealers' Mart. Net trade receivables increased during the second quarter 2002 by \$423,000 or 1.8% compared to the second quarter 2001 due to increased sales.

Inventories decreased by \$111,000 or 0.6% in the six months ended June 30, 2002 compared with December 31, 2001. Inventories decreased \$74,000 or 0.4% compared to June 30, 2001.

Trade payables increased \$2,543,000 or 17.3% from December 31, 2001 because of extended terms received from suppliers in connection with the May Dealers' Mart. Trade payables decreased \$3,112,000 or 15.3% compared to June 30, 2001. Most of the decrease was due to sales increases in lumber and building materials and our private labeled Hardware House® brands where payment terms are more accelerated.

At June 30, 2002, we had unused lines of credit of \$5,462,000 based on a collateral base of \$27,289,000. In February 2002, we executed an extension and amendment to our working capital line. This line allows for a maximum borrowing of \$28,000,000 and will be secured with trade receivables and inventory. The loan is limited to the lesser of \$28,000,000 or 85% of eligible trade receivables and 50% of eligible inventory up to \$11,000,000. The interest rate on the facility will remain at prime or, at our option, 2 1/2% over LIBOR (2 1/4% beginning the third quarter of 2002 since we met certain requirements). This new line becomes annually renewable in August 2005, subject to the right of the lender to terminate the facility at such renewal date or any subsequent renewal date on 60 days prior written notice. During the six months ended June 30, 2002 net cash used in operations was \$3,750,000 compared to net cash provided by operations of \$2,708,000 for the six months ended June 30, 2001. Most of the cash used in operations for 2002 was for the financing of trade receivables, which were unusually low as of December 31, 2001 compared to December 31, 2000 due to the terms provided in our October 2001 sales promotion. We believe this credit facility is adequate to finance our working capital needs.

INTEREST RATE RISK

The following discussion about our interest rate risk includes “forward-looking statements” that involve risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

Our principal credit agreement bears a floating interest rate based on the prime rate or, at our option, a 2 1/2% over LIBOR (2 1/4% beginning the 3rd quarter of 2002 since we met certain requirements). Accordingly, we are subject to market risk associated with changes in interest rates. At June 30, 2002, \$21,827,000 was outstanding under the credit agreement. For 2001, the average principal amount outstanding under the credit agreement was \$18,667,000. Assuming the average amount outstanding under the credit agreement during 2002 is equal to such average amount outstanding during 2001, a 1% increase in the applicable interest rate during 2002 would result in additional interest expense of approximately \$187,000, which would reduce cash flow and pre-tax earnings dollar for dollar.

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

Certain of the statements contained in this report (other than the financial statements and other statements of historical fact) are forward-looking statements. Words such as “expects” and “believes” indicate the presence of forward-looking statements. There can be no assurance that future developments will be in accordance with management’s expectations or that the effect of future developments on us will be those anticipated by management. Among the factors that could cause actual results to differ materially from estimates reflected in such forward-looking statements are the following:

- competitive pressures on sales and pricing, including those from other wholesale distributors and those from retailers in competition with our customers;
- our ability to achieve projected cost savings from our warehouse modernization program and ongoing cost reduction efforts;
- changes in cost of goods and the effect of differential terms and conditions available to our larger competitors;
- uncertainties associated with any acquisition or rapid expansion of our sales force beyond our historical market which we may seek to implement; and
- changes in general economic conditions, including increases in interest rates.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our annual meeting was held on Tuesday, May 14, 2002 at 10:00 a.m. At the meeting, Messrs. William Riley, Pierce E. Marks, Jr., Michael B. Stubbs, Michael Palmer and Michael Gaines were elected as directors of Moore-Handley, Inc.

The following table sets forth the distribution of votes cast with regard to each of the nominees:

| <u>Nominee</u> | <u>Votes Cast for Nominee</u> | <u>Votes Withheld</u> |
|----------------------|-----------------------------------|---------------------------|
| William Riley | <u>1,558,700</u> | <u>1,324</u> |
| Pierce E. Marks, Jr. | <u>1,558,700</u> | <u>1,324</u> |
| Michael B. Stubbs | <u>1,558,700</u> | <u>1,324</u> |
| Michael Palmer | <u>1,558,700</u> | <u>1,324</u> |
| Michael Gaines | <u>1,558,700</u> | <u>1,324</u> |

At the annual meeting the stockholders also ratified the appointment by the Board of Directors of Ernst & Young LLP, Certified Public Accountants, as independent auditors for the year 2002.

The following table sets forth the distribution of votes cast with respect to the proposal:

| <u>For</u> | <u>Against</u> | <u>Abstained</u> |
|------------|----------------|------------------|
| 1,559,524 | - | 500 |

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibit 3(a) – Restated Certificate of Incorporation of Company, filed as Exhibit 3(a) to the Company’s Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference,
- 3(a)-1 – Amendment to Restated Certificate of Incorporation dated May 7, 1987, filed as Exhibit 3(a)-1 to the Company’s Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference,
- 3(b) – By-Laws of the Company, filed as Exhibit 3(d) to the Company’s Registration Statement on Form S-1 (Reg. No. 33-3032) and incorporated herein by reference,
- 3(b)-1 – Article VII of By-Laws of the Company, as amended May 7, 1987 filed as Exhibit 3(b)-1 to the Company’s Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference,
- (b) There were no reports on Form 8-K filed by the Company during the three-month period ended June 30, 2002.

SIGNATURES

Pursuant to the requirements 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-HANDLEY,
INC.
(Registrant)

Date: August 14,
2002

/s/ Michael J. Gaines

Michael J. Gaines
President and
Chief Operating Officer

/s/ Gary C. Mercer
Gary C. Mercer
Chief Financial Officer

EXHIBIT INDEX

| <u>EXHIBIT NO.</u> | <u>DESCRIPTION</u> |
|--------------------|--|
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| 3 (b) | By-laws of the Company, filed as Exhibit 3(d) to the Company's Registration Statement on Form S-1 (Reg. No. 33-3302) and incorporated herein by reference. |
| 3 (b)-1 | Article VII of By-laws of the Company, as amended May 7, 1987 filed as Exhibit 3(b)-1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987 and incorporated herein by reference. |