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MEGATECH CORP
Form 10-Q
November 12, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, DC. 2054
FORM 10-Q

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

For the quarterly period ended September 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 0-9643

MEGATECH CORPORATION
(Exact name of registrant as specified in its charter)

Massachusetts	04-2461059
(State or other jurisdiction of incorporation of organization)	(IRS. Employer Identification No.)

555 WOBURN Street, TEWKSBURY, MA	01876
(Address of principal executive offices)	(Zip Code)

(978) 937-9600
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal
year, if changed since last report)

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 []

There were 3,860,558 shares of common stock outstanding at October 31, 2002.

MEGATECH CORPORATION
QUARTERLY REPORT FORM 10-Q
September 30, 2002

PART 1. FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

MEGATECH CORPORATION BALANCE SHEET

	Sept. 30, 2002	Dec. 31, 2001
	----- (UNAUDITED)	----- (AUDITED)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 187,529	\$ 64,138
Accounts receivable:		
Trade	133,461	254,061
Other	8,288	3,697
Inventories	448,925	216,506
Prepaid expenses	9,011	7,710
	-----	-----
Total current assets	787,214	546,112

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Property, plant and equipment, net	92,438	71,233
Other assets	7,666	7,666
	-----	-----
Total Assets	\$ 887,318	\$ 625,011
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 139,282	\$ 50,160
Accrued Liabilities	66,124	51,964
Current portion of long-term debt	34,375	0
	-----	-----
Total current liabilities	239,781	102,124
	-----	-----
Long-term debt	0	37,500
Stockholders' equity:		
Common Stock, par value \$.0143 per share, 5,000,000 shares authorized; 3,860,558 (3,840,558 at 2001) shares issued and outstanding		
	55,206	54,920
Additional paid-in capital	4,020,262	4,016,948
Deficit	(3,427,931)	(3,586,481)
	-----	-----
Total stockholders' equity	647,537	485,387
	-----	-----
Total liabilities and stockholders' equity	\$ 887,318	\$ 625,011
	=====	=====

See notes to financial statements.

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MEGATECH CORPORATION STATEMENT OF OPERATIONS (UNAUDITED)

	NINE MONTHS ENDED		QUARTER ENDED	
	Sept. 30, 2002	Sept. 30, 2001	Sept. 30, 2002	Sept. 30, 2001
	-----	-----	-----	-----
Sales	\$2,709,884	\$1,342,768	\$ 803,495	\$ 803,495
Cost of sales	1,059,864	574,309	320,316	320,316
	-----	-----	-----	-----
Gross profit	1,650,020	768,459	483,179	483,179
	-----	-----	-----	-----
Operating expenses:				

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Selling	1,339,537	591,641	413,691	
General and administrative	133,066	133,959	43,808	
Research and development	12,377	12,925	4,727	
	-----	-----	-----	---
Total operating expenses	1,484,980	738,525	462,226	
	-----	-----	-----	---
Income from operations	165,040	29,934	20,953	
	-----	-----	-----	---
Other income (expense):				
Interest income	2,134	138	2,134	
Interest expense	(8,584)	(2,667)	(713)	
Other	(40)	(190)	126	
	-----	-----	-----	---
Other income (expense), net	(6,490)	(2,719)	1,547	
	-----	-----	-----	---
Net income	\$ 158,550	\$ 27,215	\$ 22,500	\$
	=====	=====	=====	==
Net income per share - basic and diluted	\$ 0.041	\$ 0.007	\$ 0.006	\$
	=====	=====	=====	==
Weighted average number of common	3,853,452	3,827,983	3,860,558	3

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MEGATECH CORPORATION
STATEMENT OF CASH FLOWS (Unaudited)

	NINE MONTHS ENDED	
	Sept. 30, 2002	Sept. 30, 2001
	-----	-----
Cash flows from operating activities:		
Net income	\$ 158,550	\$ 27,215
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,101	14,934
Common stock issued as compensation	3,600	2,263
Changes in operating assets and liabilities:		
Accounts receivable	116,009	73,554
Prepaid expenses	(1,301)	(4,345)
Inventories	(232,419)	59,297
Accounts payable	89,122	(67,480)
Accrued liabilities	14,160	(22,933)
	-----	-----
Net cash provided by operating activities	164,822	82,505
	-----	-----
Cash flows from investing activities:		
Purchases of property and equipment	(38,306)	(16,522)

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	-----	-----
Net cash used by investing activities	(38,306)	(16,522)
	-----	-----
Cash flows from financing activities:		
Principal payments on notes payable	(103,125)	(70,000)
Advances on notes payable	100,000	70,000
	-----	-----
Net cash used by financing activities	(3,125)	0
	-----	-----
Net increase in cash and cash equivalents	123,391	65,983
Cash & cash equivalents, beginning of period	64,138	27,585
	-----	-----
Cash & cash equivalents, end of period	\$ 187,529	\$ 93,568
	=====	=====

See notes to financial statements.

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MEGATECH CORPORATION NOTES TO FINANCIAL STATEMENTS September 30, 2002

1 NATURE OF THE BUSINESS

Megatech Corporation, established in 1970, provides instructional programs, along with training equipment, as a turnkey system for the transportation industry. The company has developed and marketed a comprehensive line of automotive trainers for schools, the military, government and industry. Megatech has sold automotive/ technology modules to over 4000 schools in the United States thereby establishing excellent brand recognition throughout the country. In addition, Megatech has exported to well over 20 nations around the world.

Megatech Corporation has entered new markets in 2002 with several market building projects either completed or in process. The Company is providing the first component of a new Basic Knowledge and Skills training program at Aberdeen Proving Grounds. In addition, the Company has developed Ford Motor Company's first complete electricity and electronics training program which will be used at the Ford Factory ASSET Training Centers.

Recently, Megatech and Snap-On Tools entered into an agreement to market Megatech trainers to the transportation industry, government, and public education. Through Snap On Tools International, Megatech is in the process of providing five state of the art training programs to the national colleges of Venezuela.

2 BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in

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accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. 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 considered necessary for a fair presentation of the financial position, results of operations and cash flows have been included. Operating results for interim periods are not necessarily indicative of the operating results that may be expected for the full year. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-K.

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3 SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue from product sales are recognized upon shipment.

Inventories

Inventories are valued at lower of cost (first-in-first-out) or market.

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the assets.

3 INVENTORIES

Inventories consisted of the following:

	Sept. 30, 2002	Dec. 31, 2001
	-----	-----
Raw materials	\$178,529	\$119,082
Work in process	89,676	37,096
Finished goods	180,720	60,328
	-----	-----
	\$448,925	\$216,506
	=====	=====

3 PROPERTY AND EQUIPMENT

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Property and equipment consisted of the following:

	Sept. 30, 2002	Dec. 31, 2001
	-----	-----
Machinery and equipment	\$246,296	\$245,855
Office equipment	149,522	143,827
Leasehold improvements	70,226	69,776
Automobiles	90,119	58,399
	-----	-----
Total	\$556,163	\$517,857
	-----	-----
Less accumulated depreciation	\$463,725	\$446,624
	-----	-----
Property and equipment - net	\$ 92,438	\$ 71,233
	=====	=====

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4 LONG-TERM DEBT

Long-term debt of \$34,375 classified as current at September 30, 2002, consisted of 8% convertible notes payable. Interest is payable quarterly and the outstanding principal balance was originally due June 2001 and has been extended to June 2003. The notes are convertible at the option of the holder into shares of the Company's common stock at a conversion rate of \$1 per share. If at anytime prior to the notes maturity date or conversion by the holder the Company's common stock has a market price of at least \$2 per share for five consecutive trading days, the notes are convertible at the option of the Company into shares of the Company's common stock at a conversion rate of \$1 per share.

5 MAJOR CUSTOMER INFORMATION

For the period ended September 30, 2002 and 2001, sales to one and three unrelated sales representatives comprised 92% and 82% of total sales, respectively.

ITEM 2.

MEGATECH CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

RESULTS OF OPERATIONS

Quarter Ended September 30, 2002 compared to quarter ended September 30, 2001

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Sales for the quarter ended September 30, 2002 were \$803,495, compared to \$497,207 for the same quarter last year. The increase was primarily due to an increase in international sales.

Gross profit for the quarter ended September 30, 2002 was \$483,179 or 60% of sales, compared to \$286,043 or 58% of sales, for the same quarter last year. The increase as a percentage of sales is the result of a decrease in direct labor and material costs.

Selling and marketing expenses for the quarter ended September 30, 2002 were \$413,691 or 51% of sales, compared to \$201,802 or 41% of sales, for the same quarter last year. The increase is due to higher sales commissions, salaries and rent expense.

General and administrative expenses for the quarter ended September 30, 2002 were \$43,808 or 5% of sales, compared to \$37,423 or 8% of sales, for the same quarter last year. The decrease as a percentage of sales is due to a larger sales base, however, the total increase is due to an increase in insurance, rent, and audit expense.

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Research and development expenses for the quarter ended September 30, 2002 were \$4,727 or 1% of sales, compared to \$3,528 or 1% of sales, for the same quarter last year. The increase is due to an increase in curriculum development.

The net income for the quarter ended September 30, 2002 was \$22,500 compared to net income of \$42,540 for the same quarter last year. The decrease is the result of the items discussed above.

Nine months Ended September 30, 2002 compared to nine months ended September 30, 2001

Sales for the nine months ended September 30, 2002 were \$2,709,884, compared to \$1,342,768 for the same period last year. The increase was due to a increase in international sales.

Gross profit for the nine months ended September 30, 2002 was \$1,650,020 or 61% of sales, compared to \$768,459 or 57% of sales, for the same period last year. The increase as a percentage of sales is the result of a decrease in direct labor and materials costs.

Selling and marketing expenses for the nine months ended September 30, 2002 were \$1,339,537 or 49% of sales, compared to \$591,641 or 44% of sales, for the same period last year. The increase is attributable to an increase in commissions, rent, and salaries.

General and administrative expenses for the nine months ended September 30, 2002 were \$133,066 or 5% of sales, compared to \$133,959 or 10% of sales, for the same period last year. The decrease as a percentage of sales is attributable to relatively stable general and administrative expenses despite increased sales.

Research and development expenses were relatively stable at \$12,377 or .5% of sales for the nine months ended September 30, 2002, and \$12,925 or 1% of sales for the nine months ended September 30, 2001.

The net income for the nine months ended September 30, 2002 was \$158,550 compared to net income of \$27,215 for the same period last year. The

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increase is the result of the items discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Working capital as of September 30, 2002 was \$547,433 compared to \$443,988 in working capital at December 31, 2001. The increase is attributable to the net income for the period net of the reclassification of notes payable from long-term to current.

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The company maintains a secured line of credit in the amount of \$200,000. The line is collateralized by a security interest in substantially all assets of the Company. Interest is payable monthly at the bank's prime rate plus 1.5%. At September 30, 2002, no borrowings were outstanding on this line.

The company believes that cash generated from operations, together with existing sources of debt financing, will be sufficient to meet foreseeable cash requirements for the next twelve months.

Capital expenditures totaled approximately \$38,000 for the nine months ended September 30, 2002, compared to \$17,000 for the same period in 2001. No material purchase or capital commitments exist at September 30, 2002.

The firm's backlog as of September 30, 2002 was approximately \$1,481,149 compared to \$206,254 for same period ended in 2001.

ITEM 3. QUANITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

The company's disclosure controls and procedures have been evaluated. Based on the evaluation, it was determined the Company's disclosure controls and procedures are effective in ensuring information required to be disclosed by the Company in its Exchange Act reports is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosures.

The Company's internal control structure has been evaluated. Based on the evaluation, it was determined that there were no significant changes in the Company's internal controls or in other factors that could affect these controls subsequent to the date of the evaluation, including any corrective action with regard to significant deficiencies and material weaknesses.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings:	None.

Item 2. Changes in Securities:	None.

Item 3. Defaults Upon Senior Securities:	None.

Item 4. Submission of Matters to a Vote of Security Holders:	None.

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Item 5. Other Information:

None.

Item 6. Exhibits and Reports on Form 8-K:

None.

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SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MEGATECH CORPORATION
(Registrant)

November 4, 2002

/s/ Vahan V. Basmajian

Date

Vahan V. Basmajian
President, Treasurer

CERTIFICATION

I, Vahan V. Basmajian, President, Treasurer, and Chairman of the Board of Megatech Corporation certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of Megatech Corporation;
- 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) I, the registrant's certifying officer, am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and I have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known to me by others within the registrant 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

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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;

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- 5) I, the registrant's certifying officer, have disclosed, based on my most recent evaluation, to the registrant's auditors and the registrant's board of directors:
 - 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) I, the registrant's certifying officer, 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.

Date: November 4, 2002

/s/ Vahan V. Basmajian

Vahan V. Basmajian
President, Treasurer & Chairman
of the Board

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