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MEGATECH CORP
Form 10-Q
May 14, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, DC. 20549
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 March 31, 2003 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
(State or other jurisdiction of
incorporation of organization)

04-2461059
(IRS. Employer
Identification No.)

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

01876
(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 []

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Act). Yes [] No [X]

There were 3,886,958 shares of common stock outstanding at May 1, 2003.

MEGATECH CORPORATION

QUARTERLY REPORT FORM 10-Q
MARCH 31, 2003

PART 1. FINANCIAL INFORMATION

ITEM 1. Financial Statements (Unaudited)

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PART 1. FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS

MEGATECH CORPORATION BALANCE SHEET

| | MAR 31, 2003 (UNAUDITED) | DEC. 31, 2002 (AUDITED) |
|---------------------------|-----------------------------|----------------------------|
| | ----- | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 85,647 | \$ 30,327 |
| Accounts receivable: | | |
| Trade | 371,814 | 146,482 |
| Other | 8,756 | 8,643 |
| Inventories | 435,559 | 839,753 |
| Prepaid expenses | 16,000 | 52 |

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| | | |
|--|-------------|-------------|
| Total current assets | 917,776 | 1,025,257 |
| Property and equipment, net | 82,342 | 83,566 |
| Other assets | 7,666 | 7,666 |
| | ----- | ----- |
| Total Assets | \$1,007,784 | \$1,116,489 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Note payable - line of credit | \$ 0 | \$ 100,000 |
| Accounts payable - trade | 148,763 | 218,508 |
| Accrued liabilities | 65,704 | 79,116 |
| Customer advance payments | 0 | 90,109 |
| Current portion of long-term debt | 34,375 | 34,375 |
| | ----- | ----- |
| Total current liabilities | 248,842 | 522,108 |
| | ----- | ----- |
| Stockholders' equity: | | |
| Common Stock, par value \$.0143 per share, 5,000,000 shares authorized; 3,886,958 (3,885,958 at 2002) shares issued and outstanding | 55,569 | 55,569 |
| Additional paid-in capital | 4,024,162 | 4,024,162 |
| Deficit | (3,320,789) | (3,485,350) |
| | ----- | ----- |
| Total stockholders' equity | 758,942 | 594,381 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$1,007,784 | \$1,116,489 |
| | ===== | ===== |

See notes to financial statements

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MEGATECH CORPORATION STATEMENT OF OPERATIONS (UNAUDITED)

| | QUARTER ENDED | |
|---------------------|----------------|----------------|
| | MARCH 31, 2003 | MARCH 31, 2002 |
| | ----- | ----- |
| Sales | \$1,568,394 | \$ 319,760 |
| Cost of sales | 678,744 | 110,004 |
| | ----- | ----- |
| Gross profit | 889,650 | 209,756 |
| | ----- | ----- |
| Operating expenses: | | |

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| | | |
|---|------------|-------------|
| Selling | 651,782 | 214,602 |
| General and administrative | 60,870 | 44,898 |
| Research and development | 12,239 | 3,809 |
| | ----- | ----- |
| Total operating expenses | 724,891 | 263,309 |
| | ----- | ----- |
| Income (loss) from operations | 164,759 | (53,553) |
| | ----- | ----- |
| Other income (expense): | | |
| Interest income | 820 | 0 |
| Interest expense | (1,075) | (750) |
| Other income (expense) | 57 | (190) |
| | ----- | ----- |
| Other income (expense), net | (198) | (940) |
| | ----- | ----- |
| Net income (loss) | \$ 164,561 | \$ (54,493) |
| | ===== | ===== |
| Net income (loss) per share - basic and diluted | \$ 0.042 | \$ (0.014) |
| | ===== | ===== |
| Weighted average number of common shares outstanding | 3,886,802 | 3,840,558 |
| | ===== | ===== |

See notes to financial statements.

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MEGATECH CORPORATION STATEMENT OF CASH FLOWS (UNAUDITED)

| | QUARTER ENDED | |
|--|----------------|----------------|
| | MARCH 31, 2003 | MARCH 31, 2002 |
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 164,561 | \$ (54,493) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 5,700 | 5,700 |
| Loss on sale of property and equipment | 1,170 | 0 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (225,445) | 39,103 |
| Prepaid expenses | (15,948) | 2,374 |
| Inventories | 404,194 | (277,817) |

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| | | |
|--|-----------|-----------|
| Accounts payable-trade | (69,745) | 181,911 |
| Accrued liabilities | (13,412) | (11,480) |
| Customer advance payments | (90,109) | 0 |
| | ----- | ----- |
| Net cash provided by (used in) operating activities | 160,966 | (114,702) |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (5,646) | (2,391) |
| | ----- | ----- |
| Net cash used in investing activities | (5,646) | (2,391) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Payments on line of credit | (170,000) | 0 |
| Advances on line of credit | 70,000 | 100,000 |
| | ----- | ----- |
| Net cash provided by (used in) financing activities | (100,000) | 100,000 |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | 55,320 | (17,093) |
| Cash & cash equivalents, beginning of period | 30,327 | 64,138 |
| | ----- | ----- |
| Cash & cash equivalents, end of period | \$ 85,647 | \$ 47,045 |
| | ===== | ===== |

See notes to financial statements.

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MEGATECH CORPORATION NOTES TO FINANCIAL STATEMENTS MARCH 31, 2003

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 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

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Megatech trainers to the transportation industry, government, and public education. Through Snap On Tools International, Megatech provided five state of the art training programs shipped in 2002 and 2003 to the national colleges of Venezuela and is negotiating an additional contract for 13 more schools.

2 BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in 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.

4 INVENTORIES

Inventories consisted of the following:

| | MARCH 31, 2003 | DEC. 31, 2002 |
|-----------------|----------------|---------------|
| | ----- | ----- |
| Raw materials | \$237,505 | \$248,588 |
| Work in process | 49,620 | 31,765 |
| Finished goods | 148,434 | 559,400 |
| | ----- | ----- |

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| | |
|-----------|-----------|
| \$435,559 | \$839,753 |
| ===== | ===== |

5 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

| | MARCH 31, 2003 | DEC. 31, 2002 |
|-------------------------------|----------------|---------------|
| | ----- | ----- |
| Machinery and equipment | \$ 21,207 | \$ 16,391 |
| Office equipment | 48,573 | 48,573 |
| Leasehold improvements | 71,052 | 70,226 |
| Automobiles | 60,375 | 63,175 |
| | ----- | ----- |
| Total | 201,207 | 198,365 |
| Less accumulated depreciation | 118,865 | 114,799 |
| | ----- | ----- |
| Property and equipment - net | \$ 82,342 | \$ 83,566 |
| | ===== | ===== |

6 LONG-TERM DEBT

Long-term debt of \$34,375 classified as current at March 31, 2003 and December 31, 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.

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7 MAJOR CUSTOMER INFORMATION

For the period ended March 31, 2003 and 2002, sales to one unrelated sales representative comprised 94% and 81% of total sales, respectively.

ITEM 2.

MEGATECH CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR QUARTERS ENDED MARCH 31, 2003 AND 2002

RESULTS OF OPERATIONS

Quarter Ended March 31, 2003 compared to quarter ended March 31, 2002

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Sales for the quarter ended March 31, 2003 were \$1,568,394, compared to \$319,760 for the same quarter last year. The increase was primarily due to an increase in international sales. Domestic sales in the quarter ended March 31, 2003 were \$406,067 or 26% of total sales, compared to \$317,730 or 99% of total sales for the same period last year. International sales in the quarter ended March 31, 2003 were \$1,162,327 or 74% of total sales, compared to \$2,030 or 1% of total sales for the same period last year. The increase in international sales is attributable to sales through Snap On International of training equipment and programs to the national colleges of Venezuela.

Gross profit for the quarter ended March 31, 2003 was \$889,650 or 57% of sales, compared to \$209,756 or 66% of sales, for the same quarter last year. The decrease as a percentage of sales is the result of higher than estimated costs associated with a large order of which the final part of the shipment occurred in February, 2003. Currently, there are no known future increases in costs of materials, labor or other price increases which could have an effect on sales other than normal inflation increases.

Selling and marketing expenses for the quarter ended March 31, 2003 were \$651,782 or 42% of sales, compared to \$214,602 or 67% of sales for the same period last year. The decrease as a percentage of sales is due to fixed selling expenses which did not increase with an increase in sales.

General and administrative expenses for the quarter ended March 31, 2003 were \$60,870 or 4% of sales, compared to \$44,898 or 14% of sales for the same period last year. The increase is due to increases in legal expense, salaries, audit, and accounting expense.

Research and development expenses for the quarter ended March 31, 2003 were \$12,239 or 1% of sales, compared to \$3,809 or 1% of sales, for the same quarter last year. The increase is due to the addition of engineering staff.

The net income for the quarter ended March 31, 2003 was \$164,561 compared to a net loss of \$54,493 for the same quarter last year. The increase is the result of the items discussed above.

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LIQUIDITY AND CAPITAL RESOURCES

Working capital as of March 31, 2003 was \$668,934 compared to \$503,149 in working capital at December 31, 2002. The increase was attributable to the net income for the quarter.

The Company maintains a secured line of credit in the amount of \$275,000. At March 31, 2003, no borrowings were outstanding under 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 \$5,600 for the three months ended March 31, 2003, compared to \$2,400 for the same period in 2002. No material purchase or capital commitments exist at March 31, 2003.

The Company's backlog as of March 31, 2003 was \$694,105 compared to \$2,909,232 for the same period ended in 2002. The decrease in backlog is the result of \$2.6 million in orders from Snap On Corporation for

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automotive trainers that were shipped to the Venezuelan government from June of 2002 to February of 2003.

ITEM 3. QUANTITATIVE 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.

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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. |
| Item 5. Other Information: | None. |
| Item 6. Exhibits and Reports on Form 8-K: | |

The following exhibits are filed herewith:

99.1 Certification required under Section 1350 of Chapter 63 of Title 18 of the United States Code.

| | |
|---------------------|-------|
| Reports on Form 8-K | None. |
|---------------------|-------|

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)

May 1, 2003

/s/ Vahan V. Basmajian

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Date

Vahan V. Basmajian
President, Treasurer

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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 the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- 5) 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

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- 6) I, the registrant's certifying officer, have indicated in this

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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 and regard to significant deficiencies and material weaknesses.

Date: May 1, 2003

/s/ Vahan V. Basmajian

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

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