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MEGATECH CORP
Form 10-Q
August 13, 2002

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 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 0-9643

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

Massachusetts 04-2461059
(State or other jurisdiction of (IRS. Employer
incorporation of organization) 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 August 6, 2002.

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

PART 1. FINANCIAL INFORMATION

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months ended June 30, 2002 and June 30, 2001

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

MEGATECH CORPORATION BALANCE SHEET

	June 30, 2002 (UNAUDITED)	DEC. 31, 2001 (AUDITED)
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 137,658	\$ 64,138
Accounts receivable:		
Trade	213,738	254,061
Other	8,256	3,697
Inventories	457,768	216,506
Prepaid expenses	14,763	7,710
	-----	-----
Total current assets	832,183	546,112
Property, plant and equipment, net	66,418	71,233
Other assets	7,666	7,666
	-----	-----
Total Assets	\$ 906,267	\$ 625,011

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	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - Trade	\$ 183,051	\$ 50,160
Accrued Liabilities	60,679	51,964
	-----	-----
Total current liabilities	243,730	102,124
	-----	-----
Long term debt	37,500	37,500
Stockholders' equity:		
Common Stock, par value \$.0143 per share,		
5,000,000 shares authorized;		
2002, 3,860,558; 2001, 3,840,558		
shares issued and outstanding	55,206	54,920
Additional paid-in capital	4,020,262	4,016,948
Deficit	(3,450,431)	(3,586,481)
	-----	-----
Stockholders' equity, net	625,037	485,387
	-----	-----
Total liabilities and		
stockholders' equity	\$ 906,267	\$ 625,011
	=====	=====

See notes to financial statements.

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MEGATECH CORPORATION STATEMENT OF OPERATIONS (UNAUDITED)

	SIX MONTHS ENDED		QUARTER ENDED	
	June 30, 2002	June 30, 2001	June 30, 2002	June
	-----	-----	-----	-----
Sales	\$1,906,389	\$ 845,562	\$1,586,629	\$ 4
Cost of sales	739,548	363,145	629,544	1
	-----	-----	-----	-----
Gross profit	1,166,841	482,417	957,085	2
	-----	-----	-----	-----
Operating expenses:				
Selling	925,846	389,839	711,244	2
General and administrative	89,258	96,536	44,360	
Research and development	7,650	9,397	3,841	
	-----	-----	-----	-----
Total operating expenses	1,022,754	495,772	759,445	2
	-----	-----	-----	-----
Income (loss) from operations	144,087	(13,355)	197,640	
	-----	-----	-----	-----
Other income (expense):				
Interest income	0	138	0	
Interest expense	(7,871)	(1,917)	(7,121)	

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Other	(166)	(190)	24	
	-----	-----	-----	-----
Other income (expense), net	(8,037)	(1,969)	(7,097)	
	-----	-----	-----	-----
Net income (loss)	\$ 136,050	\$ (15,324)	\$ 190,543	\$
	=====	=====	=====	=====
Net income (loss) per share - basic and diluted	\$ 0.035	\$ (0.004)	\$ 0.049	\$
	=====	=====	=====	=====
Weighted average number of common	3,849,729	3,815,408	3,858,800	3,

See notes to financial statements.

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MEGATECH CORPORATION STATEMENT OF CASH FLOWS

	SIX MONTHS ENDED	
	June 30, 2002	June 30, 2001
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$ 136,050	\$ (15,324)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	11,401	9,234
Common stock issued as compensation	3,600	0
Changes in operating assets and liabilities:		
Accounts receivable	35,764	89,795
Prepaid expenses	(7,053)	(4,281)
Inventories	(241,262)	(2,895)
Accounts payable	132,891	(47,821)
Accrued liabilities	8,715	(17,746)
	-----	-----
Net cash provided by operating activities	80,106	10,962
	-----	-----
Cash flows from investing activities:		
Purchases of property and equipment	(6,586)	(15,891)
	-----	-----
Net cash used by investing activities	(6,586)	(15,891)
	-----	-----
Cash flows from financing activities:		
Principal payments on notes payable	(100,000)	(45,000)
Advances on notes payable	100,000	45,000
	-----	-----
Net cash used by financing activities	0	0
	-----	-----

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Net increase (decrease) in cash and cash equivalents	73,520	(4,929)
Cash & cash equivalents, beginning of period	64,138	27,585
	-----	-----
Cash & cash equivalents, end of period	\$ 137,658	\$ 22,656
	=====	=====

See notes to financial statements.

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MEGATECH CORPORATION NOTES TO FINANCIAL STATEMENTS June 30, 2002

1. 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.

2. INVENTORIES:

Inventories consisted of the following:

	June 30, 2002	Dec. 31, 2001
	-----	-----
Raw materials	\$151,541	\$119,082
Work in process	50,897	37,096
Finished goods	255,330	60,328
	-----	-----
	\$457,768	\$216,506
	=====	=====

3. MAJOR CUSTOMER INFORMATION:

For the period ended June 30, 2002 and 2001, sales to one and two unrelated sales representatives comprised 93% and 63% of total sales, respectively.

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ITEM 2.

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

RESULTS OF OPERATIONS:

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

Sales for the quarter ended June 30, 2002 were \$1,586,629, compared to \$480,539 for the same quarter last year. The increase was due to an increase in international sales to Snap On Corporation.

Gross profit for the quarter ended June 30, 2002 was \$957,085 or 60% of sales, compared to \$289,498 or 60% of sales for the same quarter last year. The increase is the result of higher sales.

Selling and marketing expenses for the quarter ended June 30, 2002 were \$711,244 or 45% of sales, compared to \$201,890 or 42% 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 June 30, 2002 were \$44,360 or 3% of sales, compared to \$51,153 or 11% of sales for the same quarter last year. The decrease is due to a decrease in salaries.

Research and development expenses for the quarter ended June 30, 2002 were stable at \$3,841 or .2% of sales, compared to \$3,834 or .8% of sales, for the same quarter last year.

The net income for the quarter ended June 30, 2002 was \$190,543 compared to net income of \$31,637 for the same quarter last year. The increase is the result of the items discussed above.

Six months Ended June 30, 2002 compared to six months ended June 30, 2001

Sales for the six months ended June 30, 2002 were \$1,906,389, compared to \$845,562 for the same period last year. The increase was due to an increase in international sales to Snap On Corporation.

Gross profit for the six months ended June 30, 2002 was \$1,166,841 or 61% of sales, compared to \$482,417 or 57% of sales, for the same period last year. The increase is the result of a decrease in direct labor and materials costs, and increased sales.

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Selling and marketing expenses for the six months ended June 30, 2002 were \$925,846 or 49% of sales, compared to \$389,839 or 46% of sales, for the same period last year. The increase is the result of increased sales commissions to Snap On Corporation, as well as an increase in other marketing expenses such as office supplies, salaries, show and exhibit expense, and sales promotion.

General and administrative expenses for the six months ended June 30, 2002

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were \$89,258 or 5% of sales, compared to \$96,536 or 11% of sales for the same period last year. The decrease is due to a decrease in salaries.

Research and development expenses for the six months ended June 30, 2002 were \$7,650 or .4% of sales, compared to \$9,397 or 1% of sales, for the same period last year.

The net income for the six months ended June 30, 2002 was \$136,050 compared to a net loss of \$15,324 for the same period last year. The increase is the result of the items discussed above.

LIQUIDITY AND CAPITAL RESOURCES:

Working capital as of June 30, 2002 was \$588,453 compared to \$443,988 in working capital at December 31, 2001. The increase is attributable to the net income for the period.

The company maintains a secured line of credit in the amount of \$200,000. At June 30, 2002, no borrowings were outstanding under this line. The company believes that cash generated from operations, together with existing resources of debt financing, will be sufficient to meet foreseeable cash requirements for the next twelve months.

The firm's backlog as of June 30, 2002 was approximately \$1,535,600 compared to \$349,643 for same period ended in 2001.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not applicable.

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:	None.

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SIGNATURES

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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)

August 6, 2002

Date

/s/ Vahan V. Basmajian

Vahan V. Basmajian
President, Treasurer

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