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MEGATECH CORP
Form 10-Q
November 12, 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 September 30, 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 XX No
-- --

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

There were 3,886,958 shares of common stock outstanding at
October 29, 2003.

MEGATECH CORPORATION

QUARTERLY REPORT FORM 10-Q
SEPTEMBER 30, 2003

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MEGATECH CORPORATION BALANCE SHEET

	SEPT. 30, 2003 (UNAUDITED)	DEC. 31, 2002 (AUDITED)
	-----	-----
ASSETS		

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Current assets:		
Cash and cash equivalents	\$ 250,858	\$ 30,327
Accounts receivable:		
Trade	199,905	146,482
Other	8,216	8,643
Inventories	468,753	839,753
Prepaid expenses	14,639	52
	-----	-----
Total current assets	942,371	1,025,257
Property and equipment, net	71,108	83,566
Other assets	7,666	7,666
	-----	-----
Total Assets	\$1,021,145	\$1,116,489
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Note payable - line of credit	\$ 0	\$ 100,000
Accounts payable - trade	51,116	218,508
Accrued liabilities	74,303	79,116
Customer advance payments	70,080	90,109
Current portion of long-term debt	0	34,375
	-----	-----
Total current liabilities	195,499	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	55,583	55,569
Additional paid-in capital	4,024,308	4,024,162
Deficit	(3,254,245)	(3,485,350)
	-----	-----
Total stockholders' equity	825,646	594,381
	-----	-----
Total liabilities and stockholders' equity	\$1,021,145	\$1,116,489
	=====	=====

See notes to financial statements.

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MEGATECH CORPORATION STATEMENT OF OPERATIONS (UNAUDITED)

NINE MONTHS ENDED		QUARTER
SEPT. 30, 2003	SEPT. 30, 2002	SEPT. 30, 2003
-----	-----	-----

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Sales	\$2,791,650	\$2,709,884	539,586
Cost of sales	1,218,501	1,059,864	247,669
	-----	-----	-----
Gross profit	1,573,149	1,650,020	291,917
	-----	-----	-----
Operating expenses:			
Selling	1,147,873	1,339,537	183,373
General and administrative	161,268	133,066	48,790
Research and development	22,837	12,377	3,895
	-----	-----	-----
Total operating expenses	1,331,978	1,484,980	236,058
	-----	-----	-----
Income from operations	241,171	165,040	55,859
	-----	-----	-----
Other income (expense):			
Interest income	1,987	2,134	501
Interest expense	(1,633)	(8,584)	(500)
Other income (expense)	507	(40)	0
	-----	-----	-----
Other income (expense), net	861	(6,490)	1
	-----	-----	-----
Income before provision for income taxes	\$ 242,032	\$ 158,550	\$ 55,860
State income taxes	(10,927)	0	(10,477)
	-----	-----	-----
Net income	\$ 231,105	\$ 158,550	\$ 45,383
	=====	=====	=====
Net income per share - basic and diluted	\$ 0.059	\$ 0.041	\$ 0.012
	=====	=====	=====
Weighted average number of common shares outstanding	3,886,907	3,853,452	3,886,958
	=====	=====	=====

See notes to financial statements.

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MEGATECH CORPORATION
STATEMENT OF CASH FLOWS (UNAUDITED)

NINE MONTHS ENDED
SEPT. 30, 2003 SEPT. 30, 2002

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Cash flows from operating activities:

Net income	\$231,105	\$158,550
------------	-----------	-----------

Adjustments to reconcile net income to net cash provided by operating activities:

Depreciation and amortization	17,433	17,101
Loss on sale of property and equipment	1,170	0
Common stock issued as compensation	160	3,600

Changes in operating assets and liabilities:

Accounts receivable	(52,996)	116,009
Prepaid expenses	(14,587)	(1,301)
Inventories	371,000	(232,419)
Accounts payable- trade	(167,392)	89,122
Accrued liabilities	(4,813)	14,160
Customer advance payments	(20,029)	0

Net cash provided by operating activities	361,051	164,822
---	---------	---------

Cash flows from investing activities:

Purchases of property and equipment	(6,145)	(38,306)
-------------------------------------	---------	----------

Net cash used in investing activities	(6,145)	(38,306)
---------------------------------------	---------	----------

Cash flows from financing activities:

Payments on line of credit, net	(100,000)	0
Payments on long term debt	(34,375)	(3,125)

Net cash used in financing activities	(134,375)	(3,125)
---------------------------------------	-----------	---------

Net increase in cash and cash equivalents	220,531	123,391
---	---------	---------

Cash & cash equivalents, beginning of period	30,327	64,138
--	--------	--------

Cash & cash equivalents, end of period	\$250,858	\$187,529
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See notes to financial statements.

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MEGATECH CORPORATION NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 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

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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.

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.

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. Costs of maintenance and repairs are charged to expense while costs of significant renewals and betterments are capitalized.

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4 INVENTORIES

Inventories consisted of the following:

SEPT. 30, 2003	DEC. 31, 2002
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Raw materials	\$298,711	\$248,588
Work in process	7,245	31,765
Finished goods	162,797	559,400
	-----	-----
	\$468,753	\$839,753
	=====	=====

5 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	SEPT. 30, 2003	DEC. 31, 2002
	-----	-----
Machinery and equipment	\$ 21,207	\$ 16,391
Office equipment	49,073	48,573
Leasehold improvements	71,052	70,226
Automobiles	60,375	63,175
	-----	-----
Total	201,707	198,365
Less accumulated depreciation	130,599	114,799
	-----	-----
Property and equipment - net	\$ 71,108	\$ 83,566
	=====	=====

6 LONG-TERM DEBT

Long-term debt of \$34,375 classified as current at December 31, 2002 was paid off during the period ended September 30, 2003. Interest was paid quarterly and the outstanding principal balance originally due June 2001 was extended to September 2003.

7 MAJOR CUSTOMER INFORMATION

For the period ended September 30, 2003 and 2002, sales to three and one unrelated sales representative comprised 93% and 92% 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 THE QUARTER AND NINE
MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

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RESULTS OF OPERATIONS

Quarter Ended September 30, 2003 compared to quarter ended September 30, 2002

Sales for the quarter ended September 30, 2003 were \$539,586, compared to \$803,495 for the same quarter last year. The decrease was primarily due to a decrease in international sales. Domestic sales in the quarter ended September 30, 2003 were \$412,015 or 76% of total sales, compared to \$474,312 or 59% of total sales for the same period last year. International sales in the quarter ended September 30, 2003 were \$127,571 or 24% of total sales, compared to \$329,183 or 41% of total sales for the same period last year. The decrease in international sales is attributable to sales through Snap On International of training equipment and programs to the national colleges of Venezuela in the prior year.

Gross profit for the quarter ended September 30, 2003 was \$291,917 or 54% of sales, compared to \$483,179 or 60% of sales, for the same quarter last year. The decrease as a percentage of sales is the result of higher materials and labor costs in the current quarter. 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 September 30, 2003 were \$183,373 or 34% of sales, compared to \$413,691 or 51% of sales for the same period last year. Major changes compared to the prior year include a decrease in commission expense from 38% to 21%, and a decrease in salaries due to staffing changes.

General and administrative expenses for the quarter ended September 30, 2003 were \$48,790 or 9% of sales, compared to \$43,808 or 5% of sales for the same period last year. The increase is due to increases in salaries and repairs and maintenance.

Research and development expenses for the quarter ended September 30, 2003 were relatively flat at \$3,895 or .7% of sales, compared to \$4,727 or .6% of sales, for the same quarter last year.

The net income for the quarter ended September 30, 2003 was \$45,383 compared to net income of \$22,500 for the same quarter last year. The increase is the result of the items discussed above.

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Nine Months Ended September 30, 2003 compared to nine months ended September 30, 2002

Sales for the nine months ended September 30, 2003 were \$2,791,650 compared to \$2,709,884 for the same period last year. The increase was due to an increase in domestic sales. Domestic sales in the nine months ended September 30, 2003 were \$1,388,251 or 50% of total sales, compared to \$952,282 or 35% of total sales for the same period last year. International sales in the nine months ended September 30, 2003 were \$1,403,399 or 50% of total sales, compared to \$1,757,602 or 65% of total sales for the same period last year. Sales to Snap On Corporation for the period represented 71% of total sales compared to 92% in the prior period.

Gross profit for the nine months ended September 30, 2003 was \$1,573,149 or 56% of sales, compared to \$1,650,020 or 61% of sales, for the same period last year. The decrease in gross profit as a percentage of sales is the result

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of higher materials and labor costs in the current period. 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 nine months ended September 30, 2003 were \$1,147,873 or 41% of sales, compared to \$1,339,537 or 49% of sales for the same period last year. The decrease is due to fixed selling expenses which did not increase with an increase in sales as well as decreases in salaries and commission expense.

General and administrative expenses for the nine months ended September 30, 2003 were \$161,268 or 6% of sales, compared to \$133,066 or 5% of sales for the same period last year. The increase is due to allocation of salaries, and increases in audit and accounting expense.

Research and development expenses for the nine months ended September 30, 2003 were \$22,837 or .8% of sales, compared to \$12,377 or .5% of sales, for the same period last year. The increase is due to the addition of engineering staff.

The net income for the nine months ended September 30, 2003 was \$231,105 compared to net income of \$158,550 for the same period last year. The increase is the result of the items discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Working capital as of September 30, 2003 was \$746,872 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 \$500,000, increased from \$275,000 in September, 2003. At September 30, 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 cash requirements for the next twelve months.

Capital expenditures totaled approximately \$6,100 for the nine months ended September 30, 2003, compared to \$38,300 for the same period in 2002. No material purchase or capital commitments exist at September 30, 2003.

The Company's backlog as of September 30, 2003 was \$240,723 compared to \$1,481,149 for the same period ended in 2002. The decrease in backlog is the result of approximately \$1.5 million in orders from Snap On Corporation for automotive trainers that were shipped to the Venezuelan government from September of 2002 to February of 2003.

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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

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

The following exhibits are filed herewith:

31.1 Certification of Chief Executive Officer under
Sarbanes-Oxley Section 302(a)

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C.
Section 1350, as adopted pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002

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)

October 29, 2003

Date

/s/ Vahan V. Basmajian

Vahan V. Basmajian
President, Treasurer

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