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MEGATECH CORP
Form 10-Q
August 12, 2004

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, 2004 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 ☒ No ☐

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

There were 3,906,958 shares of common stock outstanding at August 5, 2004.

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MEGATECH CORPORATION

QUARTERLY REPORT FORM 10-Q
JUNE 30, 2004

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MEGATECH CORPORATION BALANCE SHEET

JUNE 30, 2004 (UNAUDITED)	DEC. 31, 2003 (AUDITED)
-----	-----

ASSETS

Current assets:

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Cash and cash equivalents	\$ 37,581	\$ 202,158
Accounts receivable:		
Trade	216,661	113,037
Other	1,805	20,630
Inventories	554,405	418,713
Prepaid expenses	3,393	5,026
	-----	-----
Total current assets	813,845	759,564
Property and equipment, net	49,116	62,100
Other assets	7,666	7,666
	-----	-----
Total assets	\$ 870,627	\$ 829,330
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Note payable - line of credit	\$ 125,000	\$ 0
Accounts payable - trade	129,791	38,062
Accrued liabilities	72,813	116,337
Customer advance payments	40,326	12,487
	-----	-----
Total current liabilities	367,930	166,886
Stockholders' equity:		
Common Stock, par value \$.0143 per share, 5,000,000 shares authorized; 3,906,958 shares issued and outstanding	55,869	55,869
Additional paid-in capital	4,028,822	4,028,822
Deficit	(3,581,994)	(3,422,247)
	-----	-----
Total stockholders' equity	502,697	662,444
	-----	-----
Total liabilities and stockholders' equity	\$ 870,627	\$ 829,330
	=====	=====

See notes to financial statements

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MEGATECH CORPORATION STATEMENT OF OPERATIONS (UNAUDITED)

	SIX MONTHS ENDED		QUARTER ENDED	
	JUNE 30, 2004	JUNE 30, 2003	JUNE 30, 2004	JUNE 30, 2003
	-----	-----	-----	-----
Sales	\$ 619,559	\$2,252,064	\$ 281,177	\$ 683,670
Cost of sales	351,217	970,832	152,551	292,088
	-----	-----	-----	-----

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Gross profit	268,342	1,281,232	128,626	391,582
	-----	-----	-----	-----
Operating expenses:				
Selling	312,749	964,500	152,339	312,718
General and administrative	102,620	112,478	56,659	51,608
Research and development	11,205	18,942	7,102	6,703
	-----	-----	-----	-----
Total operating expenses	426,574	1,095,920	216,100	371,029
	-----	-----	-----	-----
Income (loss) from operations	(158,232)	185,312	(87,474)	20,553
	-----	-----	-----	-----
Other income (expense):				
Interest income	466	1,486	170	666
Interest expense	(1,091)	(1,133)	(829)	(58)
Other income (expense)	(890)	57	(890)	0
	-----	-----	-----	-----
Other income (expense), net	(1,515)	410	(1,549)	608
	-----	-----	-----	-----
Net income (loss)	\$ (159,747)	\$ 185,722	\$ (89,023)	\$ 21,161
	=====	=====	=====	=====
Net income (loss) per share				
- basic and diluted	\$ (0.041)	\$ 0.047	\$ (0.023)	\$ 0.005
	=====	=====	=====	=====
Weighted average number of common shares outstanding	3,906,958	3,886,875	3,906,958	3,886,958
	=====	=====	=====	=====

See notes to financial statements.

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MEGATECH CORPORATION STATEMENT OF CASH FLOWS (UNAUDITED)

SIX MONTHS ENDED
JUNE 30, 2004 JUNE 30, 2003

Cash flows from operating activities:

Net income (loss) \$ (159,747) \$ 185,722

Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:

Depreciation and amortization	12,984	11,400
Loss on sale of property and equipment	0	1,170
Common stock issued as compensation	0	160

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Changes in operating assets and liabilities:

Accounts receivable	(84,799)	(247,351)
Prepaid expenses	1,633	(12,534)
Inventories	(135,692)	365,848
Accounts payable- trade	91,729	(78,804)
Accrued liabilities	(43,524)	(20,047)
Customer advance payments	27,839	1,762
	-----	-----
Net cash provided by (used in) operating activities	(289,577)	207,326
	-----	-----
Cash flows from investing activities:		
Purchases of property and equipment	0	(5,646)
	-----	-----
Net cash provided by (used in) investing activities	0	(5,646)
	-----	-----
Cash flows from financing activities:		
Payments on line of credit	0	(170,000)
Advances on line of credit	125,000	70,000
Payments on notes payable	0	(9,375)
	-----	-----
Net cash used in financing activities	125,000	(109,375)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(164,577)	92,305
Cash & cash equivalents, beginning of period	202,158	30,327
	-----	-----
Cash & cash equivalents, end of period	\$ 37,581	\$ 122,632
	=====	=====

See notes to financial statements.

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MEGATECH CORPORATION NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

1 NATURE OF THE BUSINESS

Megatech Corporation began its operations in 1970 and went public in 1972. It was originally organized to develop and sell its proprietary and patented oil-less, multi-fueled, transparent engine. The inventors are M.I.T. graduates, well known for their technological expertise.

Megatech developed the nation's first modular technology program focusing on energy conversion devices and alternative energies, such as: solar thermal, solar photovoltaic, wind, hydro and geothermal systems. Following these modules, Megatech added to its product line 40 more modules covering communications technology in fiber optics, laser, ultrasonic, microwave, and satellite systems. Due to limited resources, however, the Company elected to withhold these modules since they require highly skilled staff to train instructors and initiate production.

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The transportation industry has undergone tremendous changes in the past decade. New innovation in braking systems, steering and suspension, computer-controlled engines, and safety features have fueled the demand for high-tech trainers. Megatech's automotive division has come to the aid of schools and industry alike to meet these needs and capitalize on this tremendous business potential.

Megatech Corporation provides instructional programs, along with training equipment, as a turnkey system for the transportation industry. Automotive programs based on gas/diesel engines have been delivered with either GM, VW, Ford or Cummins engines to schools; truck diesel trainers have been delivered to nationally prominent training centers, the U.S. Military and to the Middle East. In addition, Megatech provides programs for marine diesel, auto gasoline, and various hydraulic trainers for transportation technology programs.

Since the transportation industry brought vast changes in electronics and computerized vehicle management systems, it created a large demand for training students and technicians in both schools and industry. Because Megatech pioneered in Technology Education Modules, the Company applied its knowledge towards creating new designs for automotive training of students and dealership technicians.

During the past 15 years, Megatech has been developing and marketing a comprehensive line of Automotive Trainers for schools, U.S. military, government and industry. Approximately 4000 schools in the United States and well over 20 nations around the world have bought Megatech automotive/technology modules.

Megatech recently entered new markets with several custom designed trainers for both the U.S. military and the automotive industry. The Company successfully completed new Basic Knowledge and Skills modules at Aberdeen Proving Grounds. This was the first large scale military project the Company has secured in the electronics area. In addition, the Company developed Ford Motor Company's first complete electricity and electronics training program which will be used worldwide in the Ford Factory Training Centers, Maintenance and Light Repair Programs, and Ford Asset Programs.

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Snap On Corporation, one of the largest manufacturer in the U.S. of automotive tools and diagnostic equipment, has an agreement with Megatech to market Megatech trainers to the transportation industry, government, and public education. Snap On considers Megatech automotive trainers complimentary to their line of tools and diagnostic equipment and believes the trainers will enhance the sale of Snap On products to public education.

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

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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.

4 INVENTORIES

Inventories consisted of the following:

	JUNE 30, 2004	DEC. 31, 2003
	-----	-----
Raw materials	\$274,229	\$247,703
Work in process	19,996	23,175
Finished goods	260,180	147,835
	-----	-----
	\$554,405	\$418,713
	=====	=====

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5 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	JUNE 30, 2004	DEC. 31, 2003
	-----	-----
Machinery and equipment	\$ 21,207	\$ 21,207
Office equipment	49,073	49,073
Leasehold improvements	71,054	71,054
Automobiles	60,374	60,374
	-----	-----
Total	201,708	201,708
Less accumulated depreciation	152,592	139,608
	-----	-----
Property and equipment - net	\$ 49,116	\$ 62,100
	=====	=====

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6 MAJOR CUSTOMER INFORMATION

For the period ended June 30, 2004 and 2003, sales to three unrelated sales representatives comprised 49% and 84% of total sales, respectively.

ITEM 2.

MEGATECH CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE QUARTER AND SIX MONTHS ENDED JUNE 30, 2004 AND 2003

RESULTS OF OPERATIONS

Quarter Ended June 30, 2004 compared to quarter ended June 30, 2003

Sales for the quarter ended June 30, 2004 were \$281,177, compared to \$683,670 same quarter last year. The decrease was primarily due to a decrease in overall sales. Domestic sales in the quarter ended June 30, 2004 were \$257,582 or 92% of total sales, compared to \$570,169 or 83% of total sales for the same period last year. International sales in the quarter ended June 30, 2004 were \$23,595 or 8% of total sales, compared to \$113,501 or 17% of total sales for the same period last year.

Gross profit for the quarter ended June 30, 2004 was \$128,626 or 46% of sales, compared to \$391,582 or 57% of sales, for the same quarter last year. The decrease 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 June 30, 2004 were \$152,339 or 54% of sales, compared to \$312,718 or 46% of sales for the same period last year. Major changes compared to the prior year include a decrease in commission expense from 32% to 21%. The overall increase as a percentage of sales is due to fixed selling expenses accompanied by a decrease in sales.

General and administrative expenses for the quarter ended June 30, 2004 were \$56,659 or 20% of sales, compared to \$51,608 or 8% of sales for the same period last year. a percentage of sales is due to fixed G&A expenses increase as accompanied by a decrease in sales

Research and development expenses for the quarter ended June 30, 2004 were \$7,102 or 3% of sales, compared to \$6,703 or 1% of sales, for the same quarter last year. The increase is due to outside engineering services.

The net loss for the quarter ended June 30, 2004 was \$89,023 compared to net income of \$21,161 for the same quarter last year. The decrease is the result of the items discussed above.

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Six Months Ended June 30, 2004 compared to six months ended June 30, 2003

Sales for the six months ended June 30, 2004 were \$619,559, compared to

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\$2,252,064 for the same period last year. The decrease was due primarily to a decrease in international sales. Domestic sales in the six months ended June 30, 2004 were \$560,414 or 90% of total sales, compared to \$976,236 or 43% of total sales for the same period last year. International sales in the six months ended June 30, 2004 were \$59,145 or 10% of total sales, compared to \$1,275,828 or 57% 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 first quarter of 2003.

Gross profit for the six months ended June 30, 2004 was \$268,342 or 43% of sales, compared to \$1,281,232 or 57% of sales, for the same period last year. The decrease is the result of higher materials and labor costs in the current year, combined with a decreased amount of sales. 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 six months ended June 30, 2004 were \$312,749 or 50% of sales, compared to \$964,500 or 43% of sales for the same period last year. The increase as a percentage of sales is due to fixed selling expenses accompanied by a decrease in sales.

General and administrative expenses for the six months ended June 30, 2004 were \$102,620 or 17% of sales, compared to \$112,478 or 5% of sales for the same period last year. The increase as a percent of sales is due to fixed G&A expenses accompanied by a decrease in sales.

Research and development expenses for the six months ended June 30, 2004 were \$11,205 or 1.8% of sales, compared to \$18,942 or .8% of sales, for the same period last year. The increase as a percent of sales is due to a lower sales base.

The net loss for the six months ended June 30, 2004 was \$159,747 compared to net income of \$185,722 for the same period last year. The decrease is the result of the items discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Working capital as of June 30, 2004 was \$445,915 compared to \$592,678 in working capital at December 31, 2003. The decrease was attributable to the net loss for the six months.

The Company maintains a secured line of credit in the amount of \$500,000. At June 30, 2004, \$125,000 was 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.

There were no capital expenditures for the six months ended June 30, 2004, compared to \$5,600 for the same period in 2003. No material purchase or capital commitments exist at June 30, 2004.

The Company's backlog as of June 30, 2004 was \$530,610 compared to \$503,321 for the same period ended in 2003.

The Company's backlog as of August 4, 2004 was \$2,236,718 which will ship in Q3 and Q4 of 2004. Significant portions of the backlog are as follows: Snap On International shipments to Columbia \$1,290,080, 4 Other International customers \$612,003, and 12 Domestic customers \$334,635.

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.

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: | |

(a) The following exhibits are filed herewith:

- | | |
|----|--|
| 31 | Certifications |
| 32 | Certification of Chief Executive Officer |

(b) 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)

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August 11, 2004

/s/ Vahan V. Basmajian

Date

Vahan V. Basmajian
President, Treasurer