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MEGATECH CORP
Form 10-Q
November 13, 2001

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, 2001 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 []

There were 3,840,558 shares of common stock outstanding at October 29, 2001.

MEGATECH CORPORATION

QUARTERLY REPORT FORM 10-Q
September 30, 2001

PART 1. FINANCIAL INFORMATION

ITEM 1. Financial Statements (Unaudited)

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MEGATECH CORPORATION

BALANCE SHEET

| | Sept. 30, 2001 (UNAUDITED) | Dec. 31, 2000 (AUDITED) |
|---------------------------|-------------------------------|----------------------------|
| | ----- | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 93,568 | \$ 27,585 |
| Accounts receivable: | | |
| Trade | 262,288 | 332,577 |
| Other | 4,498 | 7,763 |
| Inventories | 184,530 | 243,827 |
| Prepaid expenses | 10,204 | 5,859 |
| | ----- | ----- |
| Total current assets | 555,088 | 617,611 |

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| | | |
|------------------------------------|--------|--------|
| Property, plant and equipment, net | 77,132 | 75,544 |
| Other assets | 7,666 | 7,666 |

| | | |
|--------------|------------|------------|
| Total Assets | \$ 639,886 | \$ 700,821 |
|--------------|------------|------------|

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

| | | |
|-----------------------------------|-----------|-----------|
| Accounts payable | \$ 27,901 | \$ 95,381 |
| Accrued Liabilities | 63,988 | 86,921 |
| Current portion of long-term debt | 37,500 | 37,500 |

| | | |
|---------------------------|---------|---------|
| Total current liabilities | 129,389 | 219,802 |
|---------------------------|---------|---------|

Stockholders' equity:

| | | |
|---|-------------|-------------|
| Common Stock, par value \$.0143 per share, 5,000,000 shares authorized; 3,840,558 (3,815,408 at 2000) shares issued and outstanding | 54,920 | 54,560 |
| Additional paid-in capital | 4,016,947 | 4,015,044 |
| Deficit | (3,561,370) | (3,588,585) |

| | | |
|----------------------------|---------|---------|
| Total stockholders' equity | 510,497 | 481,019 |
|----------------------------|---------|---------|

| | | |
|--|------------|------------|
| Total liabilities and stockholders' equity | \$ 639,886 | \$ 700,821 |
|--|------------|------------|

See notes to financial statements.

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MEGATECH CORPORATION STATEMENT OF OPERATIONS (UNAUDITED)

| | NINE MONTHS ENDED | | QUARTER ENDED | |
|----------------------------|-------------------|----------------|----------------|----------------|
| | Sept. 30, 2001 | Sept. 30, 2000 | Sept. 30, 2001 | Sept. 30, 2000 |
| Sales | \$1,342,768 | \$1,780,976 | \$ 497,207 | \$ 500,000 |
| Cost of sales | 574,309 | 867,656 | 211,164 | 1,000,000 |
| Gross profit | 768,459 | 913,320 | 286,043 | 500,000 |
| Operating expenses: | | | | |
| Selling | 591,641 | 619,026 | 201,802 | 200,000 |
| General and administrative | 133,959 | 127,325 | 37,423 | 30,000 |
| Research and development | 12,925 | 26,002 | 3,528 | 10,000 |

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| | | | | |
|---|-----------|------------|-----------|-----|
| Total operating expenses | 738,525 | 772,353 | 242,753 | 2 |
| Income from operations | 29,934 | 140,967 | 43,290 | |
| Other income (expense): | | | | |
| Interest income | 138 | 0 | 0 | |
| Interest expense | (2,667) | (1,107) | (750) | |
| Other | (190) | (4,210) | 0 | |
| Other income (expense), net | (2,719) | (5,317) | (750) | |
| Net income | \$ 27,215 | \$ 135,650 | \$ 42,540 | \$ |
| Net income per share - basic and diluted | \$ 0.007 | \$ 0.036 | \$ 0.011 | \$ |
| Weighted average number of common | 3,827,983 | 3,813,708 | 3,832,083 | 3,8 |

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MEGATECH CORPORATION
STATEMENT OF CASH FLOWS (Unaudited)

| | NINE MONTHS ENDED | |
|--|-------------------|----------------|
| | Sept. 30, 2001 | Sept. 30, 2000 |
| Cash flows from operating activities: | | |
| Net income | \$ 27,215 | \$ 135,650 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 14,934 | 14,694 |
| Common stock issued as compensation | 2,263 | 308 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 73,554 | (34,105) |
| Prepaid expenses | (4,345) | (4,094) |
| Inventories | 59,297 | 104,662 |
| Accounts payable | (67,480) | (27,383) |
| Accrued liabilities | (22,933) | (182,297) |
| Net cash provided (used) by operating activities | 82,505 | 7,435 |

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| | | |
|--|-----------|-----------|
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (16,522) | (6,207) |
| | ----- | |
| Net cash provided (used) by investing activities | (16,522) | (6,207) |
| | ----- | |
| Cash flows from financing activities: | | |
| Principal payments on notes payable | (70,000) | 0 |
| Advances on notes payable | 70,000 | 0 |
| | ----- | |
| Net cash used by financing activities | 0 | 0 |
| | ----- | |
| Net increase (decrease) in cash and cash equivalents | 65,983 | 1,228 |
| Cash & cash equivalents, beginning of period | 27,585 | 75,857 |
| | ----- | |
| Cash & cash equivalents, end of period | \$ 93,568 | \$ 77,085 |
| | ===== | |

See notes to financial statements.

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MEGATECH CORPORATION NOTES TO FINANCIAL STATEMENTS September 30, 2001

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:

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| | Sept. 30, 2001 | Dec. 31, 2000 |
|-----------------|----------------|---------------|
| | ----- | ----- |
| Raw materials | \$141,063 | \$146,722 |
| Work in process | 4,037 | 8,993 |
| Finished goods | 39,430 | 88,112 |
| | ----- | ----- |
| | \$184,530 | \$243,827 |
| | ===== | ===== |

3. MAJOR CUSTOMER INFORMATION:

For the period ended September 30, 2001 and 2000, sales to three and two unrelated sales representatives comprised 82% and 61% 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 NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

RESULTS OF OPERATIONS:

Quarter Ended September 30, 2001 compared to quarter ended September 30, 2000

Sales for the quarter ended September 30, 2001 were \$497,207, compared to \$512,044 for the same quarter last year. The decrease was primarily due to a decrease in domestic sales.

Gross profit for the quarter ended September 30, 2001 was \$286,043 or 58% of sales, compared to \$330,355 or 65% of sales, for the same quarter last year. The decrease is the result of adjustments to inventory in the prior year.

Operating expenses for the quarter ended September 30, 2001 were \$242,753 or 49% of sales, compared to \$266,425 or 52% of sales, for the same quarter last year. The decrease is due to a decrease in selling and marketing costs, specifically commission expense and travel expense.

The net income for the quarter ended September 30, 2001 was \$42,540 compared to net income of \$58,900 for the same quarter last year. The decrease is the result of the items discussed above.

Nine months Ended September 30, 2001 compared to nine months ended September 30, 2000

Sales for the nine months ended September 30, 2001 were \$1,342,768, compared to \$1,780,976 for the same period last year. The decrease was due to a decrease in international sales.

Gross profit for the nine months ended September 30, 2001 was \$768,459 or

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57% of sales, compared to \$913,320 or 51% 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.

Operating expenses for the nine months ended September 30, 2001 were \$738,525 or 55% of sales, compared to \$772,353 or 43% of sales, for the same period last year. The increase as a percentage of sales is attributable to an increase in commission expense as a percentage of sales.

The net income for the nine months ended September 30, 2001 was \$27,215 compared to net income of \$135,650 for the same period last year. The decrease is the result of the items discussed above.

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LIQUIDITY AND CAPITAL RESOURCES:

Working capital as of September 30, 2001 was \$425,699 compared to \$397,809 in working capital at December 31, 2000. The increase is attributable to the net income for the year.

The company maintains a secured line of credit in the amount of \$200,000. At September 30, 2001, 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.

The firm's backlog as of September 30, 2001 was approximately \$206,254 compared to \$94,130 for same period ended in 2000.

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

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, 2001

Date

/s/ Vahan V. Basmajian

Vahan V. Basmajian
President, Treasurer