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MEGATECH CORP
Form 10-Q
May 14, 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 March 31, 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 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 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 3,906,958 shares of common stock outstanding at May 5, 2004.

MEGATECH CORPORATION

QUARTERLY REPORT FORM 10-Q
MARCH 31, 2004

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PART 1. FINANCIAL INFORMATION

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PART 1. FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS

MEGATECH CORPORATION BALANCE SHEET

	MAR 31, 2004 (UNAUDITED)	DEC. 31, 2003 (AUDITED)
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 49,437	\$ 202,158
Accounts receivable:		
Trade	189,658	113,037

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Other	1,805	20,630
Inventories	463,747	418,713
Prepaid expenses	2,996	5,026
	-----	-----
Total current assets	707,643	759,564
Property and equipment, net	55,172	62,100
Other assets	7,666	7,666
	-----	-----
Total Assets	\$ 770,481	\$ 829,330
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade	85,700	38,062
Accrued liabilities	71,917	116,337
Customer advance payments	21,144	12,487
	-----	-----
Total current liabilities	178,761	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	(3,492,971)	(3,422,247)
	-----	-----
Total stockholders' equity	591,720	662,444
	-----	-----
Total liabilities and stockholders' equity	\$ 770,481	\$ 829,330
	=====	=====
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MEGATECH CORPORATION STATEMENT OF OPERATIONS (UNAUDITED)

	QUARTER ENDED	
	MARCH 31, 2004	MARCH 31, 2003
	-----	-----
Sales	\$ 338,382	\$1,568,394
Cost of sales	198,666	678,744
	-----	-----
Gross profit	139,716	889,650
	-----	-----
Operating expenses:		
Selling & Marketing	160,410	651,782
General and administrative	45,961	60,870
Research and development	4,103	12,239
	-----	-----

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Total operating expenses	210,474	724,891
	-----	-----
Income (loss) from operations	(70,758)	164,759
	-----	-----
Other income (expense):		
Interest income	296	820
Interest expense	(262)	(1,075)
Other income (expense)	0	57
	-----	-----
Other income (expense), net	34	(198)
	-----	-----
Net income (loss)	\$ (70,724)	\$ 164,561
	=====	=====
Net income (loss) per share - basic and diluted	\$ (0.018)	\$ 0.042
	=====	=====
Weighted average number of common shares outstanding	3,906,958	3,886,802
	=====	=====

See notes to financial statements.

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MEGATECH CORPORATION STATEMENT OF CASH FLOWS (UNAUDITED)

	QUARTER ENDED	
	MARCH 31, 2004	MARCH 31, 2003
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$ (70,724)	\$ 164,561
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,928	5,700
Loss on sale of property and equipment	0	1,170
Changes in operating assets and liabilities:		
Accounts receivable	(57,796)	(225,445)
Prepaid expenses	2,030	(15,948)
Inventories	(45,034)	404,194
Accounts payable- trade	47,638	(69,745)
Accrued liabilities	(44,420)	(13,412)
Customer advance payments	8,657	(90,109)
	-----	-----

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Net cash provided by (used in) operating activities	(152,721)	160,966
	-----	-----
Cash flows from investing activities:		
Purchases of property and equipment	0	(5,646)
	-----	-----
Net cash 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	0	70,000
	-----	-----
Net cash provided by (used in) financing activities	0	(100,000)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(152,721)	55,320
Cash & cash equivalents, beginning of period	202,158	30,327
	-----	-----
Cash & cash equivalents, end of period	\$ 49,437	\$ 85,647
	=====	=====

See notes to financial statements.

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MEGATECH CORPORATION NOTES TO FINANCIAL STATEMENTS MARCH 31, 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.

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.

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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.

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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.

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 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

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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:

	MARCH 31, 2004	DEC. 31, 2003
	-----	-----
Raw materials	\$236,305	\$247,703
Work in process	20,571	23,175
Finished goods	206,871	147,835
	-----	-----
	\$463,747	\$418,713
	=====	=====

5 PROPERTY AND EQUIPMENT -----

Property and equipment consisted of the following:

	MARCH 31, 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	146,536	139,608

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Property and equipment - net	----- \$ 55,172 =====	----- \$ 62,100 =====
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6 MAJOR CUSTOMER INFORMATION

For the period ended March 31, 2004 and 2003, sales to five and one unrelated sales representative comprised 82% and 94% 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 QUARTERS ENDED MARCH 31, 2004 AND 2003

RESULTS OF OPERATIONS

Quarter Ended March 31, 2004 compared to quarter ended March 31, 2003

Sales for the quarter ended March 31, 2004 were \$338,382, compared to \$1,568,394 for the same quarter last year. The decrease was primarily due to a decrease in international sales. Domestic sales in the quarter ended March 31, 2004 were \$302,832 or 89% of total sales, compared to \$406,067 or 26% of total sales for the same period last year. International sales in the quarter ended March 31, 2004 were \$35,550 or 11% of total sales, compared to \$1,162,327 or 74% 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 quarter ended March 31, 2004 was \$139,716 or 41% of sales, compared to \$889,650 or 57% of sales, for the same quarter last year. The decrease as a percentage of sales is the result of increased material costs. 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, 2004 were \$160,410 or 47% of sales, compared to \$651,782 or 42% of sales for the same period last year. Major changes compared to the prior year include a decrease in commission expense as a percentage of sales to 22% from 36% in the prior year. 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 March 31, 2004 were \$45,961 or 14% of sales, compared to \$60,870 or 4% of sales for the same period last year. Major changes compared to prior year include a decrease in legal fees, accounting fees, and salaries. The overall increase as a percentage of sales is due to fixed G & A expenses accompanied by a decrease in sales.

Research and development expenses for the quarter ended March 31, 2004 were \$4,103 or 1% of sales, compared to \$12,239 or 1% of sales, for the same

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quarter last year. The decrease is due to the reduction of engineering staff.

The net loss for the quarter ended March 31, 2004 was \$70,724 compared to a net income of \$164,561 for the same quarter last year. The decrease is the result of the items discussed above.

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LIQUIDITY AND CAPITAL RESOURCES

Working capital as of March 31, 2004 was \$528,882 compared to \$592,678 in working capital at December 31, 2003. The decrease was primarily the result of the net loss for the quarter.

The Company maintains a secured line of credit in the amount of \$500,000. At March 31, 2004, 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.

There were no capital expenditures for the three months ended March 31, 2004, compared to \$5,600 for the same period in 2003. No material purchase or capital commitments exist at March 31, 2004.

The Company's backlog as of March 31, 2004 was \$132,000 compared to \$694,000 for the same period ended in 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.

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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 Certification

32 Certification of Chief Executive Officer

(b) Report 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)

May 5, 2004

Date

/s/ Vahan V. Basmajian

Vahan V. Basmajian
President, Treasurer

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