METATEC INTERNATIONAL INC
Form 10-Q
November 12, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 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, 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 No. 0-9220

METATEC INTERNATIONAL, INC.
(Exact name of Registrant as specified in its charter)

OHIO	31-1647405
(State of Incorporation)	(IRS Employer Identification No.)

7001 Metatec Boulevard Dublin, Ohio	43017
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (614) 761-2000

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, and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

Number of Common Shares outstanding as of October 22, 2002: 6,536,113

METATEC INTERNATIONAL, INC.

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PART I - FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

METATEC INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

	At
	(
ASSETS	
Current assets:	
Cash and cash equivalents	$
Restricted cash	
Accounts receivable, net of allowance for doubtful accounts of $300,000 and $300,000	

Due from sale of assets	
Inventory	
Prepaid expenses	
Net assets of discontinued operations	
	--
Total current assets	
Property, plant and equipment - net	
Other assets	
	--
TOTAL ASSETS	$
	==
LIABILITIES & SHAREHOLDERS' DEFICIENCY	
Current liabilities:	
Accounts payable	$
Accrued expenses:	
Royalties	
Personal property taxes	
Payroll	
Restructuring	
Taxes, benefits and other	
Unearned income	
Current maturities of long-term real estate debt	
Current maturities of other long-term debt and capital lease obligations	
	--
Total current liabilities	
Long-term real estate debt	
Other long-term debt and capital lease obligations, less current maturities	
Other long-term liabilities	
	--
Total liabilities	
	--
Shareholders' deficiency:	
Common stock - no par value; authorized 10,000,000 shares; issued 7,217,855 shares	
Accumulated deficit	(
Accumulated other comprehensive loss	
Treasury stock, at cost; 681,742 and 1,081,742 shares	
Unamortized restricted stock	
	--
Total shareholders' deficiency	(
	--
TOTAL LIABILITIES & SHAREHOLDERS' DEFICIENCY	$
	==

See notes to consolidated financial statements.

METATEC INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended Septembe	
	2002	200
NET SALES	$ 12,246,115	$ 15,45
Cost of sales	8,274,653	12,19
Gross margin	3,971,462	3,26
Selling, general and administrative expenses	3,780,663	5,17
Restructuring expenses	0	42
OPERATING EARNINGS (LOSS) FROM CONTINUING OPERATIONS	190,799	(2,34
Other income and (expense):		
Investment income	2,872	
Interest expense	(719,935)	(82
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(526,264)	(3,17
Income taxes	0	
LOSS FROM CONTINUING OPERATIONS	(526,264)	(3,17
Loss from discontinued operations (including loss on disposal of $2,249,488 in 2002)	(2,334,729)	(30
NET LOSS	$ (2,860,993)	$ (3,48
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING Basic and diluted	6,536,113	6,13
LOSS FROM CONTINUING OPERATIONS PER COMMON SHARE Basic and diluted	$ (0.08)	$
NET LOSS PER COMMON SHARE Basic and diluted	$ (0.44)	$

See notes to consolidated financial statements.

METATEC INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Nine Months Ended September	
	2002	200
NET SALES	$ 37,328,142	$ 49,76
Cost of sales	25,145,085	36,97
Gross margin	12,183,057	12,78
Selling, general and administrative expenses	12,019,763	16,93
Restructuring expense	0	43
OPERATING EARNINGS (LOSS) FROM CONTINUING OPERATIONS	163,294	(4,58
Other income and (expense):		
Investment income	6,444	3
Interest expense	(2,191,261)	(2,66
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(2,021,523)	(7,21
Income tax benefit	(875,000)	
LOSS FROM CONTINUING OPERATIONS	(1,146,523)	(7,21
Loss from discontinued operations (including loss on disposal of $2,249,488 in 2002)	(1,550,900)	(28
NET LOSS	$ (2,697,423)	$ (7,50
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING Basic and diluted	6,508,706	6,13
LOSS FROM CONTINUING OPERATIONS PER COMMON SHARE Basic and diluted	$ (0.18)	$
NET LOSS PER COMMON SHARE Basic and diluted	$ (0.41)	$

See notes to consolidated financial statements.

METATEC INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIENCY (UNAUDITED)

	Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock
BALANCE AT DECEMBER 31, 2001	$ 35,031,138	$(37,547,201)	$ (786,480)	$ (5,822,537
Comprehensive Loss:				
Net loss		(2,697,423)		
Accretion of gain on termination of forward contracts			(937,248)	
Realization of loss on foreign currency translation			1,723,728	
Comprehensive income				
Issuance of treasury stock	(2,062,000)			2,152,000
Issuance of restricted shares	39,000			
Amortization of restricted stock				
BALANCE AT SEPTEMBER 30, 2002	$ 33,008,138	$(40,244,624)	$ (0)	$ (3,670,537

See notes to consolidated financial statements.

METATEC INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the nine months ended September 30,	20
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$(2,69
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation and amortization	4,00
Net loss on sales of property, plant and equipment	1,46
Recognition of amount previously included in other comprehensive income	78
Changes in assets and liabilities:	
Accounts receivable	3,61
Inventory	7
Prepaid expenses and other assets	(11
Accounts payable and accrued expenses	(2,88

Unearned income	3
Net assets of discontinued operations	(25
Net cash provided by operating activities	4,03
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property, plant and equipment	(37
Proceeds from the sales of property, plant and equipment	1,25
Net cash received from (used in) investing activities	88
CASH FLOWS FROM FINANCING ACTIVITIES:	
Increase in restricted cash	(14
Increase in long-term debt	
Payment of long-term debt and capital lease obligations	(1,40
Net reduction in revolving line of credit	(4,08
Net cash used in financing activities	(5,64
Decrease in cash and cash equivalents	(71
Cash and cash equivalents at beginning of period	1,29
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 57
SUPPLEMENTAL CASH FLOW DISCLOSURES:	
Interest paid	$ 2,30
Income taxes paid/(refunds received)	$ (89
Assets purchased by the assumption of a liability	$ 1
Payment of accrued restructuring expense by the issuance of treasury stock	$ 9
Exchange of short-term accrued royalties obligation for a long-term notes payable	$ 4,27

See notes to condensed consolidated financial statements.

METATEC INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of presentation - The consolidated balance sheet as of September 30, 2002, the consolidated statements of operations for the three and nine months ended September 30, 2002 and 2001, the consolidated statement of shareholders' deficiency for the nine months ended September 30, 2002, and the consolidated statements of cash flows for the nine month periods then ended have been prepared by the Company, without audit. In the opinion of management, all adjustments, which consist solely of normal recurring adjustments, necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position, results of operations and changes in cash flows for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's December 31, 2001 annual report on Form 10-K. The results of operations for the period ended September 30, 2002 are not necessarily indicative of the results for the full year.

In August 2002, the Company entered into new licensing and other agreements with one of its CD and DVD patent licensors which, among other things, provides for a deferred payment schedule for accrued royalties owed by the Company under prior licensing agreements, and, as a result, $3.5 million of accrued royalties were reclassified to other long-term liabilities. In October 2002, the Company entered into a settlement agreement with another of its CD patent licensors which provides for a deferred payment schedule for accrued royalties owed under the licensing agreement with that licensor, and, as a result, $1.6 million of accrued royalties has been reclassified to other long-term liabilities as of September 30, 2002. Of this amount, $800,000 may be forgiven in 2006 if the Company meets certain conditions in the agreement.

Income taxes - In March 2002, the President signed the Job Creation and Worker Assistance Act of 2002 into law. This law extended the carry back period from two to five years for net operating losses arising in the 2001 and 2002 taxable years. The Company recorded an income tax benefit of $875,000 in the quarter ended March 31, 2002 related to this law.

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 142, "Goodwill and Other Intangibles." SFAS 142 is effective for all fiscal years beginning after December 15, 2001, and requires changes in the amortization of certain goodwill and intangible assets, including an annual assessment of possible impairment. The adoption of this statement did not have a material impact on the Company's consolidated financial statements because the Company's goodwill and intangible assets were fully impaired at December 31, 2001 and written off.

In August 2001, the FASB issued SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." While this statement supercedes SFAS No. 121, "Accounting for Impairment of Long-Lived Assets to Be Disposed Of," it retains the fundamental provisions of SFAS No. 121 for recognition of impairments of assets to be held and used in operations and assets to be disposed of by sale. This statement was adopted in the first quarter of 2002. The Company is accounting for the sale of its European subsidiary, Breda, as a discontinued operation under SFAS No. 144.

SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," will be effective for fiscal years beginning after May 15, 2002 (December 31, 2002 for the Company). This Statement rescinds FASB Statements No. 4 and 64 that dealt with issues relating to the extinguishment of debt. This Statement also rescinds FASB Statement No. 44 that dealt with intangible assets of motor carriers. This Statement modifies SFAS No. 13, "Accounting for Leases," so that certain capital lease modifications must be accounted for by lessees as sale-leaseback transactions. Additionally, this Statement identifies amendments that should have been made to previously existing pronouncements and formally amends the appropriate pronouncements. The adoption of SFAS No. 145 will not have a significant effect on the Company's results of operations or its financial position.

SFAS No. 146, "Accounting for Costs Associated With Exit or Disposal Activities" will be effective for exit or disposal activities that are initiated after December 31, 2002. This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between this Statement and Issue 94-3 is that this Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. The adoption of SFAS No. 146 will not have a material impact on the Company's consolidated financial statements.

2. Discontinued operations Pursuant to an agreement dated as of September 30, 2002, the Company sold its European CD-ROM manufacturing operations in Breda, The Netherlands, to Nimbus, a Netherlands-based private investment group. The transaction was structured as a sale of all of the shares of Metatec's European subsidiary to Nimbus. The shares were sold in exchange for the assumption of the European subsidiary's liabilities as of August 31, 2002. The Company is accounting for these operations as discontinued operations, and has recognized a non-cash charge of $2.25 million associated with this sale in the third quarter of 2002.

European operations had revenues for the three months ended September 30, 2002 of $1.3 million, as compared to $2.0 million for the same time period for the prior year. Net sales for the European operations for the nine months ended September 30, 2002, were $6.3 million, as compared to $7.6 million for the same time period for the prior year.

Pre-tax loss for the Company's European operations for the three months ended September 30, 2002 including loss from disposal was $2.3 million, as compared to $310,000 for the same time period of the prior year. Pre-tax loss for the same operations for the nine-month period ended September 30, 2002 was $1.6 million, as compared to $285,000 for the same time period for the prior year.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2001 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2001

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the appropriate application of accounting policies, many of which require the Company's management to make estimates and assumptions about future events and their impact on amounts reported in the Company's financial statements and related notes. Since future events and their impact cannot be determined with certainty, actual results will inevitably differ from management's estimates. Such differences could be material to the Company's financial statements.

Management believes that its application of accounting policies, and the estimates inherently required therein, are reasonable. These accounting policies and estimates are periodically reevaluated, and adjustments are made when facts and circumstances indicate a change is necessary.

The Company's accounting policies are more fully described in Note 1 to the consolidated financial statements included in the Company's Form 10-K for the year ended December 31, 2001. Described below are certain critical accounting policies which management believes are important to a reader of the financial statements. These critical accounting policies are not intended to be a comprehensive list of all the Company's accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States of America, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting other available alternatives would not produce a materially different result.

Long-lived assets. In evaluating the fair value and future benefits of long-lived assets, management completes an analysis of the anticipated undiscounted future net cash flows of the related long-lived assets and reduces their carrying value by the excess, if any, as a result of such calculation. Management believes that the long-lived assets' carrying values and useful lives are appropriate.

Allowance for doubtful accounts. Management attempts to reserve for expected credit losses based on the Company's past experience with similar accounts receivable, and it believes that the Company's reserves are adequate. It is possible, however, that the accuracy of management's estimation process could be materially impacted as the composition of this pool of accounts receivable changes over time. Management periodically reviews and modifies the estimation process as changes to the composition of this pool require.

Litigation. The Company and its legal counsel evaluate litigation and review the likelihood of an outcome and the resulting materiality to the Company. The Company is involved in various legal claims arising from the normal course of its business. While the ultimate liability, if any, from these proceedings is presently indeterminable, in the opinion of management, these matters should not have a material adverse effect on the consolidated financial statements of the Company.

Income taxes. The Company has a history of unprofitable operations. These losses generated a significant federal tax net operating loss, or NOL, carryforward of as of December 31, 2001. Accounting principles generally accepted in the United States of America require the Company to record a valuation allowance against the deferred tax asset associated with this NOL if it is "more likely than not" that the Company will not be able to utilize the NOL to offset future taxes. Due to the amount of the NOL carryforward in relation to the Company's history of unprofitable operations, management has not recognized any net deferred tax asset in the Company's financial statements.

In the future the Company could achieve levels of profitability which could cause management to conclude that it is more likely than not that the Company will realize all or a portion of the NOL carryforward. Upon reaching such a conclusion, the Company would record the estimated net realizable value of the deferred tax asset at that time and would then provide for income taxes at a rate equal to the Company's combined federal and state effective rates.

BUSINESS OF THE COMPANY

The Company is transitioning from a disc manufacturing company to a supply chain solutions company that enables its customers to streamline the process of delivering their products and information to market by providing technology driven supply chain solutions that increase efficiencies and reduce costs. The Company assists its customers with a wide range of services from preparing their product for market to delivering their finished product into the distribution channel or directly to the end-users. The solution is

built on a solid technology foundation that includes both customized system integration and a web-based reporting and tracking tool that makes real-time information easily accessible. Technologies include CD-ROM and DVD manufacturing services and secure Internet-based software distribution services. The Company's core CD-ROM manufacturing, packaging and distribution capabilities serve as a component of the supply chain. The Company's manufacturing and distribution facilities are located in Dublin, Ohio.

RECENT EVENTS

Pursuant to an agreement dated as of September 30, 2002, the Company sold its European CD-ROM manufacturing operations in Breda, The Netherlands, to Nimbus, a Netherlands-based private investment group. The transaction was structured as a sale of all of the shares of Metatec's European subsidiary to Nimbus. The shares were sold in exchange for the assumption of the European subsidiary's liabilities as of August 31, 2002. As discussed below, the Company is accounting for these operations as discontinued operations.

RESULTS OF OPERATIONS

Net sales for the three months ended September 30, 2002, were $12.2 million, a decrease of $3.2 million, or 21% over the same period of the prior year. This decrease was due to several factors. First, the closing of the Company's Milpitas, California ("Silicon Valley") plant and a restructuring of the Dublin, Ohio operations reduced manufacturing capacity and eliminated certain low-margin customers. Second, pricing of the Company's CD-ROM products and services declined consistent with industry-wide excess manufacturing capacity, a trend the Company anticipates will continue. Finally, demand for the Company's CD-ROM products and services declined due to several factors, including a decline in general economic conditions, the continued increase in customers using on-line or electronic methods to distribute information, and the continued maturation of the CD-ROM market.

Net sales for the nine months ended September 30, 2002, were $37.3 million, a decrease of $12.4 million, or 25%, over the same period of the prior year. This decrease was due to the factors noted above.

Gross margin was 32% of net sales for the three months ended September 30, 2002, as compared to 21% of net sales for the same period of the prior year. Gross margin was 33% of net sales for the nine months ended September 30, 2002, as compared to 26% of net sales for the same period of the prior year. The 2001 gross margins for both the three-month and nine-month periods were significantly impacted by the severe reduction in sales from the Company's Silicon Valley plant (the plant was closed during the fourth quarter of 2001) without a corresponding reduction in costs associated with that plant, and the restructuring of the Dublin operations in 2001. However, the Company believes that the significant improvement in gross margins in the period-to-period comparisons also reflects management's focus on higher-margin customers in certain industries and the elimination of certain low-margin customers. See "Plan to Improve Liquidity and Financial Condition."

Selling, general and administrative ("SG&A") expenses were $3.8 million, or 31% of net sales, for the three months ended September 30, 2002, as compared to $5.2 million, or 34% of net sales, for same period of the prior year. SG&A expenses were $12.0 million, or 32% of net sales, for the nine months ended September 30, 2002, as compared to $16.9 million, or 34% of net sales, for same period of the prior year. The improvement in the SG&A expense percentages, as well as the reduction in SG&A expenses, for the period-to-period comparisons was primarily attributed to the Dublin restructuring, workforce reductions, and closure of the Silicon Valley location in the fourth quarter of 2001.

No restructuring expenses were incurred during the nine months ended September 30, 2002. Restructuring expenses of $434,000 were incurred during the nine months ended September 30, 2001, primarily related to severance and termination benefits for a U.S. workforce reduction of approximately 6%.

Summary of Accrued Restructuring

Description	Termination Benefits	Exit/Other Costs (In '000's)	Total
Accrued balance December 31, 2001	$ 1,368	$ 3,100	$ 4,468
Payments year to date September 30, 2002	$ (633)	$(3,011)	$(3,644)
Accrued balance September 30, 2002	$ 735	$ 89	$ 824
	$ 503	$ 89	$ 592

Investment income was $2,900 and $200 for the three month periods ended September 30, 2002 and 2001, respectively. Investment income was $6,400 and $37,000 for the nine-month periods ended 2002 and 2001, respectively.

Interest expense for the three months ended September 30, 2002 was $720,000, as compared to $827,000 for the same period of the prior year. Interest expense for the nine months ended September 30, 2002 was $2.2 million, as compared to $2.7 million for the same period of the prior year. The decrease in interest expense was due to decreased debt balances under the Company's revolving loan and term loan facilities, as well as lower interest rates.

The Company recognized an income tax benefit of $875,000 for the three months ended March 31, 2002. In March 2002, the Job Creation and Worker Assistance Act of 2002 was enacted into law. This law extended the carry back period from two years to five years for net operating losses arising in the 2001 and 2002 taxable years. For the same period for the prior year, the Company did not record an income tax benefit due to the uncertainty of realizing the value of such benefit.

The net loss from continuing operations for the nine months ended September 30, 2002 was $1.1 million, or $(.18) from continuing operations per basic and diluted common share, as compared to a net loss from continuing operations in the same period of the prior year of $7.2 million, or $(1.18) from continuing operations per basic and diluted common share . Including discontinued operations, discussed below, the Company had a net loss of $2.7 million for the nine months ended September 30, 2002, or $(.41) per basic and diluted common share, as compared to a net loss in the same period of the prior year of $7.5 million, or $(1.22) per basic and diluted common share.

Discontinued Operations

Pursuant to an agreement dated as of September 30, 2002, the Company sold its European CD-ROM manufacturing operations in Breda, The Netherlands, to Nimbus, a Netherlands-based private investment group. The transaction was structured as a sale of all of the shares of Metatec's European subsidiary to Nimbus. The shares were sold in exchange for the assumption of the European subsidiary's liabilities as of August 31, 2002. The Company is accounting for these operations as discontinued operations and has recognized a non-cash charge of $2.25 million associated with this sale in the third quarter of 2002.

European operations had revenues for the three months ended September 30, 2002, of $1.3 million, as compared to $2.0 million for the same time period for the prior year. Net sales for the European operations for the nine months ended September 30, 2002, were $6.3 million, as compared to $7.6 million for the same time period for the prior year.

Pre-tax loss for the Company's European operations for the three months ended September 30, 2002, was $2.3 million, as compared to $310,000 for the same time period for the prior year. Pre-tax loss for the same operations for the nine-month period ended September 30, 2002, was $1.6 million, as compared to $285,000 for the same time period for the prior year.

FINANCIAL CONDITION - LIQUIDITY AND CAPITAL RESOURCES

Source of Liquidity

The Company financed its business during the nine months ended September 30, 2002 through cash generated from operations. Cash flow from operating activities was $4.0 million for the nine months ended September 30, 2002, as compared to $2.3 million for the nine months ended September 30, 2001. The Company had cash and cash equivalents of $572,000 as of September 30, 2002, as compared to $1.3 million as of December 31, 2001.

Bank Financing Matters

The Company has a term loan facility and a revolving loan facility (collectively, the "Credit Facilities") with its banks. The Company is required to comply with certain financial and other loan covenants set forth in the loan agreement for the Credit Facilities. The Company was in compliance with such covenants as of September 30, 2002. As of September 30, 2002, $8.6 million and $5.0 million were outstanding under the term loan facility and the revolving loan facility, respectively. The borrowing base of the revolving loan facility is limited to the lesser of (i) $12,490,762, or (ii) the sum of (A) 80% of eligible domestic accounts receivable, plus (B) 30% of eligible domestic inventory, plus (C) 90% of domestic machinery and equipment. The borrowing base is further reduced by the aggregate amount of the Company's outstanding letters of credit and is permanently reduced by the amount of any additional advances made to the company under the second term loan facility. As of September 30, 2002 the Company had approximately $1.7 million available to draw on its revolving loan facility.

The revolving loan and the term loans under the Credit Facilities mature on April 1, 2004. Quarterly principal payments are required for the term loans beginning in June 2002 if cash flows exceed certain specified targets over designated periods of time. As of September 30, 2002, the Company had not exceeded these targets. The Credit Facilities are secured by a first lien on all non-real estate business assets of the Company and a pledge of the stock of the Company's subsidiaries. The Company is required to comply with the financial and other covenants. The revolving loan and the term loans accrue interest at a rate equal to

3.5% in excess of the prime rate of the banks. Certain fees are required to be paid to the banks in connection with the Credit Facilities. The Company expects that it will be able to negotiate a new borrowing facility prior to April 1, 2004. However, there can be no assurance that the Company will be able to do so.

The Company has a $19,000,000 term loan facility which was used to permanently finance the Company's Dublin, Ohio distribution center (completed in 1999) and to pay down other bank debt. The loan facility has an outstanding principal balance of $18,569,489 as of September 30, 2002. This term loan facility is payable in monthly principal and interest payments based upon a thirty year amortization schedule, bears interest at a fixed rate of 8.2%, and matures on September 1, 2009. This loan facility is secured by a first lien on all real property of the Company and letters of credit in favor of the lender, in an aggregate amount of $1,650,000.

Other Liquidity Matters

In August 2002, the Company entered into new licensing and other agreements with one of its CD and DVD patent licensors which, among other things, provides for a deferred payment schedule for accrued royalties owed by the Company under prior licensing agreements, and, as a result, $3.5 million of accrued royalties were reclassified to other long-term liabilities.

In October 2002, the Company entered into a settlement agreement with another of its CD patent licensors which provides for a deferred payment schedule for accrued royalties owed under its licensing agreement and, as a result, $1.6 million of accrued royalties has been reclassified to other long-term liabilities as of September 30, 2002. Of this amount, $800,000 may be forgiven in 2006 if the Company meets certain conditions in the agreement.

Plan to Improve Liquidity and Financial Condition

The Company currently has a shareholders' deficiency of $10.9 million as of September 30, 2002, as compared to a shareholders' deficiency of $9.1 million as of December 31, 2001. This financial condition presents both short-term and long-term liquidity issues for the Company.

Management is addressing, and has addressed, the short-term liquidity situation. In response to declining pricing and reduced demand for CD-ROM products, management is transitioning the Company from a disc manufacturing company to a supply chain solutions company. In addition, management is also focusing on higher-margin customers in certain industries and reducing the number of the Company's low-margin disc customers. Finally, in March 2001, management successfully negotiated an extension of the maturity date of the Company's Credit Facilities to April 2004.

The Company has generated positive cash flow from operations in each of the last three fiscal years, as well as in the first three quarters of 2002. Management believes that the Company's current focus on its core business customers and continued cost saving measures will allow it to generate sufficient cash flows to meet operational needs in 2002. However, there can be no assurance that such measures will allow the Company to generate sufficient cash flows for the remainder 2002. Furthermore, additional actions will need to be taken to address the Company's long-term liquidity issues as a result of the Company's shareholders' deficiency.

The Company's loan agreement with the banks includes financial covenants which require the Company to meet specified cash flow thresholds over designated periods of time. There can be no assurance that the Company will be able to meet these cash flow thresholds over such periods of time.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Statements contained in this Form 10-Q or any other reports or documents prepared by the Company or made by management of the Company may be "forward-looking" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to certain risks and uncertainties that could cause the Company's actual results to differ materially from those projected. Such risks and uncertainties that might cause such a difference include, but are not limited to: changes in general business and economic conditions; changes in demand for CD-ROM products or supply chain services; excess capacity levels in the CD-ROM industry; the introduction of new products or services by competitors; increased competition (including pricing pressures); changes in manufacturing efficiencies, changes in supply chain services techniques; changes in technology; changes in foreign currency exchange rates; the Company's ability to meet the cash flow thresholds and other financial covenants in its loan agreement with its banks, the failure of which could result in the banks' exercising their legal remedies against the Company or its assets; the Company's shareholders' deficiency, which means that shareholders may not realize any value upon a sale or liquidation of the Company or its assets; and other risks discussed in the Company's filings with the Securities and Exchange Commission, including those risks discussed under the caption "Forward Looking Statements; Risk Factors Affecting Future Results" and elsewhere in the Form 10-K for Metatec's year ended December 31, 2001.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

There is no change in the quantitative and qualitative disclosures about the Company' market risk from the disclosures contained in the Company's Form 10-K for its fiscal year ended December 31, 2001.

ITEM 4. CONTROLS AND PROCEDURES

(a) Within the 90 days prior to the date of filing of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic filings with the Securities and Exchange Commission.

(b) There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date the evaluation described in (a), above, was carried out.

PART II - OTHER INFORMATION

Items 1-5. Inapplicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description of Exhibit
10.1	Letter agreement dated October 9, 2002, among DiscoVision Associates and Metatec International, Inc.*
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Certification Pursuant to 18 U.S.C. Section 1350,

as Adopted Pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002

* Schedules and exhibits to this document have not been filed because the Company believes such schedules and exhibits do not contain information material to an investment decision that is not otherwise disclosed in such document. The Company hereby agrees to furnish a copy of any omitted schedule or exhibit to the Securities and Exchange Commission upon its request.

(b) Reports on Form 8-K.

(i) The Company filed a Form 8-K dated October 10, 2002, under Item 5 to report that the Company had sold its European CD-ROM manufacturing operations in Breda, The Netherlands, to Nimbus, a Netherlands-based private investment group.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Metatec International, Inc.

/s/ Gary W. Qualmann

Date: November 12, 2002

BY: Gary W. Qualmann
Chief Financial Officer
(authorized signatory-
principal financial officer)

/s/ Julia A. Fratianne

BY: Julia A. Fratianne
Senior Vice President - Finance
(authorized signatory-
principal accounting officer)

CERTIFICATIONS

I, Christopher A. Munro, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Metatec International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Christopher A. Munro

Christopher A. Munro,
Chief Executive Officer
(Principal executive officer)

I, Gary W. Qualmann, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Metatec International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial

information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Gary W. Qualmann

Gary W. Qualmann
Chief Executive Officer
(Principal financial officer)

METATEC INTERNATIONAL, INC.

Form 10-Q
For Quarterly Period Ended September 30, 2002

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