METATEC INTERNATIONAL INC
Form 10-Q
May 12, 2003

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 March 31, 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 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

Not applicable

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

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

Number of Common Shares outstanding as of April 15, 2003: 6,536,113

METATEC INTERNATIONAL, INC.

FORM 10-Q

IMPORTANT INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

All statements, other than statements of historical facts, included in this Form 10-Q of Metatec International, Inc. (the "Company") or incorporated herein by reference, including, without limitation, statements regarding the Company's future financial position, business strategy, budgets, projected costs, goals and plans and objectives of management for future operations, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "project," "believe" or "continue" or the negative thereof or variations thereon or similar terminology. Forward-looking statements speak only as the date the statements were made. Although the Company believes that the expectations reflected in forward-looking statements have a reasonable basis, it can give no assurance that these expectations will prove to be correct. Forward-looking statements are subject to risks and uncertainties that could cause actual events or results to differ materially from those expressed in or implied by the statements. For a discussion of the most significant risks and uncertainties that could cause the Company's actual results to differ materially from those projected, see the Company's Form 10-K for its fiscal year ending December 31, 2002, Item 7--Forward-Looking Statements; Risk Factors Affecting Future Results. Except to the limited extent required by applicable law, the Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

INDEX

PART I - FINANCIAL INFORMATION

Item I. Financial Statements

METATEC INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS	At March 31, 2003 (Unaudited)
ASSETS	
Current assets:	
Cash and cash equivalents	$ 617,340
Restricted cash	146,000
Accounts receivable, net of allowance for doubtful accounts of $200,000	6,553,632
Inventory	1,074,866
Prepaid expenses	770,152
Total current assets	9,161,990
Property, plant and equipment - net	23,072,646
Other assets	141,584

TOTAL ASSETS	$ 32,376,220
LIABILITIES & SHAREHOLDERS' DEFICIENCY	
Current liabilities:	
Accounts payable	$ 2,289,449
Accrued expenses:	
Royalties	314,993
Personal property taxes and real estate taxes	1,435,715
Payroll and benefits	722,990
Restructuring	535,745
Other	524,510
Unearned income	62,530
Current maturities of long-term real estate debt	170,995
Current maturities of other long-term debt and capital lease obligations	781,278
Total current liabilities	6,838,205
Long-term real estate debt	18,310,269
Other long-term debt and capital lease obligations, less current maturities	16,300,232
Other long-term liabilities	1,155,505
Total liabilities	42,604,211
Shareholders' deficiency:	
Common stock - no par value; authorized 10,000,000 shares; issued 7,217,855 shares	33,008,138
Accumulated deficit	(39,549,342)
Treasury stock, at cost; 681,742 shares	(3,670,537)
Unamortized restricted stock	(16,250)
Total shareholders' deficiency	(10,227,991)
TOTAL LIABILITIES & SHAREHOLDERS' DEFICIENCY	$ 32,376,220

See notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2003	2002
NET SALES	$ 10,449,055	$ 13,125,697

Cost of sales	6,584,975	9,026,233
Gross margin	3,864,080	4,099,464
Selling, general and administrative expenses	(3,391,736)	(4,119,388
Gain on sale of assets	456,509	0
OPERATING EARNINGS (LOSS) FROM CONTINUING OPERATIONS	928,853	(19,924
Other income and (expense):		
Investment income	63	357
Interest expense	(659,228)	(751,964
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	269,688	(771,531
Income tax benefit	0	875,000
INCOME FROM CONTINUING OPERATIONS	269,688	103,469
Income from discontinued operations	0	103,094
NET INCOME	$ 269,688	$ 206,563
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		
Basic and diluted	6,536,113	6,453,891
INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE		
Basic and diluted	$ 0.04	$ 0.02
NET INCOME COMMON SHARE		
Basic and diluted	$ 0.04	$ 0.03

See notes to condensed consolidated financial statements.

METATEC INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIENCY (UNAUDITED)

	Common Stock	Accumulated Deficit	Treasury Stock	Una Re
BALANCE AT DECEMBER 31, 2002	$ 33,008,138	$ (39,819,030)	$ (3,670,537)	$

Net income		269,688		
Amortization of restricted stock				
BALANCE AT MARCH 31, 2003	$ 33,008,138	$ (39,549,342)	$ (3,670,537)	$

See notes to consolidated financial statements.

METATEC INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the three months ended March 31,	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 269,688	$ 206,563
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,009,549	1,401,962
Gain on sale of assets	(456,505)	0
Changes in assets and liabilities:		
Accounts receivable	787,454	2,038,858
Inventory	22,046	121,629
Prepaid expenses and other assets	102,217	(843,437)
Accounts payable and accrued expenses	(1,085,833)	(2,755,771)
Unearned income	3,763	(14,434)
Net assets of discontinued operations	0	128,866
Net cash provided by operating activities	652,379	284,236
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(87,734)	(20,876)
Proceeds from the sales of property, plant and equipment	566,075	1,185,234
Net cash provided by investing activities	478,341	1,164,358
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of long-term debt and capital lease obligations	(1,064,339)	(91,898)
Net increase (reduction) in revolving line of credit	214,362	(2,546,859)
Net cash used in financing activities	(849,977)	(2,638,757)

Increase (decrease) in cash and cash equivalents	280,743	(1,190,163)
Cash and cash equivalents at beginning of period	336,597	1,291,778
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 617,340	$ 101,615
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Interest paid	$ 632,875	$ 691,179
Income tax refunds received	$ 0	$ (5,700)
Assets purchased by the assumption of a liability	$ 52,799	$ 19,184
Issuance of restricted stock	$ 0	$ 39,000
Payment of accrued restrucuturing expense by the issuance of treasury stock	$ 0	$ 90,000
Assets sold for the assumption of a receivable	$ 90,000	$ 0

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 March 31, 2003, the consolidated statements of operations for the three months ended March 31, 2003 and 2002, the consolidated statement of shareholders' deficiency for the three months ended March 31, 2003, and the consolidated statements of cash flows for the three 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, 2002 annual report on Form 10-K. The results of operations for the period ended March 31, 2003 are not necessarily indicative of the results for the full year.

In January 2003, the Company sold its Internet-based electronic software distribution ("ESD") business to Digital River, Inc. ("Digital River"), a global e-commerce outsource solutions provider based in Minneapolis, Minnesota. Under the terms of the agreement, Digital River acquired certain assets and assumed certain liabilities associated with the Company's ESD business, and the Company received approximately $1,100,000 in cash and notes, subject to adjustment based on an earn out computation. The Company recognized a gain on the sale of approximately $457,000 during the first quarter of 2003.

In February 2003, the Company entered into a licensing agreement with one of its 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, $137,000 of accrued royalties were reclassified to other long-term liabilities as of December 31, 2002.

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.

SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," is effective for fiscal years beginning after May 15, 2002 (December 31, 2003 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 does 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" is 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 did not have a material impact on the Company's consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," ("SFAS 148"). SFAS 148 amends FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") to provide alternative methods for an entity that voluntarily changes to the fair value based method of accounting for stock-based compensation, amends the disclosure provisions of SFAS 123 and amends APB Opinion No. 28, "Interim Financial Reporting," to require disclosure about those effects in interim financial information. The transition guidance and annual disclosure provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to these consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34. FIN 45 clarifies the requirements of SFAS No. 5, "Accounting for Contingencies," relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The disclosure provisions of FIN 45 are effective for the current fiscal year and were not material in relation to the Company's 2002 consolidated financial statements. However, the provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002, irrespective of a guarantor's year-end. The adoption of FIN 45 did not have a material impact on the Company's financial condition or results of operations.

In January 2003, the FASB issued FIN 46, Consolidation of Variable Interest Entities. FIN 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 requires a variable interest entity to be consolidated by a company, if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003 and to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The initial adoption of this accounting pronouncement did 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.

European operations had revenues for the three months ended March 31, 2002 of $2,120,000.

Pre-tax income for the Company's European operations for the three months ended March 31, 2002 was $103,000.

The Company accounted for these operations as discontinued operations in the 2002 consolidated financial statements.

3. STOCK OPTIONS During the three months ended March 31, 2003, the Company's stock options activity and weighted average exercise prices were as follows:

	Shares	Exercise Price
Outstanding, December 31, 2002	1,171,750	$3.89
Granted	0	$0.00
Exercised	0	$0.00
Forfeited	77,525	$4.24
Outstanding, March 31, 2003	1,094,225	$3.86

The Company accounts for employee and director stock options using the intrinsic value method. Under this method, no compensation expense was recorded in all years presented because all stock options were granted at an exercise price equal to the fair market value of the Company's stock on the date of the grant. If compensation expense for the Company's stock option grants had been determined based on their estimated fair value at the grant dates, the Company's net income and earnings per share for the quarter ending March 31, 2003 would have been as follows:

Net income, as reported	$269,688
Deduct: total stock-based compensation expense determined under the fair value method for all awards, net of related tax benefits	(20,581)
Pro forma net income	$249,107
Earnings per common share, basic and diluted:	
As reported	$.04
Pro forma	$.04

The fair value of options granted was estimated on the date of the grant using the Black-Scholes option-pricing model.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2003 COMPARED TO THREE MONTHS ENDED MARCH 31, 2002

BUSINESS OF THE COMPANY

The Company provides technology driven supply chain solutions that enable its customers to streamline the process of delivering their products and information to market, increase efficiencies and reduce costs. The Company assists its customers with a wide range of services, from preparing their products for market to delivering their finished products into the distribution channel or directly to the end-users. The Company's solutions are 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.

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, 2002. 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 as of March 31, 2003 and December 31, 2002. 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 recorded a valuation allowance in the Company's financial statements to offset the deferred tax asset associated with the NOL because of the uncertainty surrounding the realizability of such asset.

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 reduce the valuation allowance which would increase 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.

RESULTS OF OPERATIONS

Net sales for the three months ended March 31, 2003, were $10,449,000, a decrease of $2,677,000, or 20% over the same period of the prior year. This decrease was primarily due to declining prices for the Company's CD-ROM products and services caused by industry-wide excess manufacturing capacity, a trend the Company anticipates will continue. In addition, demand for the Company's CD-ROM products and services declined due to several factors, including the continued poor 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.

Gross margin was 37% of net sales for the three months ended March 31, 2003, as compared to 31% of net sales for the same period of the prior year. The Company believes that the improvement in gross margins in the period-to-period comparisons reflects management's focus on supply chain services and its continued cost-cutting and emphasis on operational efficiency.

Selling, general and administrative ("SG&A") expenses were $3,392,000, or 32% of net sales, for the three months ended March 31, 2003, as compared to $4,119,000, or 31% of net sales, for same period of the prior year. The reduction in SG&A expenses for the period-to-period comparison was the result of the Company's cost-cutting initiatives, such as workforce reductions and facility closures or sales, while the increase in the SG&A expense percentage for the period-to-period comparison was the result of decreased sales, as fixed expenses were spread over a smaller sales base.

On January 14, 2003, the Company sold its Internet-based electronic software distribution ("ESD") business to Digital River, Inc. ("Digital River"), a global e-commerce outsource solutions provider based in Minneapolis, Minnesota. Under the terms of the agreement, Digital River acquired certain assets and assumed certain liabilities associated with the Company's ESD business, and the Company received approximately $1,100,000 in cash and notes, subject to adjustment based on an earn out computation. The Company recognized a gain on the sale of approximately $457,000 during the first quarter of 2003.

No restructuring expenses were incurred during the three months ended March 31, 2003 or the three months of the prior year.

Summary of Accrued Restructuring

	In '000's		
Description	Termination Benefits	Exit/Other Costs	Total
Accrued balance December 31, 2002	$ 873	$ 1,361	$ 2,234
Payments year to date March 31, 2003	$ (350)	$ (371)	$ (721)
Accrued balance March 31, 2003	$ 523	$ 990	$ 1,513
Accrued Restructuring-Current	$ 523	$ 325	$ 848

Interest expense for the three months ended March 31, 2003 was $659,000, as compared to $752,000 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 and 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 three months ended March 31, 2003 the Company utilized approximately $300,000 of its net operating loss carryforward and, therefore, did not record any income tax expense.

The net income from continuing operations for the three months ended March 31, 2003 was $270,000, or $.04 per basic and diluted common share, as compared to a net income from continuing operations in the same period of the prior year of $103,000, or $.02 per basic and diluted common share . Including discontinued operations, discussed below, the Company had a net income of $270,000 for the three months ended March 31, 2003, or $.04 per basic and diluted common share, as compared to net income in the same period of the prior year of $207,000, or $.03 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.

European operations had revenues for the three months ended March 31, 2002, of $2,120,000.

Pre-tax income for the Company's European operations for the three months ended March 31, 2002, was $103,000.

FINANCIAL CONDITION - LIQUIDITY AND CAPITAL RESOURCES

Source of Liquidity

The Company financed its business during the three months ended March 31, 2003, through cash generated from operations. Cash flow from operating activities was $652,000 for the three months ended March 31, 2003, as compared to $284,000 for the three months ended March 31, 2002. The Company had cash and cash equivalents of $617,000 as of March 31, 2003, as compared to $102,000 as of March 31, 2002.

Bank Financing Matters

The Company has a term loan facility and a revolving loan facility (collectively, the "Credit Facilities") with its banks. The borrowing base of the revolving loan facility is limited to the lesser of (i) $10,000,000, 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. As of March 31, 2003, $8,066,000 and $3,824,000 were outstanding under the term loan facility and revolving loan facility, respectively, and the Company had approximately $3,288,000 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 loan if cash flows exceed certain specified targets over designated periods of time. As of March 31, 2003, the Company exceeded these targets and will make a principle payment of $202,592 on May 1, 2003. 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 contained in the loan agreement for the Credit Facilities. As of March 31, 2003, the Company was in compliance with these covenants. The Credit Facilities 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 $18,481,265 as of March 31, 2003. 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, which are renewed annually.

Other Liquidity Matters

In February 2003, the Company entered into a licensing agreement with one of its 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, $137,000 of accrued royalties were reclassified to other long-term liabilities.

As previously discussed, the Company sold its EDS business to Digital River on January 14, 2003.

The Company did not carry any off-balance sheet derivative financial instruments or have any off-balance sheet financial arrangements at March 31, 2003.

Plan to Improve Liquidity and Financial Condition

The Company had a shareholders' deficiency of $10,228,000 as of March 31, 2003, as compared to a shareholders' deficiency of $10,503,000 as of December 31, 2002. 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 implementing a plan to increase revenues from its supply chain solution services. 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 generated positive cash flow from operations in each of the last four fiscal years. 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 2003. However, there can be no assurance that such measures will allow the Company to generate sufficient cash flows for the remainder of 2003. 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; 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 the Company's year ended December 31, 2002.

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, 2002.

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
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

(b) Reports on Form 8-K.

(i) The Company filed a Form 8-K dated January 31, 2003, under Item 5 to report that the Company had sold its Internet-based electronic software distribution business.

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

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

Date: May 12, 2003

/s/ Julia A. Fratianne

BY: Julia A. Fratianne
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: May 12, 2003

/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: May 12, 2003

/s/ Gary W. Qualmann

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

METATEC INTERNATIONAL, INC.

Form 10-Q
For Quarterly Period Ended March 31, 2003

EXHIBIT INDEX

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