MEGATECH CORP
Form 10-K
April 01, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
(FEE REQUIRED)

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001 OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
(NO FEE REQUIRED)

FOR THE TRANSITION PERIOD FROM__________ TO __________

Commission File No. 0-9646

MEGATECH CORPORATION
(Exact name of registrant as specified in its charter)

Massachusetts	04-2461059
(State or other jurisdiction of incorporation of organization)	(IRS. Employer identification No.)

555 Woburn Street, Tewksbury, Massachusetts	01876
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (978) 937-9600

Securities registered pursuant to section 12(b) of the Act: NONE

Securities registered pursuant to section 12(g) of the Act:

Common Stock, Par Value .0143

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No[ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant based upon the closing sale price of the Common Stock on March 4, 2002 was approximately $178,511 based on the average of the closing bid and asked quotations of the Common Stock in the over the counter market. The number of shares held by nonaffiliates was 2,550,158. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of par value $ .0143 common stock outstanding as of March 4, 2002 was 3,840,558.

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of the stockholders to be held on May 13, 2002 (the "Proxy Statement") are incorporated by reference into Part III.

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FORWARD LOOKING STATEMENTS

This Annual Report contains forward-looking statements as defined under the federal securities laws. Actual results could vary materially. Factors that could cause actual results to vary materially are described herein and in other documents. Readers should pay particular attention to the considerations described in the section of this report entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." Readers should also carefully review the risk factors described in the other documents the Company files from time to time with the Securities and Exchange Commission.

PART 1

Item 1 - Description of Business

(a) General Development of Business

Megatech Corporation (Megatech or the Company) was established in 1970 and is engaged in the production and sale of educational training programs and equipment in the energy power and transportation areas sold domestically and internationally to educational institutions and government agencies.

Megatech manufactures educational training equipment which consist of modular technology workstations which are designed to provide students with hands-on experience working with various technologies such as: automotive, environmental, fiber-optic, microwave, laser, alternate energies, electronic, personal computer kits and multi-media. In conjunction with the educational equipment, Megatech produces over 200 video training programs and student manuals which enable students to follow a self-paced self-guided program to learn the technologies described above.

The Company competes with a number of major suppliers of school training equipment and several small single product line companies through the uniqueness of its products, and the quality of its training programs. Most of the sales to states, cities, towns and school districts are the results of having submitted sealed bids and having been awarded the sale based on being the lowest bidder, directly or through independent sales rep organizations.

There were two customers which accounted for 61% and 63% of sales for the years ended December 31, 2001 and 2000, respectively, and one customer which accounted for 36% of sales for the year ended December 31, 1999. No other customers accounted for more than 10% of sales in each of the years ended December 31, 2001, 2000 and 1999.

Approximately 11%, 28% and 39% of sales during the years ended December 31, 2001, 2000 and 1999, respectively, were from international sales.

The Company's backlog as of December 31, 2001 and 2000 was $178,554 and $216,434, respectively. During March, 2002, the Company received from Snap On Corporation approximately $2.5 million in orders to be delivered in sixteen weeks.

As of December 31, 2001, the Company had 9 full-time and 0 part-time employees, in addition to it's independent domestic and international sales rep organizations.

(b) Financial Information About Industry Segments

N/A

(c) Narrative Description of Business

See (a) above

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(d) Financial Information About Foreign and Domestic Operations and Exports Sales

The Company presently has no operations in foreign countries.

Export sales of the Company were as follows:

Year	Amount	Percent of Total Sales
2001	$198,323	0.11%
2000	$571,127	28%
1999	$699,214	39%

Most of these sales are made upon receipt of Irrevocable Letters of Credit or prepayments.

Item 2 - Properties

The Company's administrative, sales and marketing, research and development, and manufacturing facility is located in Tewksbury, Massachusetts and consists of approximately 20,000 square feet under a lease with a related party which expired in November, 1999. The company leased the facility on a tenant at will basis from December, 1999 to December, 2001. On January 1, 2002, the lease was extended for five years at $10,000 per month for two years, and $11,667 per month for the following three years. The current facility will accomodate twice the current production levels. There is ample expansion capability beyond the current capacity for additional square footage for manufacturing.

Item 3 - Legal Proceedings

None

Item 4 - Submission of Matters to a Vote of Security Holders:

During the fourth quarter of 2001, no matters were submitted to a vote of the security holders through the solicitation of proxies or otherwise.

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PART II

Item 5 - Market for the Registrant's Common Equity and Related Stockholders Matters

The Company's Common Stock is traded in the over-the-counter market, National Association of Security Dealers through the NASD electronic bulletin board under the symbol MGTC. The following table sets forth the periods indicated, the closing high and low Bid Quotations of the Common Stock in the over-the-counter market. These Quotations represent prices between dealers, do not include retail markup, markdowns or commissions and do not necessarily represent actual transactions.

		High	Low
2001	1st Quarter	.16	.11
	2nd Quarter	.08	.08
	3rd Quarter	.04	.04
	4th Quarter	.07	.07
2000	1st Quarter	.50	.12
	2nd Quarter	.50	.12
	3rd Quarter	.31	.09
	4th Quarter	.16	.07
1999	1st Quarter	.31	.06
	2nd Quarter	.50	.13
	3rd Quarter	.44	.13
	4th Quarter	.38	.13

As of March 4, 2002, there were approximately 845 Shareholders based upon the number of record holders as of that date. The Company has paid no cash dividends since it's inception in 1970. At the present time, the Company intends to retain all potential earnings for future growth of the business.

Item 6 - Selected Financial Data

The following table summarizes certain financial data which are qualified by more detailed financial statements included herein.

	2001	2000	1999	1998	1997
Sales	$1,766,579	2,075,724	1,794,553	$1,844,782	$2,097,454
Income (Loss) from operations	5,383	73,378	1,992	(99,081)	(130,842
Net Income (Loss)	2,104	67,712	1,593	(99,535)	(129,606
Net Income (Loss)per Common share	0.001	0.018	0.001	(0.026)	(0.034
Weighted average shares outstanding	3,827,951	3,813,719	3,805,239	3,792,308	3,790,122
Total Assets	625,011	700,821	795,247	788,374	936,784
Long Term Obligations	37,500	-0-	37,500	-0-	-0-
Stockholders' equity	485,387	481,019	412,880	410,287	545,733
Cash Dividends Per Share	-0-	-0-	-0-	-0-	-0-

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operation

2001 Compared with 2000

Sales for 2001 decreased from the corresponding period of 2000 by $0.31 million or 15%, to $1.8 million. This decrease was primarily due to a decrease in international sales. Domestic sales in 2001 were $1.6 million or 89% of total sales, compared to $ 1.5 million or 72% of total sales in 2000. International sales in 2001 were $0.2 million or 11% of total sales, compared to $0.6 million or 28% of total sales in 2000. The Company is expecting international sales to increase dramatically in the year 2002.

Gross profit for 2001 decreased from the corresponding period of 2000 by $0.03 million, or 3%, to $1.0 million. As a percentage of total sales, gross profit was 58% and 50% for 2001 and 2000, respectively. The increase in gross profit margin as a percentage of sales is due to a decrease in material costs and labor costs. Material costs decreased due to better purchasing decisions, better negogiations, and improved internal purchasing procedures. Labor costs have decreased due to changes in production staffing, namely, higher quality staff at a higher hourly cost but lower overall cost. 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 2001 increased from the corresponding period of 2000 by approximately $ 0.04 million or 5% to $ 0.8 million. As a percentage of total sales, selling and marketing expenses increased to 46% for 2001 compared to 37% for 2000. The increase is primarily due to changes in marketing staff and increased commissions. Commissions as a percentage of sales increased to 28% in 2001 from 21% in 2000. This is due to an increase in sales to Snap On Corporation which increased to 48% in 2001 from 33% in 2000.

General and administrative expenses for 2001 increased from the corresponding period of 2000 by $.02 million, or 12% to $0.18 million. The increase in general and administrative expenses is the result of changes in office staff. As a percentage of total sales, general and administrative expenses increased to 10% in 2001 compared to 8% in 2000.

Research and development expenses for 2001 decreased from the corresponding period of 2000 by $.02 million or 52%. As a percentage of sales, R & D expenses decreased to 1% of sales in 2001 compared to 2% of sales in 2000.

Income from operations for 2001 as compared to the same period of 2000 decreased by $ .07 million. As a percentage of total sales, net income decreased to 0.1% for 2001, compared to 3% for 2000. Operating income is the result of the factors indicated above.

2000 Compared with 1999

Sales for 2000 increased from the corresponding period of 1999 by $ 0.28 million or 16%, to $2.1 million. This increase was primarily due to an increase in overall sales volume. Domestic sales in 2000 were $1.5 million or 72% of total sales, compared to $ 1.1 million or 61% of total sales in 1999. International sales in 2000 were $0.6 million or 28% of total sales, compared to $ 0.7 million or 39% of total sales in 1999. The Company believes that the increase in overall sales is due to increased domestic sales.

Gross profit for 2000 increased from the corresponding period of 1999 by $0.29 million, or 38%, to $1.0 million. As a percentage of total sales, gross profit was 50% and 42% for 2000 and 1999, respectively. 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 2000 increased from the corresponding period of 1999 by approximately $ 0.2 million or 36% to $ 0.8 million. As a percentage of total sales, selling and marketing expenses increased to 37% for 2000 compared to 32% for 1999. The increase is primarily due to changes in marketing staff and increased commissions.

General and administrative expenses for 2000 decreased from the corresponding period of 1999 by $.01 million, or 4% to $0.16 million. The decrease in G & A expenses is the result of changes in office staff. As a percentage of total sales, G & A expenses decreased to 7.7% in 2000 compared to 9.3% in 1999.

Research and development expenses for 2000 increased from the corresponding period of 1999 by $.01 million or 61%. As a percentage of sales, R & D expenses increased to 2% of sales in 2000 compared to 1% of sales in 1999.

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Income from operations for 2000 as compared to the same period of 1999 increased by $ .07 million. As a percentage of total sales, operating income increased to 3.5% for 2000 compared to .11% for 1999. Operating income is the result of the factors indicated above.

Liquidity and capital resources

Working capital at December 31, 2001 was $443,988 as compared to $397,809 in working capital at December 31, 2000. The increase was attributable to the net income for the year ended December 31, 2001 and the extension of short term debt to long term status.

The Company maintains a $ 200,000 line-of-credit agreement with a bank. The line is collateralized by a security interest in substantially all assets of the Company. Interest is payable monthly at the bank's prime rate plus 1.5%. There were no borrowings outstanding on this line at December 31, 2001.

Capital expenditures totaled approximately $17,000 in 2001 and $27,000 in 2000. No material purchase or capital commitments exist at December 31, 2001.

The Company believes that cash generated from operations, together with the existing sources of debt financing, will be sufficient to meet foreseeable cash requirements through 2002.

Item 7a - Quantitative and Qualitative Disclosures about Market Risk

Not appicable

Item 8 - Financial Statements and Supplementary Data

Financial statements and schedules together with the auditors' reports thereon are referred to Part IV and are attached hereto

Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

1. Disagreements with Accountants on Accounting and Financial Disclosure:

   None

2. Changes in Registrant's Certifying Accountants

   None

PART III

Item 10 - Directors, Executive Officers of the Registrant

The information required with respect to the Directors and the Executive Officers of the Company is incorporated herein by reference to "Executive Officers" in the Proxy Statement and is incorporated herein by reference.

Item 11 - Executive Compensation

The information required with respect to executive compensation of the Company is incorporated herein by reference to "Executive Officer Compensation" in the Proxy Statement and is incorporated herein by reference.

Item 12 - Security Ownership of Certain Beneficial Owners and Management

The information required by this item with respect to security ownership and management and certain beneficial owners of the Company is incorporated by reference to the caption "Stock Ownership of Directors, Executive Officers and Principal Stockholders" contained in the Proxy Statement and is incorporated herein by reference.

The Company knows of no arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company. The Company also knows of no agreements among its shareholders which relate to voting or investment power of its shares of Common Stock.

Item 13 - Certain Relationships and Related Transactions

Commissions paid to a related entity for the years ended December 31, 2001, 2000 and 1999 were approximately $7,700, $1,800, and $12,000, respectively.

The Company has entered into a lease agreement for its Tewksbury, Massachusetts facility with Lorig Corporation, which is owned by members of the family of an officer and majority stockholder of the Company. The Company believes the lease agreement is either favorable or comparable to others based on a market value of the facility. The lease expired in November, 1999 and the Company leased the facility on a tenant at will basis from December,1999 to December, 2001. On January 1, 2002, the lease was extended for five years at $10,000 per month for two years, and $11,667 per month for thefollowing three years.

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PART IV

Item 14 - Exhibits, Financial Statements, Schedules and Reports on Form 8-K

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a) The following documents are filed as a part of this Report:

1. Financial Statement:

2. Schedules for the years ended December 31, 2001, 2000 and 1999

All other schedules called for under Regulation S-X are not submitted because they are not applicable or not required, or because the required information is included in the Consolidated financial statements and notes thereto.

3. Exhibits:

None

b) Reports on Form 8-K:

The Company filed no Reports on Form 8-K with the Securities and Exchange Commissions during the quarter ended December 31, 2001.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
Megatech Corporation

We have audited the accompanying balance sheet of Megatech Corporation as of December 31, 2001 and 2000, and the related statements of operations, stockholders' equity and cash flows for the years ended December 31, 2001, 2000 and 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Megatech Corporation as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years ended December 31, 2001, 2000 and 1999 in conformity with accounting principles generally accepted in the United States of America.

Our audits, referred to above, also include the financial schedules listed in the Index at Item 14(a)(2). In our opinion, based on our audit, such financial schedules present fairly the information required to be set forth therein.

SULLIVAN BILLE, P.C.

Tewksbury, Massachusetts
February 27, 2002

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MEGATECH CORPORATION

BALANCE SHEET, DECEMBER 31, 2001 AND 2000

	2001	2000
A S S E T		
CURRENT ASSETS:		
Cash and cash equivalents	$ 64,138	$ 27,585
Accounts receivable:		
Trade (less allowance for doubtful accounts: 2001, $6,200; 2000, $14,075)	254,061	332,577
Other	3,697	7,763
Inventories	216,506	243,827
Prepaid expenses	7,710	5,859
Total current assets	546,112	617,611
PROPERTY AND EQUIPMENT - Net	71,233	75,544
OTHER ASSETS	7,666	7,666
TOTAL	$ 625,011	$ 700,821
L I A B I L I T I E S A N D S T O C K H O L D E R S' E Q U I T Y		
CURRENT LIABILITIES:		
Accounts payable - trade	$ 50,160	$ 95,381
Accrued liabilities:		
Salaries and wages	24,396	21,061
Commissions	210	8,820
Other	27,358	42,635
Customer advanced payments		14,405
Current portion of long-term debt		37,500
Total current liabilities	102,124	219,802
LONG-TERM DEBT	37,500	
STOCKHOLDERS' EQUITY:		
Common stock, authorized, 5,000,000 shares of $.0143 par value; issued and outstanding: 2001, 3,840,558 shares; 2000, 3,815,408 shares	54,920	54,560
Additional paid-in capital	4,016,948	4,015,044
Deficit	(3,586,481)	(3,588,585)
Stockholders' equity - net	485,387	481,019
TOTAL	$ 625,011	$ 700,821

See notes to financial statements.

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MEGATECH CORPORATION

STATEMENT OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	2001	2000	1999
SALES	$1,766,579	$2,075,724	$1,794,553
COST OF SALES	750,163	1,029,285	1,034,245
GROSS PROFIT	1,016,416	1,046,439	760,308
OPERATING EXPENSES:			
Selling and marketing	814,005	777,660	569,882
General and administrative	180,262	160,464	166,726
Research and development	16,766	34,937	21,708
Total operating expenses	1,011,033	973,061	758,316
INCOME FROM OPERATIONS	5,383	73,378	1,992
OTHER EXPENSE - Net	3,279	5,666	399
NET INCOME	$ 2,104	$ 67,712	$ 1,593
NET INCOME PER SHARE - Basic and diluted	$ .001	$ .018	$ .001

See notes to financial statements.

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MEGATECH CORPORATION

STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

COMMON STOCK ADDITIONAL

	SHARES	AMOUNT	PAID-IN CAPITAL	DEFICIT	STOCKHOLDER EQUITY - NE
BALANCE AT DECEMBER 31, 1998	3,792,308	$54,230	$4,013,947	$(3,657,890)	$410,287
ISSUANCE OF COMMON STOCK	20,000	286	714		1,000
NET INCOME FOR THE YEAR				1,593	1,593
BALANCE AT DECEMBER 31, 1999	3,812,308	54,516	4,014,661	(3,656,297)	412,880
ISSUANCE OF COMMON STOCK	3,100	44	383		427
NET INCOME FOR THE YEAR				67,712	67,712
BALANCE AT DECEMBER 31, 2000	3,815,408	54,560	4,015,044	(3,588,585)	481,019
ISSUANCE OF COMMON STOCK	25,150	360	1,904		2,264
NET INCOME FOR THE YEAR				2,104	2,104
BALANCE AT DECEMBER 31, 2001	3,840,558	$54,920	$4,016,948	$(3,586,481)	$485,387

See notes to financial statements.

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MEGATECH CORPORATION

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 2,104	$ 67,712	$ 1,593
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Non-cash charges to net income:			
Depreciation and amortization	20,834	17,546	19,092
Common stock awarded as compensation	2,264	427	1,000
Loss on sale of property and equipment			3,225
Decrease (increase) in current assets:			
Accounts receivable	82,582	(56,370)	(168,319)
Inventories	27,321	113,835	42,206
Prepaid expenses	(1,851)	(1,498)	1,103
Increase (decrease) in current liabilities:			
Accounts payable	(45,221)	18,189	(86,537)

Accrued liabilities	(34,957)	(180,754)	53,317
Net cash provided by (used in) operating activities	53,076	(20,913)	(133,320)
CASH FLOWS USED IN INVESTING ACTIVITIES - Additions to property and equipment	(16,523)	(27,359)	(15,903)
CASH FLOWS FROM FINANCING ACTIVITIES - Proceeds from issuance of long-term debt			37,500
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	36,553	(48,272)	(111,723)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	27,585	75,857	187,580
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 64,138	$ 27,585	$ 75,857
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ 3,417	$ 3,437	$ 839
Taxes paid	696	404	351

See notes to financial statements.

MEGATECH CORPORATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001, 2000 AND 1999

1. OPERATIONS

Megatech Corporation is engaged in the production and sale of educational training programs in the energy, power and transportation areas which are sold domestically and internationally to educational institutions and government agencies. Inherent in the line of business in which the Company is engaged is the risk of product line obsolescence due to technological advances. There also exists the risk that certain customers, such as governmental agencies, which are funded by tax revenues, may be subject to budget reductions. The Company grants credit to its customers. Approximately 11%, 28% and 39% of sales during the years ended December 31, 2001, 2000 and 1999, respectively, were from international sales.

There were two customers that accounted for 61% and 63% of sales for the years ended December 31, 2001 and 2000, respectively, and one customer that accounted for 36% of sales for the year ended December 31, 1999. No other customers accounted for more than 10% of sales in each of the years ended December 31, 2001, 2000 and 1999.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenue from product sales are recognized upon shipment. Revenue for maintenance and service and other revenues are recognized as the services are performed.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and all highly liquid investments with original maturities of three months or less.

Inventories

Inventories are valued at the lower of cost (first-in-first-out method) or market.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are computed principally on the straight-line method for financial accounting purposes, and accelerated methods for tax purposes, over the estimated useful lives of the assets.

Leasehold improvements are amortized on the straight-line method over their respective lives or the lease terms, whichever is shorter.

Costs of maintenance and repairs are charged to expense while costs of significant renewals and betterments are capitalized.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is used to reduce deferred tax assets when it is "more likely than not" that some portion or all of the deferred tax assets will not be realized.

3. INVENTORIES

Inventories consisted of the following:

December 31,

	2001	2000
Raw material	$119,082	$146,722
Work in Process	37,096	8,993
Finished goods	60,328	88,112
Total	216,506	$243,827

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4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31, 2001	December 31, 2000
Machinery and equipment	$245,855	$245,855
Office equipment	143,827	140,938
Leasehold improvements	69,776	69,776
Automobiles	58,399	44,765
Total	517,857	501,334
Less accumulated depreciation and amortization	446,624	425,790
Property and equipment - net	$ 71,233	$ 75,544

The useful lives employed for computing depreciation and amortization on principal classes of property and equipment are as follows:

Class Description	Years
Machinery and equipment	5 - 7
Office equipment	5 - 7
Leasehold improvements	10
Automobiles	5

5. LINE OF CREDIT

The Company has a $200,000 line-of-credit agreement with a bank. The line is collateralized by a security interest in substantially all assets of the Company. Interest is payable monthly at the bank's prime rate plus 1.5%. There were no borrowings outstanding on this line at December 31, 2001 and 2000.

6. LONG-TERM DEBT

Long-term debt of $37,500 at December 31, 2001, classified as current at December 31, 2000,consisted of 8% convertible notes payable. Interest is payable quarterly and the outstanding principle balance was originally due June 2001 and has been extended to June 2003. The notes are convertible at the option of the holder into shares of the Company's common stock at a conversion rate of $1 per share. If at anytime prior to the notes maturity date or conversion by the holder, the Company's common stock has market price of at least $2 for five consecutive trading days, the notes are convertible at the option of the Company into shares of the Company's common stock at a conversion rate of $1 per share.

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7. LEASE AGREEMENTS

The Company originally leased its office, research and production facility in Tewksbury, Massachusetts from a related party, under a five-year operating lease which expired in November 1999. The Company leased the facility on a tenant-at-will basis through December 31, 2001. The Company now leases the facility under a five-year operating lease expiring December 2006. The Company is responsible for all operating expenses and maintenance costs. Rent expense was approximately $85,000 for each of the years ended December 31, 2001, 2000 and 1999.

Based on the lease currently in effect, the future minimum rental commitment is as follows:

Year Ended December 31,	Amount
2002	$120,000
2003	120,000
2004	140,000
2005	140,000
2006	140,000
Total	$660,000

8. INCOME TAXES

The Company has available federal net operating loss carryforwards of approximately $541,700 expiring through December 2018 and state operating loss carryforwards of approximately $233,100 expiring through December 2003.

Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2001	December 31, 2000
Deferred income tax assets:		
Federal and state net operating loss carryforwards	$ 207,600	$ 209,900
Allowance for doubtful accounts, reserves and accruals	31,500	31,400
Total deferred income tax assets	239,100	241,300
Deferred income tax liabilities - tax over book depreciation	(6,100)	(5,000)
Valuation allowance for deferred tax assets	(233,000)	(236,300)
Net recognized deferred income tax benefit	$ -0-	$ -0-

9. RELATED PARTY TRANSACTIONS

Commissions paid to a related entity were approximately $7,700, $1,800 and $12,000 during the years ended December 31, 2001, 2000 and 1999, respectively.

10. EMPLOYEE BENEFIT PLAN

The Company has a SIMPLE IRA Plan (the Plan), which covers all employees who meet certain requirements. Under the terms of the Plan, the Board of Directors determines annually the amount of the matching contribution. There was no contribution during the year ended December 31, 2001. The matching contribution for the years ended December 31, 2000 and 1999 were approximately $5,400 and $4,400, respectively.

11. NET INCOME PER SHARE

Basic net income per share has been computed using the weighted average number of common shares outstanding.

Diluted net income per share gives effect to all dilutive potential common shares that were outstanding during the period. None of the convertible debt or options outstanding at period end were included in the diluted net income per share calculation for the years ended December 31, 2001, 2000 and 1999, since they were anti-dilutive.

The weighted average number of shares outstanding is as follows:

Year Ended December 31,	Number of Shares
2001	3,825,951
2000	3,813,719
1999	3,805,239

SCHEDULE II

MEGATECH CORPORATION

VALUATION AND QUALIFYING ACCOUNTS

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUM
		ADDITIONS			
DESCRIPTION	BALANCE AT BEGINNING OF YEAR	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALAN AT EN OF YE
Year Ended December 31, 1999:					
Reserve for obsolescence	$10,000	$ -0-	$-0-	$ -0-	$10,0
Allowance for doubtful accounts	$10,166	$ -0-	$-0-	$ 232	$ 9,9
Year Ended December 31, 2000:					
Reserve for obsolescence	$10,000	$ -0-	$-0-	$ -0-	$10,0
Allowance for doubtful accounts	$ 9,934	$4,141	$-0-		$14,0
Year Ended December 31, 2001:					
Reserve for obsolescence	$10,000	$ -0-	$-0-	$ -0-	$10,0
Allowance for doubtful accounts	$14,075	$ -0-	$-0-	$7,875	$ 6,2

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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.

MEGATECH CORPORATION
(Registrant)

By: /s/ Vahan V. Basmajian
Vahan V. Basmajian, President,
Treasurer and Director

Date: March 29, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the date indicated.

By: /s/ Vahan V. Basmajian
Vahan V. Basmajian, President, Treasurer and Director

By: /s/ Ralph E. Hawes
Ralph E. Hawes, Director

By: /s/ Dennis A. Humphrey
Dennis A. Humphrey, Director & Clerk

By: /s/ Henry P. Ingwersen
Henry P. Ingwersen, Director

By: /s/ Varant Z. Basmajian
Varant Z. Basmajian, Director

Date: March 29, 2002