MEGATECH CORP
Form 10-K
March 26, 2003

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 ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 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. 0-9646

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 XX No ____

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

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 7, 2003 was approximately $629,638 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 2,737,558. 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 7, 2003 was 3,886,958.

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of the stockholders to be held on May 12, 2003 (the "Proxy Statement") are incorporated by reference into Part III.

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 I

Item 1 - Description of Business

(a) General Development of Business

Megatech Corporation, established in 1970, provides instructional programs, along with training equipment, as a turnkey system for the transportation industry. The company has developed and marketed a comprehensive line of automotive trainers for schools, the military, government and industry. Megatech has sold automotive/ technology modules to over 4000 schools in the United States thereby establishing excellent brand recognition throughout the country. In addition, Megatech has exported to well over 20 nations around the world.

Megatech Corporation entered new markets in 2002 with several market building projects either completed or in process. The Company is providing the first component of a new Basic Knowledge and Skills training program at Aberdeen Proving Grounds, which is the first large scale military project the

Company has secured in years. In addition, the Company has developed Ford Motor Company's first complete electricity and electronics training program which will be used worldwide in the Ford Factory Training Centers, Maintenance Light Repair Programs, and Ford Asset programs. Snap On Corporation, one of the largest automotive tool manufacturers in the U.S., has an agreement with Megatech to market Megatech trainers to the transportation industry, government, and public education. Through Snap On Tools International, Megatech provided five state of the art training programs shipped in 2002 and 2003 to the national colleges of Venezuela and is negotiating an additional contract for 13 more schools.

There was one customer which accounted for 88% of sales for the year ended December 31, 2002, and two customers which accounted for 61% and 63% of sales for the years ended December 31, 2001 and 2000, respectively. Approximately 58%, 11% and 28% of sales during the years ended December 31, 2002, 2001 and 2000, respectively, were from international sales.

The Company's backlog as of December 31, 2002 and 2001 was $1,610,020 and $178,554, respectively. This includes approximately $1 million in orders from Snap On Corporation which were shipped in February, 2003. The Company expects to fill all orders (unless cancelled) of its current backlog during the 2003 fiscal year.

In addition to it's independent domestic and international sales rep organization, as of December 31, 2002, the Company had 14 full-time and 2 part-time employees, of which 9 were engaged in production activities, 5 in sales and marketing, and 2 in general and administrative.

(b) Financial Information About Industry Segments

N/A

(c) Narrative Description of Business

See (a) above.

(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
2002	$1,767,891	58%
2001	$ 198,323	11%
2000	$ 571,127	28%

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 five year lease with a related party which expires in December, 2006. The current facility will accommodate 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 2002, no matters were submitted to a vote of the security holders through the solicitation of proxies or otherwise.

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
2002	1st Quarter	0.14	0.10
	2nd Quarter	0.26	0.26
	3rd Quarter	0.28	0.28
	4th Quarter	0.16	0.16
2001	1st Quarter	0.16	0.11
	2nd Quarter	0.08	0.08
	3rd Quarter	0.04	0.04
	4th Quarter	0.07	0.07
2000	1st Quarter	0.50	0.12
	2nd Quarter	0.50	0.12
	3rd Quarter	0.31	0.09
	4th Quarter	0.16	0.07

As of March 7, 2002, there were approximately 841 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.

	2002	2001	2000	1999
Sales	$3,052,238	$1,766,579	$2,075,724	$1,794,553
Income (Loss) from operations	110,831	5,383	73,378	1,992
Net Income (Loss)	101,131	2,104	67,712	1,593
Net Income (Loss) per Common share	0.026	0.001	0.018	0.001
Weighted average shares outstanding	3,856,948	3,827,951	3,813,719	3,805,239
Total Assets	1,116,489	625,011	700,821	795,247
Long Term Obligations	-0-	37,500	-0-	37,500
Stockholders' equity	594,381	485,387	481,019	412,880
Cash Dividends Per Share	-0-	-0-	-0-	-0-

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

2002 Compared with 2001

Sales for 2002 increased from the corresponding period of 2001 by $1.3 million or 73% to $3.1 million. The increase was due to an increase in international sales. Domestic sales were $1.3 million or 42% of total sales, compared to $1.6 million or 89% of total sales in 2001. International sales in 2002 were $1.8 million or 58% of total sales, compared to $.2 million or 11% of total sales in 2001. The increase in international sales is attributable to sales through Snap On International of training equipment and programs to the national Colleges of Venezuela. Overall, sales to Snap On Corporation increased to 88% in 2002 compared to 49% in 2001.

Gross profit for 2002 increased from the corresponding period of 2001 by $.9 million or 86% to $1.9 million. As a percentage of sales, gross profit was 62% and 58% for 2002 and 2001, respectively. The increase in gross profit margin as a percentage of sales is due to increased efficiencies associated with higher sales volume. Decreases in materials costs and overhead costs were offset slightly by an increase in labor costs. Materials were $657,000 in 2002 or 22% compared to $460,000 or 26% in 2001. Labor was $359,000 or 12% in 2002 compared to $179,000 or 10% in 2001. Overhead was $146,000 or 4% in 2002 compared to $111,000 or 6% in 2001.

Selling and marketing expenses increased from the corresponding period of 2002 by $.8 million or 94% to $1.6 million. As a percentage of sales, selling and marketing expenses was 52% and 46% for 2002 and 2001, respectively. The increase in selling and marketing expenses is due to higher commission expense, salaries and rent. Commission expense in 2002 was 36% of sales compared to 28% in 2001.

General and administrative expenses were fairly steady in 2002 and 2001 at $.18 million. Major general and administrative expenses include salaries, rent, audit, accounting and directors expenses. As a percentage of sales, general and administrative expenses decreased to 6% of sales in 2002 compared to 10% in 2001. This is due to general and administrative expenses remaining relatively steady despite increased sales.

Research and development expenses were stable in 2002 and 2001 at $16,000 or 1% of sales.

The net income for the year ended December 31, 2002 was $101,131 or 3% of sales, compared to $2,104 or .1% of sales for the previous year. The increase is the result of the items discussed above.

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 negotiations 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, research and development 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 .1% for 2001 compared to 3% for 2000. Operating income is the result of the factors indicated above.

Liquidity & Working Capital

As of December 31, 2002, the Company had cash and cash equivalents of $30,327 compared to $64,138 at December 31, 2001. During 2002, the Company used $89,984 in cash to fund operating activities. The Company used $40,702 for property and equipment acquisitions, and borrowed $96,875 against the Company's line of credit.

The Company maintains a $ 275,000 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%. Borrowings outstanding on this line were $100,000 at December 31, 2002. There were no borrowings outstanding on this line at December 31, 2001.

Capital expenditures totaled approximately $41,000 in 2002 and $17,000 in 2001. No material purchase or capital commitments exist at December 31, 2002.

Working capital at December 31, 2002 was $503,149 compared to $443,988 at December 31, 2001. The increase is the result of the net income for the year less the reclassification of long term debt to current.

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 2003.

Item 7a - Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

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 and Related Stockholder Matters

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.

We do not maintain any plans, pursuant to which we may grant equity awards to employees or other persons.

Item 13 - Certain Relationships and Related Transactions

Commissions paid to a related entity for the years ended December 31, 2002, 2001 and 2000 were approximately $1,700, $7,700 and $1,800, respectively. The Company has entered into a five year lease agreement for its Tewksbury, Massachusetts facility with Lorig Corporation, which is owned by members of the family of an officer and major 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 expires in 2006.

Item 14 - Controls and Procedures

Our Chief Executive Officer/Chief Financial Officer has concluded, based on his evaluation within 90 days of the filing date of this report, that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the previously mentioned evaluation.

PART IV

Item 15 - Exhibits, Financial Statements, Schedules and Reports on Form 8-K

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

1. Financial Statement:

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:

The following exhibits are filed herewith:

99.1 Certification required under Section 1350 of Chapter 63 of Title 18 of the United States Code.

The company filed the following reports on Form 8-K with the Securities and Exchange Commission during the quarter ended December 31, 2002:

Form 8-K filed November 12, 2002.

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 7, 2003

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 7, 2003

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CERTIFICATION

I, Vahan V. Basmajian, President, Treasurer, and Chairman of the Board of Megatech Corporation certify that:

1) I have reviewed this annual report on Form 10-K of Megatech Corporation;

2) Based on my knowledge, this annual 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 annual 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) I, the registrant's certifying officer, am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and I have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, is made known to me by others within the registrant, particularly during the period in which this annual 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 annual report (the "Evaluation Date"); and

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

5) I, the registrant's certifying officer, have disclosed, based on my most recent evaluation, to the registrant's auditors and audit committee of the registrant's board of directors (or persons performing the equivalent functions);

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) I, the registrant's certifying officer, have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 7, 2003

/s/ Vahan V. Basmajian

Vahan V. Basmajian
President, Treasurer & Chairman of the Board
Principal Executive Officer
Principal Financial Officer
Principal Accounting Officer

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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, 2002 and 2001, and the related statements of operations, stockholders' equity and cash flows for the years ended December 31, 2002, 2001 and 2000. 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, 2002 and 2001, and the results of its operations and its cash flows for the years ended December 31, 2002, 2001 and 2000 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.

February 26, 2003
Tewksbury, Massachusetts

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MEGATECH CORPORATION

BALANCE SHEET, DECEMBER 31, 2002 AND 2001

	2002	2001
A S S E T S		
CURRENT ASSETS:		
Cash and cash equivalents	$ 30,327	$ 64,138
Accounts receivable:		
Trade (less allowance for doubtful accounts of $6,200)	146,482	254,061
Other	8,643	3,697
Inventories	839,753	216,506

Prepaid expenses	52	7,710
Total current assets	1,025,257	546,112
PROPERTY AND EQUIPMENT - Net	83,566	71,233
OTHER ASSETS	7,666	7,666
TOTAL	$1,116,489	$ 625,011

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:		
Note payable - line of credit	$ 100,000	
Accounts payable - trade	218,508	$ 50,160
Accrued liabilities:		
Salaries and wages	35,365	24,396
Other	43,751	27,568
Customer advanced payments	90,109	
Current portion of long-term debt	34,375	
Total current liabilities	522,108	102,124
LONG-TERM DEBT		37,500
STOCKHOLDERS' EQUITY:		
Common stock, authorized, 5,000,000 shares of $.0143 par value; issued and outstanding: 2002, 3,885,958 shares; 2001, 3,840,558 shares	55,569	54,920
Additional paid-in capital	4,024,162	4,016,948
Deficit	(3,485,350)	(3,586,481)
Stockholders' equity - net	594,381	485,387
TOTAL	$1,116,489	$ 625,011

See notes to financial statements.

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MEGATECH CORPORATION

STATEMENT OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2000

SALES	$3,052,238	$1,766,579	$2,075,724
COST OF SALES	1,162,396	750,163	1,029,285
GROSS PROFIT	1,889,842	1,016,416	1,046,439
OPERATING EXPENSES:			
Selling and marketing	1,577,331	814,005	777,660
General and administrative	185,410	180,262	160,464
Research and development	16,270	16,766	34,937
Total operating expenses	1,779,011	1,011,033	973,061
INCOME FROM OPERATIONS	110,831	5,383	73,378
OTHER EXPENSE - Net	9,700	3,279	5,666
NET INCOME	$ 101,131	$ 2,104	$ 67,712
NET INCOME PER SHARE - Basic and diluted	$ .026	$ .001	$ .018

See notes to financial statements.

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MEGATECH CORPORATION

STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	COMMON STOCK		ADDITIONAL		STO
	SHARES	AMOUNT	PAID-IN CAPITAL	DEFICIT	EQU
BALANCE AT DECEMBER 31, 1999	3,812,308	$54,516	$4,014,661	$(3,656,297)	$
ISSUANCE OF COMMON STOCK	3,100	44	383		
NET INCOME FOR THE YEAR				67,712	
BALANCE AT DECEMBER 31, 2000	3,815,408	54,560	4,015,044	(3,588,585)	
ISSUANCE OF COMMON STOCK	25,150	360	1,904		
NET INCOME FOR THE YEAR				2,104	

BALANCE AT DECEMBER 31, 2001	3,840,558	54,920	4,016,948	(3,586,481)	
ISSUANCE OF COMMON STOCK	45,400	649	7,214		
NET INCOME FOR THE YEAR				101,131	
BALANCE AT DECEMBER 31, 2002	3,885,958	$55,569	$4,024,162	$(3,485,350)	$

See notes to financial statements.

MEGATECH CORPORATION

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 101,131	$ 2,104	$ 6
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Non-cash charges to net income:			
Depreciation and amortization	25,634	20,834	1
Common stock awarded as compensation	7,863	2,264	
Loss on sale of property and equipment	2,735		
Changes in operating assets and liabilities:			
Accounts receivable	102,633	82,582	(5
Inventories	(623,247)	27,321	11
Prepaid expenses	7,658	(1,851)	(
Accounts payable	168,348	(45,221)	1
Accrued liabilities	27,152	(34,957)	(18
Customer advanced payments	90,109		
Net cash provided by (used in) operating activities	(89,984)	53,076	(2
CASH FLOWS USED IN INVESTING ACTIVITIES - Additions to property and equipment	(40,702)	(16,523)	(2
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from line of credit - net	100,000		
Principal payments of long-term debt	(3,125)		
Net cash provided by financing activities	96,875		

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(33,811)	36,553	(4
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	64,138	27,585	7
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 30,327	$ 64,138	$ 2
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ 9,566	$ 3,417	$
Taxes paid	480	696	

See notes to financial statements.

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MEGATECH CORPORATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002, 2001 AND 2000

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 58%, 11% and 28% of sales during the years ended December 31, 2002, 2001 and 2000, respectively, were from international sales.

There was one customer that accounted for approximately 88% of sales for the year ended December 31, 2002. There were two customers that accounted for 61% and 63% of sales for the years ended December 31, 2001 and 2000, respectively. No other customers accounted for more than 10% of sales in each of the years ended December 31, 2002, 2001 and 2000.

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.

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, 2002	December 31, 2001
Raw material	$248,588	$119,082
Work in Process	31,765	37,096

Finished goods	559,400	60,328
Total	$839,753	$216,506

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31, 2002	December 31, 2001
Machinery and equipment	$ 16,391	$245,855
Office equipment	48,573	143,827
Leasehold improvements	70,226	69,776
Automobiles	63,175	58,399
Total	198,365	517,857
Less accumulated depreciation and amortization	114,799	446,624
Property and equipment - net	$ 83,566	$ 71,233

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 $275,000 (2001, $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%. Borrowings outstanding on this line were $100,000 at December 31, 2002. There were no borrowings outstanding on this line at December 31, 2001.

6. LONG-TERM DEBT

Long-term debt of $34,375 and $37,500 at December 31, 2002 and 2001, respectively, classified as current at December 31, 2002, consists of 8% convertible notes payable. Interest is payable quarterly and the outstanding principle balance 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 leases its office, research and production facility in Tewksbury, Massachusetts from a related party, under a five- year operating lease which expires December 2006. The Company is responsible for all operating expenses and maintenance costs. Rent expense was approximately $120,000 for the year ended December 31, 2002 and approximately $85,000 for each of the years ended December 31, 2001 and 2000.

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

Year Ended December 31,	Amount
2003	$120,000
2004	140,000
2005	140,000
2006	140,000
Total	$540,000

8. INCOME TAXES

The Company has available federal net operating loss carryforwards of approximately $368,200 expiring through December 2018 and state operating loss carryforwards of approximately $131,300 expiring through December 2003.

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

	December 31,	
	2002	2001
Deferred income tax assets:		
Federal and state net operating loss carryforwards	$ 137,700	$ 207,600
Allowance for doubtful accounts, reserves and accruals	27,500	31,500
Total deferred income tax assets	165,200	239,100
Deferred income tax liabilities - tax over book depreciation	(3,200)	(6,100)
Valuation allowance for deferred tax assets	(162,000)	(233,000)
Net recognized deferred income tax benefit	$ -0-	$ -0-

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9. RELATED PARTY TRANSACTIONS

Commissions paid to a related entity were approximately $1,700, $7,700 and $1,800 during the years ended December 31, 2002, 2001 and 2000, respectively.

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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 were no contributions during the years ended December 31, 2002 and 2001. The matching contribution for the year ended December 31, 2000 was approximately $5,400.

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, 2002, 2001 and 2000, since they were anti-dilutive.

The weighted average number of shares outstanding is as follows:

Year Ended December 31,	Number of Shares
2002	3,856,948
2001	3,825,951
2000	3,813,719

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SCHEDULE II

MEGATECH CORPORATION

VALUATION AND QUALIFYING ACCOUNTS

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLU
	ADDITIONS			
BALANCE AT	CHARGED TO	CHARGED TO		BALA

DESCRIPTION	BEGINNING OF YEAR	COSTS AND EXPENSES	OTHER ACCOUNTS	DEDUCTIONS	AT E OF Y
Year Ended December 31, 2000:					
Reserve for obsolescence	$10,000	$ -0-	$-0-	$ -0-	$10,
Allowance for doubtful accounts	$ 9,934	$4,141	$-0-	$ -0-	$14,
Year Ended December 31, 2001:					
Reserve for obsolescence	$10,000	$ -0-	$-0-	$ -0-	$10,
Allowance for doubtful accounts	$14,075	$ -0-	$-0-	$7,875	$ 6,
Year Ended December 31, 2002:					
Reserve for obsolescence	$10,000	$ -0-	$-0-	$ -0-	$10,
Allowance for doubtful accounts	$ 6,200	$ -0-	$-0-	$ -0-	$ 6,

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