FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
SEC Accession No. 0000910647-99-000092

(HTML Version on secdatabase.com)

FILER

MEGATECH CORP

CIK:**64708**| IRS No.: **042461059** | State of Incorp.:**MA** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **000-09643** | Film No.: **99573627**
SIC: **2741** Miscellaneous publishing

Mailing Address
525 WOBURN STREET
TEWKSBURY MA 01876

Business Address
525 WOBURN STREET
TEWKSBURY MA 01876
6172731900

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, 1998 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: NONE

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 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 12, 1999 was approximately $208,440 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 1,158,000. 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 12, 1999 was 3,792,308.

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of the stockholders to be held on May 10, 1999 (the "Proxy Statement") are incorporated by reference into Part III.

PART I

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 was one customer which accounted for 28% and 20% of total sales for the year ended December 31, 1998 and 1997. Two customers accounted for 26% of sales for the year ended December 31, 1996. No other customers accounted for more than 10% of sales in each of the years ended December 31, 1998, 1997 and 1996.

Approximately 46%, 33% and 22% of sales during the years ended December 31, 1998, 1997 and 1996, respectively, were from international sales.

The Company's backlog as of December 31, 1998 and 1997 was $459,929 and $588,247, respectively.

As of December 31, 1998, the Company had 12 full-time and 8 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.

(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
1998	$847,077	46%
1997	$693,481	33%
1996	$493,491	22%

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, that will expire in November 1999, and renewable for an additional five years. 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 1998, 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.

<TABLE>
<CAPTION>

<S>	<C>	High <C>	Low <C>
1998	1st Quarter	.25	.05
	2nd Quarter	.25	.05
	3rd Quarter	.25	.03
	4th Quarter	.25	.04
1997	1st Quarter	.25	.02
	2nd Quarter	.25	.02
	3rd Quarter	.25	.02
	4th Quarter	.25	.02
1996	1st Quarter	3.25	2.25
	2nd Quarter	2.75	1.00
	3rd Quarter	1.00	.25
	4th Quarter	.25	.02

</TABLE>

As of March 12, 1999, there were approximately 821 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.

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>	1995 <C>	1994 <C>
Sales	$1,844,782	$2,097,454	$2,216,978	$2,824,912	$4,050,844
Income (Loss) from operations	(99,081)	(130,842)	(94,578)	(48,310)	241,076
Net Income (Loss)	(99,535)	(129,606)	(95,633)	(57,504)	203,009
Net Income (Loss) per Common share	(0.026)	(0.034)	(0.025)	(0.015)	0.053
Weighted average shares outstanding	3,792,308	3,790,122	3,784,566	3,731,425	3,830,875
Total Assets	788,374	936,784	1,052,450	1,049,046	1,222,490
Long Term Obligations	-0-	-0-	-0-	1,230	8,728
Stockholders' equity	410,287	545,733	660,255	731,517	777,826

Cash Dividends Per Share	-0-	-0-	-0-	-0-	-0-

</TABLE>

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

1998 Compared with 1997

Sales for 1998 decreased from the corresponding period of 1997 by $ 0.25 million or 12%, to $1.8 million. This decrease was primarily due to a decrease in overall sales volume. Domestic sales in 1998 were $ 1 million or 54% of total sales, compared to $ 1.4 million or 67% of total sales in 1997. International sales in 1998 were $0.8 million or 46% of total sales, compared to $ 0.7 million or 33% of total sales in 1997. The Company believes that the decrease in overall sales is due to declining domestic sales.

Gross profit for 1998 decreased from the corresponding period of 1997 by $0.15 million, or 17%, to $0.7 million. As a percentage of total sales, gross profit was 39% and 41% for 1998 and 1997, 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 1998 decreased from the corresponding period of 1997 by approximately $ 0.2 million or 22% to $ 0.6 million. As a percentage of total sales, selling and marketing expenses decreased to 34% for 1998 compared to 38% for 1997. The decrease is primarily due to changes in marketing staff.

General and administrative expenses for 1998 decreased from the corresponding period of 1997 by $.01 million, or 7% to $0.17 million. The decrease in G & A expenses is the result of changes in office staff. As a percentage of total sales, G & A expenses increased to 9.1% in 1998 compared to 8.7% in 1997.

Research and development expenses for 1998 remained relatively steady in comparison to 1997 at $ .02 million. As a percentage of total sales, R & D expenses also remained steady at 1.0% of sales in 1998 and 1997.

Loss from operations for 1998 as compared to the same period of 1997 decreased by $ .03 million. As a percentage of total sales, operating losses decreased to 5.4% for 1998 compared to 6.2% for 1997. The operating losses are a result of the factors indicated above.

1997 Compared with 1996

Sales for 1997 decreased from the corresponding period of 1996 by $ 0.1 million or 5%, to $2.1 million. This decrease was primarily due to a decrease in overall sales volume. Domestic sales in 1997 were $ 1.4 million or 67% of total sales, compared to $ 1.7 million or 78% of total sales in 1996. International sales in 1997 were $0.7 million or 33% of total sales, compared to $ 0.5 million or 22% of total sales in 1996. The Company believes that the decrease in overall sales is due to declining domestic sales.

Gross profit for 1997 decreased from the corresponding period of 1996 by $0.05 million, or 5%, to $0.9 million. As a percentage of total sales, gross profit remained steady at 41% for 1997 and 1996. 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 1997 increased from the corresponding period of 1996 by approximately $ 0.01 million or 1% to $ 0.8 million. As a percentage of total sales, selling and marketing expenses increased to 38% for 1997 compared to 36% for 1996. The increase is primarily due to changes in marketing staff.

General and administrative expenses for 1997 decreased from the corresponding period of 1996 by $.01 million, or 6% to $0.18 million. As a percentage of total sales, G & A expenses remained steady at 8.7% for 1997 and 1996. The decrease of G & A expenses are a result of changes in office staff.

Research and development expenses for 1997 decreased from the corresponding period of 1996 by $.011 million, or 36% to $.02 million. As a percentage of total sales, R & D expenses decreased to .95% for 1997 compared to 1.4% for 1996. The decrease of R & D expenses are a result of a decrease in product development costs.

Loss from operations for 1997 as compared to the same period of 1996 increased by $ .03 million. As a percentage of total sales, operating losses increased to 6.2% for 1997 compared to 4.3% for 1996. The operating losses are a result of the factors indicated above.

Liquidity and capital resources

Working capital at December 31, 1998 was $330,476 as compared to $452,364 in working capital at December 31, 1997. The decrease was attributable to the net loss for the year ended December 31, 1998.

The Company maintains a $ 100,000 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, 1998.

There is no long term debt or other notes payable outstanding at December 31, 1998.

Capital expenditures totaled approximately $7,000 in 1998 and $13,000 in 1997. No material purchase or capital commitments exist at December 31, 1998.

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 1999.

The Company is taking steps in 1999 to address Year 2000 readiness regarding manufacturing operations and internal systems. Outside computer consultants will be utilized to upgrade hardware and software required to become Year 2000 compliant. The estimated cost of such upgrades is approximately $15,000. In addition to internal systems upgrades, key suppliers of raw materials for manufacturing operations will be contacted to determine their readiness for Year 2000. In the event that a key supplier experiences Year 2000 problems, the Company believes that it has sufficient alternative suppliers to satisfy raw material needs.

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

The Company has signed an agreement with Cramer Production Company, Inc. (Cramer) of Norwood, Massachusetts, to produce a series of instructional video tapes supporting modular technology programs offered by the Company. An officer/shareholder of Cramer is director of the Company. Cramer is responsible under the agreement for all video production and video cassette reproduction. The videotapes are exclusively marketed by Company. The Company provides scripts for the modules, technical representatives, program materials and is also responsible for packaging, design and promotion. Purchases from Cramer under this agreement were approximately $21,300 , $ 30,200 and $28,900 for the years ended December 31, 1998, 1997 and 1996, respectively.

During the year ended December 31, 1997 and 1996, sales to a related entity were approximately $500 and $63,200. There were no such transactions for the year ended December 31, 1998. Commissions paid to the same entity for the years ended December 31, 1998, 1997, and 1996 were approximately $27,000, $26,000 and $15,900, 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.

PART IV

<TABLE>
<CAPTION>

Item 14 - Exhibits, Financial Statements, Schedules and Reports on Form 8-K	Page
<S>	<C>
a) The following documents are filed as a part of this Report:	
1. Financial Statement:	
Report of Independent Certified Public Accountants	10
Balance sheet at December 31, 1998 and 1997	11
Statement of operations for the years ended December 31, 1998, 1997 and 1996	12
Statement of Stockholders' equity for the years ended December 31, 1998, 1997 and 1996	13
Statement of cash flows for the years ended December 31, 1998, 1997 and 1996	14
Notes to Financial Statements	15
2. Schedules for the years ended December 31, 1998, 1997 and 1996	
Schedule II - Valuation and Qualifying Accounts	20
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:	
27.1 Financial data schedule	22

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, 1998.

</TABLE>

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, 1998 and 1997, and the related statements of operations, stockholders' equity and cash flows for the years ended December 31, 1998, 1997 and 1996. 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 generally accepted auditing standards. 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, 1998 and 1997, and the results of its operations and its cash flows for the years ended December 31, 1998, 1997 and 1996 in conformity with generally accepted accounting principles.

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 12, 1999

MEGATECH CORPORATION

BALANCE SHEET, DECEMBER 31, 1998 AND 1997

<TABLE>
<CAPTION>

<S>	<C> 1998	<C> 1997
A S S E T S		

CURRENT ASSETS:		
Cash and cash equivalents	$ 187,580	$ 55,026
Accounts receivable:		
Trade (less allowance for doubtful accounts: 1998, $10,166; 1997, $11,070)	101,502	335,891
Other	14,149	20,790
Inventories	399,868	409,551
Prepaid expenses	5,464	22,157
Total current assets	708,563	843,415
PROPERTY AND EQUIPMENT - Net	72,145	85,703
OTHER ASSETS	7,666	7,666
TOTAL	$ 788,374	$ 936,784
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 - bank		$ 25,000
Accounts payable:		
Trade	$ 163,729	258,179
Affiliate		15,204
Accrued liabilities:		
Customer advanced payments	142,609	13,081
Accrued commissions	7,334	46,558
Other	64,415	33,029
Total current liabilities	378,087	391,051
STOCKHOLDERS' EQUITY:		
Common stock, authorized, 5,000,000 shares of $.0143 par value; issued and outstanding, 3,792,308 shares	54,230	54,230
Additional paid-in capital	4,013,947	4,049,858
Deficit	(3,657,890)	(3,558,355)
Stockholders' equity - net	410,287	545,733
TOTAL	$ 788,374	$ 936,784

</TABLE>

See notes to financial statements.

MEGATECH CORPORATION

STATEMENT OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<TABLE>
<CAPTION>

	1998	1997	1996

<S> <C> <C> <C>

SALES	$1,844,782	$2,097,454	$2,216,978
COST OF SALES	1,123,575	1,227,910	1,299,326
GROSS PROFIT	721,207	869,544	917,652
OPERATING EXPENSES:			
Selling and marketing	626,836	798,965	788,010
General and administrative	168,048	181,428	192,746
Research and development	25,404	19,993	31,474
Total operating Expenses	820,288	1,000,386	1,012,230
LOSS FROM OPERATIONS	(99,081)	(130,842)	(94,578)
OTHER INCOME (EXPENSE) - Net	(454)	1,236	(1,055)
NET LOSS	$ (99,535)	$ (129,606)	$ (95,633)
NET LOSS PER SHARE - Basic and diluted	$ (.026)	$ (.034)	$ (.025)

</TABLE>

See notes to financial statements.

MEGATECH CORPORATION

STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<TABLE>
<CAPTION>

	COMMON STOCK		ADDITIONAL		
	SHARES	AMOUNT	PAID-IN CAPITAL	DEFICIT	STOCKHOLDERS' EQUITY - NET
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 1995	3,762,058	$53,797	$4,010,836	$(3,333,116)	$731,517
ISSUANCE OF COMMON STOCK	5,250	75	5,990		6,065
STOCK OPTIONS EXERCISED	22,000	315	2,985		3,300
COMPENSATION			15,363		15,363
STOCK OPTIONS TERMINATED			(357)		(357)
NET LOSS FOR THE YEAR				(95,633)	(95,633)
BALANCE AT DECEMBER 31, 1996	3,789,308	54,187	4,034,817	(3,428,749)	660,255
ISSUANCE OF COMMON STOCK	3,000	43	406		449
COMPENSATION			14,875		14,875
STOCK OPTIONS TERMINATED			(240)		(240)
NET LOSS FOR THE YEAR				(129,606)	(129,606)
BALANCE AT DECEMBER 31, 1997	3,792,308	54,230	4,049,858	(3,558,355)	545,733
COMPENSATION			8,714		8,714
STOCK OPTIONS TERMINATED			(44,625)		(44,625)
NET LOSS FOR THE YEAR				(99,535)	(99,535)
BALANCE AT DECEMBER 31, 1998	3,792,308	$54,230	$4,013,947	$(3,657,890)	$410,287

</TABLE>

See notes to financial statements.

MEGATECH CORPORATION
====================

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(99,535)	$(129,606)	$(95,633)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Non-cash charges (credit) to net loss:			
Depreciation and amortization	20,509	23,851	27,586
Compensation funded by stock options - net	(35,911)	14,635	15,006
Common stock awarded as compensation		449	6,065
Decrease (increase) in current assets:			
Accounts receivable	241,030	103,457	74,258
Inventories	9,683	(29,172)	(53,043)
Prepaid expenses	16,693	(5,030)	(11,588)
Increase (decrease) in current liabilities:			
Accounts payable	(109,654)	(44,880)	78,674
Accrued liabilities	121,690	19,988	35,946
Net cash provided by (used in) operating activities	164,505	(46,308)	77,271
CASH FLOWS USED IN INVESTING ACTIVITIES - Additions to property and equipment	(6,951)	(13,184)	(5,425)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from (payments on) line of credit - net	(25,000)	25,000	
Payments on capital lease obligation		(1,252)	(2,954)
Principal payments on notes payable			(37,000)
Proceeds from issuance of common stock			3,300
Net cash provided by (used in) financing activities	(25,000)	23,748	(36,654)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	132,554	(35,744)	35,192
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	55,026	90,770	55,578
CASH AND CASH EQUIVALENTS AT END OF YEAR	$187,580	$ 55,026	$ 90,770
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ 892	$ 756	$ 1,189
Taxes paid	715	1,393	187

</TABLE>

See notes to financial statements.

MEGATECH CORPORATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

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 46%, 33% and 22% of sales during the years ended December 31, 1998, 1997 and 1996, respectively, were from international sales.

There were two customers which accounted for 26% of sales for the year ended December 31, 1996. One customer accounted for 28% and 20% of sales for the years ended December 31, 1998 and 1997, respectively. No other customers accounted for more than 10% of sales in each of the years ended December 31, 1998, 1997 and 1996.

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.

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:

<TABLE>
<CAPTION>

	December 31, 1998	December 31, 1997
<S>	<C>	<C>
Raw material	$186,176	$199,841
Work in Process	37,477	
Finished goods	176,215	209,710
Total	$399,868	$409,551

</TABLE>

4. NOTE PAYABLE - BANK

The Company has a $100,000 ($200,000 at 1997) 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%, 9.25% at December 31, 1998. There were no borrowings outstanding on this line at December 31, 1998. Borrowings outstanding on this line were $25,000 at December 31, 1997.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

<TABLE>
<CAPTION>

December 31,

	1998	1997
Machinery and equipment	$237,081	$237,081
Office equipment	124,270	117,319
Leasehold improvements	69,776	69,776
Automobile	32,632	32,632
Total	463,759	456,808
Less accumulated depreciation and amortization	391,614	371,105
Property and equipment - net	$ 72,145	$ 85,703

</TABLE>

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

<TABLE>
<CAPTION>

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

</TABLE>

6. 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 in November 1999. Under the terms of the lease, as amended, the Company is responsible for all operating expenses and maintenance costs. Rent expense under this lease was approximately $86,000, $85,000 and $95,700 for the years ended December 31, 1998, 1997 and 1996, respectively. The future minimum lease payments due under the lease, as amended, are $78,000 for the year ending December 31, 1999.

7. INCOME TAXES

The Company has available federal net operating loss carryforwards of approximately $2,790,600 expiring through December 2018 and state operating loss carryforwards of approximately $306,800 expiring through December 2003.

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

<TABLE>
<CAPTION>

	December 31, 1998	December 31, 1997

Deferred income tax assets:		
Federal and state net operating loss carryforwards	$ 977,900	$1,073,500
Allowance for doubtful accounts, reserves and accruals	42,400	57,100
Total deferred income tax assets	1,020,300	1,130,600
Deferred income tax liabilities - tax over book depreciation	(7,600)	(6,500)
Valuation allowance for deferred tax assets	(1,012,700)	(1,124,100)
Net recognized deferred income tax benefit	$ -0-	$ -0-

</TABLE>

8. RELATED PARTY TRANSACTIONS

The Company has an agreement with Cramer Production Company, Inc. (Cramer) of Norwood, Massachusetts to produce a series of instructional video tapes supporting modular technology programs offered by the Company. An officer/shareholder of Cramer is a director of the Company. Cramer is responsible under the agreement for all video production and video cassette reproduction. The videotapes are exclusively marketed by the Company. The Company provides scripts for the modules, technical representatives, program materials and is also responsible for packaging, design and promotion. Purchases from Cramer under this agreement, included in cost of sales, were approximately $21,300, $30,200 and $28,900 for the years ended December 31, 1998, 1997 and 1996, respectively.

During the years ended December 31, 1997 and 1996, sales to a related entity were approximately $500 and $63,200. There were no such transactions during the year ended December 31, 1998. Commissions paid to the same entity were approximately $27,000, $26,000 and $15,900 during 1998, 1997 and 1996, respectively.

9. EMPLOYEE BENEFIT PLAN

During the year ended December 31, 1997, the Company adopted 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. The matching contribution for the years ended December 31, 1998 and 1997 were approximately $6,300 and $2,400, respectively.

10. NET LOSS PER SHARE

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

Diluted net loss per share gives effect to all dilutive potential common shares that were outstanding during the period. The Company had a net loss for the years ended December 31, 1998, 1997 and 1996; therefore, none of the options outstanding at period end were included in the diluted net loss per share calculation for the years ended December 31, 1998, 1997 and 1996, since they were anti-dilutive.

The weighted average number of shares outstanding is as follows:

<TABLE>
<CAPTION>

Year Ended December 31,	Number of Shares
<S>	<C>
1998	3,792,308
1997	3,790,122
1996	3,784,566

</TABLE>

11. STOCK OPTIONS PLANS

The Company has issued stock options to various directors, officers, employees and others under various stock option plans. Under the terms of the plans, one third of the options become exercisable one year from the date of grant, two thirds two years from the date of grant and all options expire three years from the date of grant.

The following table summarizes stock option activity:

<TABLE>
<CAPTION>

	Stock Options	Price Per Share
<S>	<C>	<C>
Outstanding at December 31, 1995	81,000	$ .15 - $2.75
Granted	27,000	1.00
Expired or cancelled	(10,000)	.15
Exercised	(22,000)	.15
Outstanding at December 31, 1996	76,000	.15 - $2.75
Expired or cancelled	(34,000)	.15 - 1.00
Outstanding at December 31, 1997	42,000	1.00 - 2.75
Expired	(42,000)	1.00 - 2.75
Outstanding at December 31, 1998	-0-	$ -0-

</TABLE>

12. RECLASSIFICATION OF AMOUNTS

Certain amounts in the financial statements for the years ended December 31, 1997 and 1996 have been reclassified to conform to current year presentation.

SCHEDULE II

MEGATECH CORPORATION

<TABLE>
<CAPTION>

VALUATION AND QUALIFYING ACCOUNTS

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
		ADDITIONS		

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF YEAR
<S>	<C>	<C>	<C>	<C>	<C>
Year Ended December 31, 1996:					
Reserve for obsolescence	$10,000	$-0-	$-0-	$-0-	$10,000
Allowance for doubtful Accounts	$11,580	$-0-	$-0-	$-0-	$11,580
Year Ended December 31, 1997:					
Reserve for obsolescence	$10,000	$-0-	$-0-	$-0-	$10,000
Allowance for doubtful Accounts	$11,580	$-0-	$-0-	$510	$11,070
Year Ended December 31, 1998:					
Reserve for obsolescence	$10,000	$-0-	$-0-	$-0-	$10,000
Allowance for doubtful Accounts	$11,070	$-0-	$-0-	$904	$10,166

</TABLE>

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:______________________________

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/ Thomas J. Martin

Thomas J. Martin, Director

Date:____________________________

```
<TABLE> <S> <C>

<ARTICLE>                5

<S>                               <C>
<PERIOD-TYPE>                     12-MOS
<FISCAL-YEAR-END>                            DEC-31-1998
<PERIOD-START>                               JAN-01-1998
<PERIOD-END>                                 DEC-31-1998
<CASH>                                           187,580
<SECURITIES>                                           0
<RECEIVABLES>                                    101,502
<ALLOWANCES>                                      10,166
<INVENTORY>                                      399,868
<CURRENT-ASSETS>                                 708,563
<PP&E>                                           463,759
<DEPRECIATION>                                   391,614
<TOTAL-ASSETS>                                   788,374
<CURRENT-LIABILITIES>                            378,087
<BONDS>                                                0
<PREFERRED-MANDATORY>                                  0
<PREFERRED>                                            0
<COMMON>                                          54,230
<OTHER-SE>                                       356,057
<TOTAL-LIABILITY-AND-EQUITY>                     788,374
<SALES>                                        1,844,782
<TOTAL-REVENUES>                               1,844,782
<CGS>                                          1,123,575
<TOTAL-COSTS>                                    820,288
<OTHER-EXPENSES>                                       0
<LOSS-PROVISION>                                       0
<INTEREST-EXPENSE>                                   892
<INCOME-PRETAX>                                 (99,535)
<INCOME-TAX>                                           0
<INCOME-CONTINUING>                             (99,535)
<DISCONTINUED>                                         0
<EXTRAORDINARY>                                        0
<CHANGES>                                              0
<NET-INCOME>                                    (99,535)
<EPS-PRIMARY>                                    (0.026)
<EPS-DILUTED>                                    (0.026)


</TABLE>
```