

TRANSCONTINENTAL REALTY INVESTORS INC  
Form 8-K  
August 16, 2005

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act**

Date of Report: August 16, 2005

(Date of Earliest Event Reported)

**TRANSCONTINENTAL REALTY INVESTORS, INC.**

(Exact Name of Registrant as Specified in its Charter)

**001-09240**

**94-6565852**

**Nevada**

(State or other

(Commission

(I.R.S. Employer

jurisdiction of incorporation)

File No.)

Identification No.)

**1800 Valley View Lane, Suite 300**

Dallas, Texas 75234

(Address of principal executive offices)

**469-522-4200**

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the Registrant under any of the following provisions:

- G Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- G Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- G Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- G Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

## Section 2 B Financial Information

### Item 2.02. Results of Operations and Financial Condition

On August 16, 2005, Transcontinental Realty Investors, Inc. (A TCI@ or the A Company@ ) announced its operational results for the quarter ended June 30, 2005. A copy of the announcement is attached as Exhibit A 99.1.@

The information furnished pursuant to Item 2.02 in this Form 8-K, including Exhibit A 99.1@ attached hereto, shall not be deemed to be A filed@ for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, unless we specifically incorporate it by reference in a document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934. We undertake no duty or obligation to publicly-update or revise the information furnished pursuant to Item 2.02 of this Current Report on Form 8-K.

## Section 9 B Financial Statements and Exhibits

### Item 9.01. Financial Statements and Exhibits

(c) Exhibits.

The following exhibit is furnished with this Report:

Exhibit Designation	Description of Exhibit
99.1*	Press Release dated August 16, 2005

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\*Furnished herewith.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly-caused this Current Report on Form 8-K to be signed on its behalf by the undersigned hereunto duly-authorized.

Dated: August 16, 2005      TRANSCONTINENTAL REALTY INVESTORS, INC.

By: /s/ Ted P. Stokely

Ted P. Stokely

Chairman of the Board

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Total Current Liabilities

13,532,206

21,201,655

Note Payable (Note 14)

41,468

-

Due to shareholder (Note 13)

956,577

835,694

**Total Liabilities**

14,530,251

22,037,349

**STOCKHOLDERS' DEFICIT**

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Preferred stock, \$.001 par value; 100,000,000 shares authorized

no shares issued and outstanding

-

-

Common stock, \$.001 par value; 100,000,000 shares authorized

36,785,136 and 34,554,771 shares issued and outstanding (Note 15)

36,733

34,605

Additional paid-in capital

23,886,704

20,940,517

Prepaid share-based fees (Note 16)

(1,832,154

)

(2,781,743

)

Prepaid share-based compensation (Note 16)

(27,125

)

(678,125

)

Beneficial reduction of share-based liability (Note 17)

13,528,016

4,898,109

Deficit accumulated during the development stage

(49,686,455

)

(44,139,978

)

**Total Stockholders' Deficit**

) (14,094,281

) (21,726,614

**TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT**

\$ 435,970

\$ 310,734

The accompanying notes are an integral part of these consolidated financial statements.

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**AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY  
(FORMERLY AERO MARINE ENGINE, INC.)  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2007 AND 2006 (Restated)  
(WITH CUMULATIVE TOTALS SINCE INCEPTION)  
(Unaudited)**

	For the Three Months Ended March 31, 2007	For the Nine Months Ended March 31, 2007	For the Three Months Ended March 31, 2006	For the Nine Months Ended March 31, 2006	Cumulative Totals December 30, 2002 through March 31, 2007
<b>SALES</b>	\$ -	\$ -	\$ -	\$ -	\$ -
<b>COST OF SALES</b>	-	-	-	-	-
<b>GROSS PROFIT</b>	-	-	-	-	-
<b>OPERATING EXPENSES</b>					
Accounting and auditing	8,050	230,686	2,993	21,370	328,591
Administration	656	3,340	9,770	12,755	153,857
Advertising, promotion, consulting and travel (Note 18)	192,099	996,991	601,952	2,453,759	7,942,535
Beneficial share-based fee (Note 19)	139,272	417,816	139,272	417,816	2,427,304
Board compensation (Note 20)		58,590	206,460	348,750	1,330,830
Depreciation (Note 5)	4,616	10,713	2,133	3,685	57,327
Financing cost - standby equity agreement (Note 2 )	-	-	-	-	7,320,000
Legal fees (Note 21)	126,380	715,779	824,234	1,606,339	6,138,510
Insurance	11,145	47,370	19,360	31,362	94,235
Interest	17,299	33,225	1,116,206	1,893,829	167,391
Office expense	33,340	103,089	45,600	104,176	313,098
Officers' compensation (Note 22)	215,250	833,250	1,713,168	3,150,524	11,418,613
Payroll taxes	3,319	39,565	29,794	48,023	84,608
Rent	5,956	17,910	7,714	15,179	98,655
Research and development (Note 23)	-	238,395	788,577	2,028,428	5,187,964
Salaries and wages-administration	19,835	101,058	70,526	135,093	531,645
Salaries and wages-engineering	25,000	75,000	65,900	91,712	191,712

Impairment of intangible asset	-	-	-	-	3,701,347
<b>Total Operating Expenses</b>	802,217	3,922,777	5,643,659	12,362,800	47,488,222
<b>NET LOSS BEFORE OTHER INCOME (EXPENSE)</b>	(802,217)	(3,922,777)	(5,643,659)	(12,362,800)	(47,488,222)
<b>OTHER INCOME (EXPENSE)</b>					
Bank interest	(76)	(76)	-	70	(5)
Write off of worthless inventory	-	-	-	-	(266,519)
Refunds	4,000	(20,903)	-	2,587	(18,316)
Lawsuit settlements	-	-	(1,805,429)	(1,805,429)	(1,805,429)
Impairment of property and equipment	-	-	-	-	(107,964)
<b>Total Other Income (Expense)</b>	3,924	(20,979)	(1,805,429)	(1,802,772)	(2,198,233)
<b>NET LOSS BEFORE PROVISION FOR INCOME TAXES</b>	(798,293)	(3,943,756)	(7,449,088)	(14,165,572)	(49,686,455)
Provision for income taxes (Note 24)	-	-	-	-	-
<b>NET LOSS APPLICABLE TO COMMON SHARES</b>	\$ (798,293)	\$ (3,943,756)	\$ (7,449,088)	\$ (14,165,572)	\$ (49,686,455)
<b>NET LOSS PER SHARE -BASIC (Note 4)</b>	\$ (.04)	\$ (.04)	\$ (.08)	\$ (.28)	
<b>NET LOSS PER FULLY DILUTED SHARES (Note 4)</b>	\$ (.04)	\$ (.04)	\$ (.08)	\$ (.28)	

The accompanying notes are an integral part of these consolidated financial statements.

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**AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY  
(FORMERLY AERO MARINE ENGINE, INC.)  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2007 (Restated)  
(Unaudited)**

Description	Prepaid Shares & Beneficial Reduction Common		Additional Paid-In Capital	Deficit Accumulated During the Development Stage	Total Stockholders' Equity
Balance, June 30, 2006-restated (Note 2)	\$ 9,428,959	\$ 35,004	\$ 20,988,208	\$ (45,747,259)	\$ (15,295,088)
Issuance of shares for services		73	566,814		566,887
Reduction in prepaid shares	400,148				400,148
Beneficial reduction in option value outstanding	1,039,334				1,039,334
Issuance of stock for cash	-	1,017	1,674,883		1,675,900
Net loss for the three months ended September 30, 2006				(1,801,086)	(1,801,086)
Balance, September 30, 2006	\$ 10,868,441	\$ 36,094	\$ 23,229,905	\$ (47,548,345)	\$ (13,413,905)
Issuance of stock for cash	-	179	192,322		192,500
Issuance of stock for services		50	99,950		100,000
Reduction in prepaid shares	400,148				400,148
Net loss for the three months ended December 31, 2006				(1,339,817)	(1,339,817)
	\$ 11,268,589	\$ 36,323	\$ 23,522,177	\$ (48,888,162)	\$ (14,061,074)



Balance, December 31, 2006							
Issuance of stock for cash	145		144,855				145,000
Issuance of stock for services	265		219,672				219,938
Reduction in prepaid shares		400,148					400,148
Net loss for the three months ended March 31, 2007						(798,293)	(798,293)
Balance March 31, 2007	\$ 11,668,737	\$ 36,733	\$ 23,886,704	\$ (49,686,455)	\$		(14,094,281)

The accompanying notes are an integral part of these consolidated financial statements.

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**AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY**  
**(FORMERLY AERO MARINE ENGINE, INC.)**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
**FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2007 AND 2006 (Restated)**  
**(WITH CUMULATIVE TOTALS SINCE INCEPTION)**  
**(Unaudited)**

	<b>Three Months Ended March 31, 2007</b>	<b>Nine Months Ended March 31, 2007</b>	<b>Three Months Ended March 31, 2006 (Restated)</b>	<b>Nine Months Ended March 31, 2006 (Restated) See Note 2</b>	<b>Cumulative Totals December 30, 2002 through March 31, 2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net (loss)	\$ (798,293)	\$ (3,939,196)	\$ (2,846,655)	\$ 6,280,798	\$ (49,686,455)
Adjustments to reconcile net loss to net cash used in operating activities:					
Common stock issued for services	620,086	1,323,194	135,850	665,450	10,273,413
Options issued for services	-	119,500		22,750	4,350,300
Options issued as compensation	-	-			7,847,510
Warrants issued for services	-	-	150,000	150,000	6,024,218
Depreciation and amortization	4,616	10,712	2,133	5,767	57,326
Shares issued for lawsuit settlements	-	-	-	-	1,805,428
Impairment of property and equipment	0 -	0 -	-	-	107,964
Impairment of goodwill and intangibles	0-	0-	888,109	888,109	3,701,347
Write-off of inventory	-	-	-	-	266,519
<b>Changes in assets and liabilities</b>					
(Increase) in prepaid expenses and other current assets	-	24,000	171,339	(250,379)	(48,670)
Increase in accounts payable and accrued expenses	151,092	1,248,024	431,845	1,009,840	1,232,361
Total adjustments	775,794	2,725,430	1,779,276	2,491,537	35,617,716
<b>Net cash (used in) operating activities</b>	<b>(22,499)</b>	<b>(1,213,766)</b>	<b>(1,067,379)</b>	<b>3,789,261</b>	<b>(14,068,739)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Bank interest	-	-	-	-	71
Acquisition of intangible assets	-	(515)	-	(179,574)	(243,849)
Acquisitions of fixed assets	-	(119,001)	(3,065)	(22,637)	(164,833)

<b>Net cash (used in) investing activities</b>	-	(119,516)	(3,065)	(202,211)	(408,601)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from the sale of stock	145,000	2,013,400	365,993	365,993	6,501,170
Proceeds from standby equity distribution agreement	-	-	250,000	3,600,000	4,000,000
Liability for stock to be issued	(150,000)	(557,252)	-	(400,000)	190,326
Conversion of shareholder debt to equity	-	-	-	-	975,000
Proceeds from note payable	(6,134)	50,266	250,000	250,000	1,295,266
Advances from shareholders	41,000	227,712	250,000	250,000	3,014,826
Payments on shareholder loan	(33,237)	(452,772)	(153,527)	(186,092)	(2,044,249)
Advances (payments to) related company-net	-	-	-	(10,000)	301,339
Exercise of stock options	-	-	64,311	114,390	244,981
<b>Net cash provided by financing activities</b>	(3,371)	1,281,354	1,026,777	3,984,291	14,478,659
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(25,870)	(51,928)	(43,667)	(7,181)	1,319
<b>CASH AND CASH EQUIVALENTS - Beginning period</b>	27,189	53,247	43,846	7,360	-
<b>CASH AND CASH EQUIVALENTS - End Period</b>	\$ 1,319	\$ 1,319	\$ 179	\$ 179	\$ 1,319

The accompanying notes are an integral part of these consolidated financial statements.

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**AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY  
(FORMERLY AERO MARINE ENGINE, INC.)  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2007 AND 2006  
(Unaudited)**

**NOTE 1            GOING CONCERN UNCERTAINTY**

As shown in the accompanying financial statements, as is typical of companies going through the development stage, the Company incurred net losses for the three months ended March 31, 2007 and 2006 and for the period December 30, 2002 to March 31, 2007.

*The Company is currently in the development stage, and there is no guarantee whether the Company will be able to generate enough revenue and/or raise capital to support current operations and generate anticipated sales.*

This raises substantial doubt about the Company's ability to continue as a going concern. Management believes that the Company's capital requirements will depend on many factors including the success of the Company's product development efforts. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

**NOTE 2            BASIS OF PRESENTATION AND RESTATEMENT**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Dyna-Cam, Aero Marine Engine Corp. All significant inter-company accounts and transactions are eliminated.

These consolidated financial statements reflect all adjustments, including normal recurring adjustments which, in the opinion of management, are necessary to present fairly the operations and cash flows for the periods presented. In addition, the consolidated financial statements for the three months ended September 30, 2005 have been restated to reflect the following changes in accounting principles and changes due to corrections of errors.

**RESTATEMENT TO REFLECT CHANGE IN ACCOUNTING PRINCIPLE**

Effective for the reporting periods after December 15, 2005, Companies are required to account for issuance of share-based payments in accordance with Statement of Financial Standard No. 123. This statement requires companies to value issuance of common stock, stock options and stock warrants at 'fair value' upon the completion of services rendered. For public companies, this fair value is arrived at by using an 'econometric model' to take into consideration variability of stock price, tax-free interest rate and time-value of money. Common stock issued for compensation or services are valued at the publicly disclosed price at the date of valuation. Compensation expense, Attorney expense, Advertising and Promotion expense have been retroactively adjusted to reflect this valuation principle for three months ended September 30, 2005. In accordance with Standard of Financial Accounting Standards No. 154 the following changes are disclosed below:

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MARCH 31, 2007 AND 2006  
(Unaudited)**

**NOTE 2      BASIS OF PRESENTATION AND RESTATEMENT (CONTINUED)****Income Statement for the three months ended March 31, 2006:**

	As Originally Reported	As Adjusted	Effect of Change
Sales	\$ -	\$ -	\$ -
Cost of goods sold	-	-	-
Compensation	150,129	1,919,628	1,769,499
Professional and consulting	806,647	824,234	17,587
Advertising and promotions	-	601,952	601,952
Rent	7,347	7,714	367
Research and development	813,577	854,477	40,900
General and administrative	1,050,956	317,315	(733,641)
Depreciation	2,133	2,133	-
Total Expenses	2,830,789	4,527,453	1,696,664
Lawsuit settlement	-	(1,805,429)	(1,805,429)
Interest income	-	-	-
Interest expense	(15,866)	(1,116,206)	(1,100,340)
Net income (loss)	\$ (2,846,655)	\$ (7,449,088)	\$ (4,602,433)
Per Share Basic	(.08)	.07	.12
Per Share Fully Diluted	(.08)	.07	.12

In addition to the cumulative effects of the change in accounting principle above, stockholders' deficit for the year ending June 30, 2005 has been increased to reflect the discovery of an error. Previous management incorrectly recognized compensation expense of \$3,350,000 for stock options that were never issued. Other balance sheet accounts have been adjusted to reflect other immaterial but non-routine items.

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**AXIAL VECTOR ENGINE CORPORATION AND SUBSIDIARY  
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(Unaudited)**

**NOTE 2                    BASIS OF PRESENTATION AND RESTATEMENT (CONTINUED)**

**Balance Sheet  
March 31, 2006**

	As Originally Reported	As Adjusted	Effect of Change
<b>Assets</b>			
Cash	\$ 179	\$ 5,880	\$ 5,701
Deposit	22,670	22,670	-
Prepaid expenses	272,710	-	(272,710)
Total current assets	295,559	28,550	(267,009)
Property and equipment-net	38,011	38,861	850
Deferred financing costs	1,725,000	-	(1,725,000)
Intangible assets-net	243,324	243,324	-
Total Assets	\$ 2,301,894	\$ 310,734	\$ (1,991,160)
<b>Liabilities and Stockholders' Deficit</b>			
Accounts payable	\$ 1,141,259	\$ 624,466	\$ (516,793)
Current portion of note payable	3,245,000	1,245,000	(2,000,000)
Liability for stock to be issued	-	946,262	946,262
Share-based fee liabilities	-	18,015,023	18,015,023
Accrued interest - shareholder	-	69,565	69,565
Due to related company	301,339	301,339	-
Total current liabilities	4,687,589	21,201,655	16,514,057
Note payable	-	-	-
Due to shareholder	294,794	835,694	540,900
Total Liabilities	4,982,392	22,037,349	17,054,957
<b>Stockholders' Deficit</b>			
Prepaid share-based fee	-	(2,781,743)	(2,781,743)
Prepaid share-based compensation.	-	(678,125)	(678,125)
Common stock	34,554	34,605	51
Additional paid-in capital	20,410,846	20,940,517	529,671
Beneficial Reduction of Share Based Liability	-	4,898,109	4,898,109
Accumulated deficit	(23,125,898)	(44,139,978)	(21,014,080)
Total Stockholders' Deficit	(2,680,498)	(21,726,614)	(19,046,116)
Total Liabilities and Stockholders' Deficit	\$ 2,301,894	\$ 310,734	\$ (1,991,160)



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**NOTE 2            BASIS OF PRESENTATION AND RESTATEMENT (CONTINUED)**

Subsequent to the audit of financial statements for the year ended June 30, 2006, several omitted material transactions were discovered. On May 5, 2005 in connection with the standby equity finance agreement with Alliance Capital, 2,000,000 warrants, exercise price \$4.00 a share for a period of two years were authorized but not issued. This transaction was not recorded on the accounting books or financial statements of the company at June 30, 2006. The cumulative effect is to increase the accumulated deficit of the Company by \$7,320,000 at June 30, 2006. In addition, an improper accrual of accounts payable was discovered for the three months ended March 31, 2006 reducing accounts payable by \$447,565.

Accumulated deficit June 30, 2006 original	\$ (38,874,824)
Cumulated effect of Alliance warrants	\$ (7,320,000)
Incorrect accounts payable accrual	\$ 447,565
Accumulated deficit June 30, 2006 restated	\$ (45,747,259)

**NOTE 3            ORGANIZATION**

Princeton Ventures, Inc. (the "Company") was incorporated in the State of Nevada on May 10, 2001. The Company had not commenced operations. On May 30, 2003, the Company exchanged 37,994,923 shares of its common stock for all of the issued and outstanding shares of Aero Marine Engine Corp. ("Aero"). Aero was formed on March 30, 2002. Aero had no operations and was formed to acquire the assets of Dyna-Cam Engine Corporation. The Company changed its name from Princeton Ventures, Inc. to Aero Marine Engine, Inc.

At the time that the transaction was agreed to, the Company had 20,337,860 common shares issued and outstanding. In contemplation of the transaction with Aero, the Company's two primary shareholders canceled 9,337,860 shares of the Company's common stock held by them, leaving 11,000,000 shares issued and outstanding. As a result of the acquisition of Aero, there were 48,994,923 common shares outstanding, and the former Aero stockholders held approximately 78% of the Company's voting stock. For financial accounting purposes, the acquisition was a reverse acquisition of the Company by Aero, under the purchase method of accounting, and was treated as a recapitalization with Aero as the acquirer. Accordingly, the historical financial statements have been restated after giving effect to the May 30, 2003, acquisition of the Company. The financial statements have been prepared to give retroactive effect to December 30, 2002, the date of inception of Aero, of the reverse acquisition completed on May 30, 2003, and represent the operations of Aero. Consistent with reverse acquisition accounting: (i) all of Aero's assets, liabilities, and accumulated deficit, are reflected at their combined historical cost (as the accounting acquirer) and (ii) the preexisting outstanding shares



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**NOTE 3            ORGANIZATION (CONTINUED)**

of the Company (the accounting acquiree) are reflected at their net asset value as if issued on May 30, 2003.

Additionally, on June 30, 2003, the Company acquired the operating assets of Dyna-Cam Engine Corp. ("Dyna-Cam"). Dyna-Cam was a development stage enterprise developing a unique, axial cam-drive, free piston, internal combustion engine. Dyna-Cam intended to produce and sell the engine primarily for aircraft and marine applications. Dyna-Cam had not generated significant revenues at the time of the Company's acquisition.

The Company, under its new management, has raised over \$9,600,000 in cash to affect the development of the Axial Vector Engine "E" (Electronic). Management believes that significant capital is required to adequately develop the Axial Vector Engine "E" engine and begin operations. For the twelve months ended June 30, 2006, shareholders of the Company have advanced a net of \$1,515,926 to assist in funding the operations.

The Company will require additional capital. Although the current majority stockholders of the Company, as well as an affiliate, have made verbal commitments with no guarantees to continue to fund the development and sales and marketing efforts of the Company, if alternate financing cannot be obtained. There can be no assurance that any new capital will be available to the Company or that adequate funds for the Company's operations, whether from the Company's revenues, financial markets, or other arrangements will be available when needed or on terms satisfactory to the Company. The failure of the Company to obtain adequate additional financing will require the Company to delay, curtail or scale back some or all of its research and development programs, sales, marketing efforts and manufacturing operations.

On May 19, 2005, the Company announced that it had changed its name to Axial Vector Engine Corporation ("Axial"). Management believes the new name will more accurately describe the Company's mission. The Company's stock symbol changed to AXVC.

**NOTE 4            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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(Unaudited)**

**NOTE 4      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Cash Equivalents**

Cash and cash equivalents consists principally of currency on hand, demand deposits at commercial banks, and liquid investment funds having an original maturity of three months or less at the time of purchase.

**Concentration of Credit Risk**

Financial instruments that potentially subject the Company to credit risk consist of cash equivalents and accounts receivable.

The Company's policy is to review the amount of credit exposure to any one financial institution and place investments with financial institutions evaluated as being credit worthy. In the ordinary course of business, the Company has bank deposits that may exceed federally insured limits. As of December 31, 2006, the Company was not in excess of the \$100,000 insured limit.

**Property and Equipment**

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, three to seven years. Reviews are regularly performed to determine whether facts and circumstances exist that indicate the carrying amount of assets may not be recoverable or the useful life is shorter than originally estimated. The Company assesses the recoverability of its property and equipment by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

If assets are determined to be recoverable, but the useful lives are shorter than originally estimated, the net book value of the assets is depreciated over the newly determined remaining useful lives. When equipment is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in operations.

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**NOTE 4      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reclassifications**

Certain amounts for the three months ended December 31, 2005 have been reclassified to conform to the presentation of the December 31, 2006 amounts. The reclassifications have no effect on net loss for the three months ended December 31, 2005.

**Income Taxes**

The Company has adopted the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 109, Accounting for Income Taxes. The Statement requires an asset and liability approach for financial accounting and reporting of income taxes, and the recognition of deferred tax assets and liabilities for the temporary differences between the financial reporting bases and tax bases of the Company’s assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled.

**Advertising, Promotion, Consulting, and Travel Expenses**

The Company’s policy is to expense the costs of advertising, promotion, consulting, and travel expenses as they are incurred. In accordance with SFAS 123r, consulting fees paid with Common Shares or Derivatives such as Options or Warrants are expensed when requisite services have been performed and valued using an econometric model. Advertising expense for the three months ending March 31, 2007 and 2006 was \$192,099 and \$601,952, respectively.

**Research and Development**

Research and development costs are expensed as incurred.

**Intangible Assets**

During the three months ended March 31, 2007, the Company incurred no additional cost in applying and registering of patents. These patents are currently pending. Due to the nature of the patents, the Company anticipates receiving confirmation on their applications in an expedited fashion.

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**NOTE 4      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Start-up Costs**

In accordance with the American Institute of Certified Public Accountants Statement of Position 98-5, “*Reporting on the costs of Start-up Activities*”, the Company expenses all costs incurred in connection with the start-up and organization of the Company.

**Share-Based Compensation**

Employee stock awards under the Company’s compensation plans are accounted for in accordance with Statement of Financial Accounting Standards No. 123, “*Accounting for Share-Based Compensation*” (“SFAS 123”), and related interpretations. Stock-based awards to non-employees are accounted for under the provisions of SFAS 123 and the Company has adopted the enhanced disclosure provisions.

**(Loss) Per Share of Common Stock**

Historical net income (loss) per common share is computed using the weighted average number of common shares outstanding. Diluted earnings per share (EPS) include additional dilution from common stock equivalents, such as stock issuable pursuant to the exercise of stock options and warrants. Common stock equivalents are not included in the computation of diluted earnings per share when the Company reports a loss because to do so would be anti-dilutive for the periods presented.

The following is a reconciliation of the computation for basic and diluted EPS:

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**NOTE 4      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

	<b>Three Months Ended March 31, 2007</b>	<b>Three Months Ended March 31, 2006 (Restated)</b>
Net (loss)	\$ (797,772)	\$ (7,449,088)
Weighted-average common shares outstanding (Basic)	36,094,046	34,657,010
Weighted-average common stock equivalents:		
Stock warrants	2,500,000	2,075,000
Stock options	3,638,000	3,239,939
Weighted-average common shares outstanding (Fully Diluted)	42,232,046	39,971,949

**Fair Value of Financial Instruments**

The carrying amount reported in the balance sheets for cash and cash equivalents and liability for stock to be issued approximate fair value because of the immediate or short-term maturity of these financial instruments.

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs." SFAS No. 151 requires abnormal amounts of inventory costs related to idle facility, freight handling and wasted material expenses to be recognized as current period charges. Additionally, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The standard is effective for fiscal years beginning after June 15, 2005. The adoption of SFAS No. 151 did not have a material impact on the Company's financial position or results of operations.

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**NOTE 4            SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

In December 2004, FASB issued Statement of Financial Accounting Standards No. 153, Exchanges of Non-monetary Assets, an amendment of APB Opinion No. 29, Accounting for Non-monetary Transactions (" SFAS 153"). This statement amends APB Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. Under SFAS 153, if a non-monetary exchange of similar productive assets meets a commercial-substance criterion and fair value is determinable, the transaction must be accounted for at fair value resulting in recognition of any gain or loss. SFAS 153 is effective for non-monetary transactions in fiscal periods that begin after June 15, 2005. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." SFAS No. 154 replaces Accounting Principles Board ("APB") Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. APB No. 20 previously required that most voluntary changes in accounting principle be recognized by including the cumulative effect of changing to the new accounting principle in net income in the period of the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140." SFAS No. 155 resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets," and permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006.

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**NOTE 4      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Company is currently evaluating the effect the adoption of SFAS No. 155 will have on its financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140." SFAS No. 156 requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract under a transfer of the servicer's financial assets that meets the requirements for sale accounting, a transfer of the servicer's financial assets to a qualified special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale or trading securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates. Additionally, SFAS No. 156 requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, permits an entity to choose either the use of an amortization or fair value method for subsequent measurements, permits at initial adoption a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights and requires separate presentation of servicing assets and liabilities subsequently measured at fair value and additional disclosures for all separately recognized servicing assets and liabilities. SFAS No. 156 is effective for transactions entered into after the beginning of the first fiscal year that begins after September 15, 2006. The Company is currently evaluating the effect the adoption of SFAS No. 156 will have on its financial position or results of operations.

**NOTE 5      PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at March 31, 2007 and 2006:

	2007	2006
Computer	\$ 41,837	\$ 26,571
Equipment and machinery	13,274	13,274
Leasehold Improvements	5,533	
Office equipment	102,068	6,637
	162,712	46,482
Less: accumulated depreciation	(20,569)	(7,621)
	\$ 142,143	\$ 38,861

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**NOTE 5            PROPERTY AND EQUIPMENT (CONTINUED)**

Depreciation expense for the three months ended March 31, 2007 and 2006 was \$4,616 and \$2,133 respectively.

**NOTE 6            CURRENT PORTION OF NOTES PAYABLE**

\$250,000 Note payable to Twilight Bay, LLC commencing January 2006 for working capital needs. The note was due in one year and carries a stated interest rate of two percent. This note is currently in default.

\$995,000 Note payable to Transporter Inc. commencing August 2004 for the purchase of exclusive rights to certain video-conferencing technology. Original amount of Note was \$1,000,000. The Company is currently in litigation with Transporter Inc. regarding the technology for which the note was issued. The Company has defaulted on this note and this note is due in full. See Note 12 regarding the litigation of this matter.

**NOTE 7            CONTINGENT SHARE-BASED PAYMENT**

In addition to the Note Payable above, the Transporter Inc., purchase in August 2004, consisted of the issuance by the Company of 1,000,000 shares to the former shareholders of Transporter, Inc. These shares are guaranteed to have a value of \$2.00 per share for a period of 2 years. The market share value is below \$2.00 per share. There is no value placed for this contingent liability as of the reporting dates December 31, 2006 and 2005, but is disclosed for reporting purposes only.

**NOTE 8            LIABILITY FOR STOCK TO BE ISSUED**

The Company has entered into consulting contracts where the fees paid to the vendor are paid with Company common shares. An expense is recorded when the requisite service has been provided by the consultant in accordance with the consulting agreement. The expense is valued at fair market value of the services provided. At March 31, 2007 and 2006 services were provided and earned but yet to receive share payment by the company.

	Shares to be issued	Market Value
March 31, 2006	710,362	\$ 695,362
March 31, 2007	340,327	\$ 393,326



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**NOTE 9      SHARED-BASED FEE LIABILITY- WARRANTS**

The company has entered into consulting contracts where the consideration paid to the vendor is with options which are a common stock equivalent. Warrants provide the holder with the right to buy shares of Company stock at a set price (exercise price) within a set period of time.

In accordance with SFAS 123r, the Company has recognized an expense when the requisite service has been performed by the vendor. Any unexercised warrants are recorded as a liability and revalued using an econometric model at each reporting period.

Warrant #	Unexercised # Shares	Exercise Price	Until	Value at March 31, 2007	Value at March 31, 2006
11	3,000,000	0.20	5/2007	\$ 600,000	\$ 6,220,000
16-19	50,000	1.75-2.50	3/2010	\$ 117,250	\$ 284,250
12-14	35,001	3.00-5.00	10/2007	\$ 40,134	\$ -
15	250,000	4.00	11/2007	\$ 327,500	\$ -
Total				\$ 1,084,884	\$ 6,504,250

**NOTE 10      SHARED-BASED FEE LIABILITY- OPTIONS**

The company has entered into consulting contracts where the consideration paid to the vendor is with options which are a common stock equivalent. Options provide the holder with the right to buy shares of Company stock at a set price (exercise price) within a set period of time.

In accordance with SFAS 123r, the Company has recognized an expense when the requisite service has been performed by the vendor. Any unexercised options are recorded as a liability and revalued using an econometric model at each reporting period.

Option #	Price	Until	Unexercised # Shares March 31, 2007	Value March 31, 2007	Unexercised # Shares March 31, 2006	Value March 31, 2006
6	1.52	4/2010	762,000	\$ 1,760,220	2,604,820	\$ 3,559,128
8	3.00	5/2011	10,000	23,000	-	-
12	2.63	4/2011	50,000	117,000	-	-
14	2.00	7/2011	50,000	119,500	-	-
13	2.03	6/2011	350,000	836,500	-	-
Total			1,222,000	2,856,220	2,604,820	\$ 3,559,128



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**NOTE 11      SHARED-BASED COMPENSATION LIABILITY- OPTIONS**

The company has entered into compensation contracts where the consideration paid to the employee is with options which are a common stock equivalent. Options provide the holder with the right to buy shares of Company stock at a set price (exercise price) within a set period of time.

In accordance with SFAS 123r, the Company has recognized an expense when the requisite service has been performed by the employee. Any unexercised options are recorded as a liability and revalued using an econometric model at each reporting period.

Title	Option#	Unexercised #Shares	Price	Until	Value at March 31, 2007	Value at March 31, 2006
Board	1-3	279,000	.50	12/09	\$ 675,180	\$ 1,065,780
Sec/Treas	4	1,000,000	1.52	4/10	\$ 2,310,000	\$ 3,820,000
CEO	5	1,000,000	1.52	4/10	\$ 2,310,000	\$ 3,820,000
Admin	7,8-11	140,000	2.15-2.63	8/10	\$ 320,220	\$ 57,000
<b>Total</b>						