

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

ANNUAL REPORT UNDER SECTION 13 or 15(d) of the  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-17843

REGAL ONE CORPORATION

(name of small business issuer as specified in its charter)

Florida 95-4158065  
(State or other jurisdiction of (IRS Employer  
Incorporation or Organization) Identification No.)

551 Drift Stone Avenue, Las Vegas, Nevada 89123  
(Address of Principal Executive Offices) (Zip code)

Issuer's telephone number: (702) 897-5331

Securities registered under section 12(b)  
of the Exchange Act: None

Securities registered under section 12(g)  
of the Exchange Act: Common Stock, no par

Check whether the issuer (1) filed all reports required to be filed by  
Section 13 or 15(d) of the Exchange Act during the past 12 months (or 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  NO

Check here if the disclosure of delinquent filers in response to Item 405  
of Regulation S-B is not contained in this form, and no disclosure will be  
contained, to the best of the registrant's knowledge, in definitive proxy or  
information statements incorporated by reference in Part III of this 10-KSB or  
any amendment to this Form 10-KSB.

Revenues for the year ending December 31, 1998 were \$ -0-.

The aggregate market value of the voting stock held by non-affiliates of  
the Company, based upon the average bid price of the common stock on July 5,  
1999 was approximately \$436,954. As of July 5, 1999, the Company had 1,191,217  
shares of common stock issued and outstanding and 208,965 shares of convertible  
preferred stock issued and outstanding, each of which is convertible into 100  
shares of the Company's common stock.

REGAL ONE CORPORATION  
FORM 10-KSB

for the fiscal year ended December 31, 1998

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## PART I

### ITEM 1. DESCRIPTION OF BUSINESS

#### General and Background

Regal One Corporation (the "Company") is a Florida corporation originally incorporated as Electro-Mechanical Services, Inc. ("EMS") in 1959. In 1974, Mr. Israel Rubinstein, currently the President, a director and a shareholder of the Company, acquired the Company, then named EMS, which at the time had no operations. Pursuant to the merger agreement, Mr. Rubinstein transferred the assets of Regal Muffler Centers, a franchise network of over 100 muffler shops that he founded in 1972 and solely owned, into EMS. In March of 1975, EMS amended its certificate of incorporation and changed its name to Regal International Holding Co., Inc. In 1976, the Company sold substantially all of its assets, but Mr. Rubinstein retained control of the Company. In June 1988, after merging with its wholly owned Nevada Subsidiary, Regal One Corporation, the Company changed its name to Regal One Corporation, but remained a Florida entity.

From 1987 to 1992, the Company was engaged in the acquisition and holding of real estate, primarily in the Western United States. Until the end of 1992, the Company's assets consisted primarily of irrevocable options to acquire the real estate in exchange for shares of the Company's common stock. Generally, the Company would issue to the Seller of the property shares of its common stock with a fair value equal to the value of the real estate on the date of the agreement.

During 1992, due to the protracted depressed national real estate market, the Company decided to abandon its real estate operations and pursue opportunities in the pharmaceutical and health fields.

#### Xechem, Inc.

In January, 1993, the Company executed an agreement to acquire Xechem, Inc. The total costs incurred by the Company relating to the proposed investment in Xechem were approximately \$1,012,000. On January 14, 1994, the agreement with Xechem was canceled and a settlement agreement was entered into whereby the Company received 60,000 shares of common stock of Xechem, \$250,000 in cash and the satisfaction of \$131,000 of liabilities at no cost to the Company. Accordingly, based on this settlement agreement, the net realizable cost of the Xechem investment was adjusted down to the estimated fair value of \$150,000, resulting in a loss of \$142,645 in 1994. The Company then sold 20,000 shares of Xechem (one third of its investment) for \$50,000. In 1995, the Company distributed the remaining 40,000 shares of Xechem common stock to consultants or advisors of the Company for services provided to the Company.

#### Carbonex Systems Corporation

In August, 1995, the Company acquired in a reverse acquisition all of the issued and outstanding shares of common stock of Carbonex Systems Corporation ("Carbonex"), a development stage Delaware Corporation, owning certain exclusive rights to a proprietary emission reduction system for internal combustion engines. To effect the acquisition, the Company issued a total of 464,000 shares of 8.75% convertible, participating voting Series B Preferred Stock (the "Preferred Stock"). Each share of Preferred Stock is convertible into 100 shares of common stock and has 100 votes for each vote allowed to a share of common stock.

In June, 1996, the Company entered into a Stock Exchange Settlement Agreement and General Release whereby the Company exchanged all of the issued and outstanding shares of common stock of Carbonex for 255,035 shares of Preferred Stock owned by Gene Bemel and certain members of his family. As part of the agreement, the Company assumed certain specified accounts payable totaling approximately \$61,000. The net impact of this transaction was a gain on sale of \$295,803, primarily due to the forgiveness of debt and accrued interest payable (see note 3 to the Financial Statements). As a result of this transaction, the Company has issued and outstanding 208,965 shares of Preferred Stock.

#### Quality Franchise Systems, Inc.

In November, 1996, the Company executed a Letter of Intent to acquire all of the issued and outstanding stock of Quality Franchise Systems, Inc. However, a final agreement was never completed, and the Company is no longer pursuing this acquisition.

#### Safesight, Inc.

In July, 1997, the Company announced the acquisition of Safesight, Inc., a development-stage company engaged in the design of vehicle anti-collision warning products for the automobile, commercial vehicle, recreational vehicle and motorcycle markets. In August, 1997, the parties elected not to proceed with this transaction because of the parties' inability to obtain adequate funding for operations.

#### Current Operations

In April, 1998, the Company entered into an agreement to merge a newly formed subsidiary of the Company with Infectech, Inc. ("Infectech"). Infectech, founded In 1989, is a development-stage biotechnology company which owns 15 patents for the rapid identification and antibiotic sensitivity testing of 34 disease-causing bacteria. On August 5, 1998, the Company announced that Infectech, Inc. had unilaterally acted to terminate the merger

agreement between the two parties. Infectech stated as its reason that it had not been successful in raising the requisite \$300,000 prior to June 30, 1998. Infectech further notified the Company that it proposed to arbitrate the return of \$56,000 paid by Infectech for legal fees and certain other merger-related expenses of the Company, as per the merger agreement. On November 18, 1998, the Company and Infectech, Inc. resolved the matter subject to arbitration, with the Company issuing 10,000 shares of restricted common stock to Infectech, Inc. on November 24, 1998.

#### Employees

Mr. Israel Rubinstein has been President, Chief Executive Officer and a Director of the Company since 1975, except for the period from August 7, 1995 to June 1, 1996, when Mr. Gene Bemel was President as part of the Carbonex acquisition. The Company has no full-time employees and no employee of the Company earned in 1997, or is currently earning annually, as much as \$50,000. (See Item 10, "Executive Compensation")

#### ITEM 2. DESCRIPTION OF PROPERTY

As of December 31, 1998, the Company did not and currently does not own or lease any real property.

The Company's current street and mailing address is:

Regal One Corporation  
551 Driftstone Avenue  
Las Vegas, NV 89123  
(702) 897-5331

The Company did not and currently does not have any tangible fixed assets as of December 31, 1998

#### ITEM 3. LEGAL PROCEEDINGS

The Company has no current legal proceedings pending.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

For the fourth quarter of the fiscal year ending December 31, 1998, there were no matters submitted to a vote of security holders through the solicitation of proxies or otherwise.

#### PART II

#### ITEM 5. MARKET FOR COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

##### Market Information

The Company's shares of common stock trade on the OTC Bulletin Board under the symbol "RONE". The following table sets forth the range of high and low bid quotes of the Company's common stock per quarter as provided by NASDAQ Trading and Marketing Services (which reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessary represent actual transactions).

Common Stock	1998		1997		1996	
	High	Low	High	Low	High	Low

Quarter ended:

March 31:	1.28	.3125	.75	.688	2.25	.375
June 30:	1.4375	.625	1.50	.50	1.625	.3125

September 30: .875 .25 1.23 .583 .75 .375  
December 31: .375 .25 .563 .313 1.3125 .325

Quarter ended March 31, 1999:

High: .5625  
Low: .25

#### Shareholders

As of July 5, 1999, there were approximately 604 shareholders of record, inclusive of those brokerage firms and/or clearing houses holding the Company's common shares in "street name".

#### Dividend Matters

The Company has not paid or declared any dividends upon its common stock since its inception, and does not contemplate or anticipate paying any dividends in the foreseeable future. Any future declaration of cash or stock dividends will be at the discretion of the Board of Directors and will depend upon the financial condition, capital requirements, earnings, and liquidity of the Company as well as other factors that the Board of Directors may deem relevant.

#### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS AND PLAN OF OPERATION

The following discussion should be read in conjunction with the Company's financial statements and notes thereto included in Item 7 of this Form 10-KSB report.

The Company was incorporated in 1959 in Florida. Since that time, the Company has owned and operated, and subsequently sold off, a number of businesses. During 1987, the Company pursued a policy of using its common stock to purchase, either in fee simple or as an irrevocable option to purchase, a number of parcels of real estate, in the form of commercial, industrial, residential and development stage land parcels. In 1992, market conditions for real estate were no longer deemed to be favorable and the Company decided to abandon its real estate operations and pursue other courses of operation.

In January, 1993, the Company agreed to acquire Xechem, Inc., a development-stage company engaged in the research and development of pharmaceuticals from plants and other naturally-occurring sources. However, the transaction was terminated in January, 1994 pursuant to a settlement agreement.

In August, 1995, the Company acquired all of the issued and outstanding common stock of Carbonex Systems Corporation ("Carbonex"). In June, 1996, the Company entered into a Stock Exchange, Settlement Agreement and General Release whereby the Company exchanged with its then-principal shareholders, Gene Bemel and members of his family, all of the issued and outstanding common stock of Carbonex for 255,035 shares of Preferred Stock.

In November, 1996, the Company executed a Letter of Intent to acquire all of the issued and outstanding stock of Quality Franchise Systems, Inc. However a final agreement was never completed and the Company is no longer pursuing this acquisition.

In July, 1997, the Company announced the acquisition of Safesight, Inc., a development-stage company engaged in the design of vehicle anti-collision warning products. However, in August, 1997, the parties elected not to proceed with the transaction because of the inability to obtain adequate funding for operations.

In April, 1998, the Company entered into an agreement to merge a newly formed subsidiary of the Company with Infectech. Infectech, founded in 1989, is a development-stage biotechnology company which owns 15 patents for the rapid identification and antibiotic sensitivity testing of 34 disease-causing bacteria.

On August 5, 1998, the Company announced that Infectech, Inc. had unilaterally acted to terminate the merger agreement between the two parties. Infectech stated as its reason that it had not been successful in raising the requisite \$300,000 prior to June 30, 1998. Infectech further notified the Company that it proposed to arbitrate the return of \$56,000 paid by Infectech for legal fees and certain other merger-related expenses of the Company, as per the merger agreement. On November 18, 1998, the Company and Infectech, Inc. resolved the matter subject to arbitration, with the Company issuing 10,000 shares of restricted common stock to Infectech, Inc. on November 24, 1998. (See Item 1, "Description of Business - Current Operations")

#### Plan of Operation

Through December 31, 1998, the Company had no active business operations but continued to pursue acquisition candidates. The independent auditor's report for the fiscal year ended December 31, 1997 will include an explanatory paragraph calling attention to a going concern issue. The Company has suffered recurring losses and, at December 31, 1998, has a stockholders' deficit. The Company's ability to continue as a going concern depends upon the Company obtaining additional financing to satisfy the operating needs of the Company and/or complete a successful merger.

#### Liquidity and Capital Resources - December 31, 1998 Compared to December 31, 1997

During the current year, the Company had continuing losses from operations. There can be no assurances that the Company will be able to secure long-term borrowings with which to finance its future operations. The Company does not currently have any established bank lines of credit. The Company's lack of liquidity is reflected in the table below, which shows comparative working capital (current assets less current liabilities) which is an important measure of the Company's ability to meet its short-term obligations.

	December 31, 1998	December 31, 1997
--	-------------------	-------------------

Working Capital (deficit)	\$ (187,151)	\$ (108,752)
---------------------------	--------------	--------------

The Company's financial condition at December 31, 1998 reflects an immediate inability to meet its short-term obligations. At December 31, 1998, the Company had \$4,818 cash on hand. The liabilities of the Company at December 31, 1998 aggregated \$191,969, consisting primarily of accounts payable to accountants, lawyers and other service providers. Accounts payable are due and in default, and it is possible that persons to whom these obligations are due may seek to collect the amounts due them.

The Company's Stock Option Plan is for its employees, directors, officers, and consultants or advisors of the Company. In May, 1995, the Company filed a registration statement on Form S-8 covering 3,000,000 shares of common stock for this Plan. Since May, 1995, holders have exercised options to purchase 548,506 shares of common stock. No options were exercised during the year ended December 31, 1998, leaving 2,451,494 yet available, with an amended expiration date of March 31, 1999. (See the Company's 14c, filed April 8, 1998).

#### Capital Expenditures and Commitments

During the fiscal year ended December 31, 1998, the Company had no capital expenditures. The amount of capital expenditures required is uncertain, and may be beyond that generated from future operations. There can be no assurance that the Company will be able to obtain any such capital or merger acquisition candidate on satisfactory terms.

Results of Operations - The fiscal year ended December 31, 1998 compared to the fiscal year ended December 31, 1997.

The Company reported no revenues for the current or prior year. During the years ended December 31, 1998 and 1997, operating expenses were \$103,397 and \$67,666, respectively, primarily consisting of professional and consulting fees. During the year ended December 31, 1998, the Company had other income of \$25,000, resulting from expenses paid by Infectech, Inc. (See Item 1, "Description of Business"). As a result, the Company reported net losses of \$78,397 and \$67,666, for the years ended December 31, 1998, and 1997, respectively.

#### Year 2000 Issues

Because many computer systems use only two digits to record the year in date fields, such systems may not be able to accurately process dates including the year 2000 and after. The effects of this problem will vary from system to system and may adversely affect a company's operations as well as the ability to prepare financial statements. In order to determine the impact that Year 2000 issues have on the Company, (1) a complete assessment of all systems potentially affected by Year 2000 issues needs to be completed, and (2) management needs to determine the consequences that its Year 2000 issues would have on its business, results of operations, and financial condition. The Company's assessment of its Year 2000 issues includes addressing whether third parties with whom the Company has a material relationship are Year 2000 compliant.

Although the Company has not completed any evaluation of its Year 2000 issues or assessed third party issues, since the Company currently has no operations and is not reliant on internal computer systems for any matters, it believes that the impact of Year 2000 issues will have an immaterial effect on its business, results of operations, and financial condition.

#### Factors that may affect future results

A number of uncertainties exist that may affect the Company's future operating results, including the possibility of uncertain general economic conditions, market acceptance of the Company's planned future operations, the Company's ability to manage expense growth and the ability to acquire long-term funding (including costs of the Infectech merger).

### ITEM 7. FINANCIAL STATEMENTS

The following financial statements listed in the table below have been prepared in accordance with the requirements of Item 310 (a) of Regulation SB (see Item 13).

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Balance Sheet at December 31, 1998	F-3
Statement of Operations for the fiscal years ended December 31, 1998 and December 31, 1997	F-4
Statements of Shareholders' Equity (Deficit) for the fiscal years ended December 31, 1998 and December 31, 1997	F-5
Statement of Cash Flows for the fiscal years ended December 31, 1998 and December 31, 1997	F-6
Notes to the Financial Statements	F-8

### ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no disagreements with accountants with respect to

accounting and/or financial disclosure for any periods reported on in this Form 10-KSB.

### PART III

#### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS: COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The following table sets forth certain information concerning the current directors and executive officers of the Company:

Name	Age	Position
Israel Rubinstein	71	President, Chief Executive Officer and Director
Dr. Malcolm R. Currie	72	Chairman of the Board
Richard Babbitt	73	Secretary, Treasurer and Director
Michael Platt	57	Director

Each director holds office for a one-year term until his successor has been elected and qualified at the annual meeting of the Company's shareholders. The members of the Board of Directors serve without remuneration. Corporate Officers are elected by the Board of Directors and serve at the discretion of the Board.

Israel Rubinstein has been President, Chief Executive Officer and a Director of the Company since 1975, except for the period from August 7, 1995 to June 1, 1996, when Mr. Gene Bemel was President as part of the Carbonex acquisition. From 1977 to 1984, Mr. Rubinstein owned and operated several travel agencies and was also involved in real estate development projects in Southern California. In 1972, Mr. Rubinstein founded Regal Mufflers Centers, a franchise network which grew to over 100 muffler shops by 1976. This network was subsequently merged into the Company. Previously, in 1961, Mr. Rubinstein formed Lawn-Mat Chemical and Equipment Corporation, the first Company to utilize automated mechanical equipment to serve suburban property owners' demand for landscaping and lawn care services.

Dr. Malcolm Currie was appointed as Chairman of the Board of Directors of the Company in August, 1995. From 1969 to 1973, Dr. Currie was the Undersecretary of Research and Engineering for the Office of Defense. From 1973 to 1977, Dr. Currie was President of the Missile Systems Group for Hughes Aircraft Corporation. From 1977 to 1988, Dr. Currie started as Executive Vice President and eventually became Chief Executive Officer and Chairman of the Board of Delco Electronics Corporation. From 1992 to present, Dr. Currie has been Chairman Emeritus of Hughes Aircraft Corporation. Dr. Currie is also on the Board of Directors of Unocal Oil. Dr. Currie obtained a graduate MBA from the University of California, Berkeley, and a PhD in Research Engineering at the University of California, Berkeley.

Richard Babbitt was appointed as the Secretary and Treasurer and a member of the Board of Directors of the Company in August, 1995. Mr. Babbitt has been the President of the Medical Supply Company, BI Industries, American Safety Equipment Corporation, and BI Advisors. Mr. Babbitt is an international marketing consultant to Teikuro Corporation and Cosmo Corporation in Japan. Mr. Babbitt is also a member of the Board of Directors of Unisyn Biowaste Technology and Interstate Safety Corporation. Mr. Babbitt obtained an undergraduate degree from Purdue University.

Mr. Michael E. Platt was appointed as a member of the Board of



the Directors of the Company in August, 1995. Michael E. Platt is President of Fresh Food Ventures, Inc. Mr. Platt co-founded Peerless Industrial Group, Inc. ("Peerless") in 1983, and was responsible for building it to an organization of more than 500 people, raising capital, taking the company public in 1985 and developing 12 Fuddruckers Restaurants in four Midwestern states. In 1994, Peerless sold its Fuddruckers Restaurants and in 1995 completed the acquisition of the Peerless Chain Company, a major domestic marketer of various chain products. Mr. Platt served as a Director of New Products for Kentucky Fried Chicken Corporation, and in various marketing positions at General Foods Corporation.

#### Compliance with Section 16 of The Securities Exchange Act 1934

To the Company's knowledge, based on a review of such materials as are required by the SEC, no officer, director, or beneficial holder of more than five percent of the Company's issued and outstanding shares of common stock has filed with the SEC any form or report required to be so filed pursuant to section 16(a) of the Securities Exchange Act of 1934 during the fiscal year ended December 31, 1998 or prior thereto (see Item 11 for a list of the Company's officers, directors and beneficial holders of more than five percent of the Company's issued and outstanding shares of common stock).

Based solely on a review of such materials as is required by the SEC, the Company is not aware of any transactions that were not reported.

#### ITEM 10. EXECUTIVE COMPENSATION

There was no cash compensation paid by the Company to the executive officers of the Company for the fiscal years ended December 31, 1998 and 1997.

#### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The persons set forth on the chart below are known to the Company to be the beneficial owners of more than five percent of the Company's outstanding voting common stock as of July 5, 1999. Information concerning the number and percentage of shares of voting common stock of the Company owned on record and beneficially by management is set forth on the chart below:

Name and Address of beneficial owner	Shares of common stock beneficially owned	Percent of common stock owned
Israel and Ahuva Rubinstein 551 Drift Stone Avenue Las Vegas, Nevada 89123	131,840	10.9%
Yifal Shaham 9720 Holcolm Street Los Angeles, CA 90035	60,625	5.0%
All Directors and Officers as a group (4 persons)	131,840	10.9%

(1) Based upon 1,196,342 shares of common stock issued and outstanding as of July 5, 1999. This does not take into account 208,965 shares of Preferred stock representing in the aggregate 24,296,500 common shares votes. Each share of Preferred Stock is convertible into 100 shares of voting common stock. Of the Preferred Stock outstanding, 96,750 shares (46.3%) are held by the Directors of the Company (Dr. Malcolm Currie, 30,000 shares; Richard Babbit, 30,000 shares; Michael Platt, 36,750 shares).

## ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

## ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

### Exhibits

None.

A copy of any of the exhibits listed or referred to above will be furnished at a reasonable cost to any person who was a shareholder of the Company on March 31, 1998 upon receipt from any such person of written request for any such exhibit. Such request should be sent to the Company with the attention directed to the Corporate Secretary.

### Reports on Form 8-K

In April, 1998, the Company entered into a Plan and Agreement of Merger with Infectech, a Delaware Corporation ("Infectech"). The Company would have issued approximately 26,320,520 Shares of common stock to Infectech's stockholders so that on the effective date of the merger, the shareholders of Infectech would own, in the aggregate, 85% of the common stock of the Company. Upon closing, the Company would have changed its name to Infectech, Inc., and the shareholders of Regal One as a group would own 15%. The Board of Directors of Infectech would have become the Board of Directors of the Company. For each share of Infectech's issued and outstanding common stock, its stockholders would have received approximately 3.01 shares of Regal One common stock, subject to further adjustment downward for issuances of securities by Infectech pursuant to stock options, consulting agreements or other private offerings. The Company was to cause holders of its Preferred Stock to convert their shares into an aggregate of not more than 3,447,923 shares of common stock, which together with a current 1,196,342 Shares of common stock outstanding, would have resulted in a total of 30,964,785 shares to be outstanding upon closing of the merger. The transaction was contingent upon the approval of the shareholders of both companies, upon certain regulatory approvals and other conditions. One condition of the merger was that the Securities and Exchange Commission must declare effective the Company's registration of the Shares of common stock to be issued to Infectech. Another condition of the merger was that Infectech raise a minimum of \$300,000 through an offering or other funding source prior to June 30, 1998. On August 5, 1998, the Company announced that Infectech unilaterally acted to terminate the merger agreement between the two parties. Infectech stated as its reason that it had not been successful in raising the requisite \$300,000 prior to June 30, 1998. Infectech further notified the Company that it proposed to arbitrate the return of \$56,000 paid by Infectech for legal fees and certain other merger-related expenses of the Company, as per the merger agreement. On November 18, 1998, the Company and Infectech resolved the matter subject to arbitration, with the Company issuing 10,000 shares of restricted common stock to Infectech on November 24, 1998.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the Company has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

REGAL ONE CORPORATION

Date: July 15, 1999

/s/ Israel Rubinstein

Israel Rubinstein, President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Company and in the capacities end on the dates indicated.

Signatures	Title	Date
/s/ Israel Rubinstein Israel Rubinstein	President, Principal Executive Officer and a Director	July 15, 1999
/s/ Malcolm R. Currie Dr. Malcolm R. Currie	Chairman of the Board, and a Director	July 15, 1999
/s/ Richard Babbitt Richard Babbitt	Secretary, Treasurer and a Director	July 15, 1999
/s/ Michael E. Platt Michael E. Platt	Director	July 15, 1999

Albright, Persing & Associates, Ltd.  
CERTIFIED PUBLIC ACCOUNTANTS  
1025 Ridgeview Dr., Suite 300  
Reno, Nevada 89509  
Phone (775) 826-5432  
FAX (775) 826-5510

#### REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

Board of Directors  
Regal One Corporation

We have audited the accompanying balance sheets of Regal One Corporation as of December 31, 1998 and 1997, and the related statements of income and comprehensive income, stockholders' equity (deficit) and cash flows for the years then ended. 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 statement. 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 that our audit provides a reasonable basis for our opinion.

As explained in Note 9, the Company must provide Year 2000 disclosure in the notes to the financial statements if (1) the Company's assessment of its Year 2000 issues is not complete, or (2) management determines that the consequences of its Year 2000 issues would have a material effect on the Company's business, results of operations, or financial condition. The Company claims, in Note 9, that, since it has no current operations and it does not rely on internal computerized systems for any matters, it will be unaffected by Year 2000 concerns. We have been unable to satisfy ourselves as to the accuracy of that representation.

In our opinion, except for the representation in Note 9 as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Regal One Corporation as of December 31, 1998 and 1997 and the results of its operation and its cash flows

for the year then ended in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Regal One Corporation will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's ability to generate sufficient cash flows to meet its obligations, either through future revenues and/or additional debt or equity financing, cannot be determined at this time. In addition, the Company has suffered recurring losses and at December 31, 1998 and 1997, has a stockholders' deficit. These uncertainties raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. These financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

Reno, Nevada  
May 27, 1999

REGAL ONE CORPORATION  
BALANCE SHEETS  
December 31, 1998 and 1997  
(See Accountants' Audit Report)

<TABLE>

<S>	<C> 1998	<C> 1997
<b>ASSETS</b>		
Current Assets		
Cash	\$ 4,818	\$ 55
	-----	-----
	4,818	55
	-----	-----
Other Assets		
Deferred tax asset, net	-	-
	-----	-----
Total Assets	\$ 4,818	\$ 55
	=====	=====
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current Liabilities		
Due to stockholders	\$ 54,190	\$ 2,411
Accounts payable and accrued liabilities	137,779	106,398
	-----	-----
Total Current Liabilities	191,969	108,809
	-----	-----
Stockholders' Equity (Deficit)		
Preferred stock, no par value.		
Authorized 50,000,000 shares;		
issued and outstanding 208,965		
shares in 1998 and 1997	500	500
Common stock, no par value.		
Authorized 50,000,000 shares;		
issued and outstanding 1,191,217		
shares in 1998 and 1,196,342		
shares in 1997	5,997,113	5,941,113
Accumulated deficit	(6,184,764)	(6,050,367)
	-----	-----
Net Stockholders' Equity (Deficit)	(187,151)	(108,754)
	-----	-----
Total Liabilities and Stockholders'		
Equity (Deficit)	\$ 4,818	\$ 55

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

</TABLE>

REGAL ONE CORPORATION  
 STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
 Years Ended December 31, 1998 and 1997  
 (See Accountants' Audit Report)

<TABLE>

<S>	<C> 1998	<C> 1997
Expenses:		
Consulting and outside services	\$ 51,543	\$ 14,575
Professional services	79,711	48,674
Other, selling, general and administrative expenses	3,143	4,417
	-----	-----
	134,397	67,666
	-----	-----
Net Loss Before Extraordinary Item	(134,397)	(67,666)
	-----	-----
Extraordinary item - gain on extinguishment of debt (net of income tax of \$0)	-	15,690
	-----	-----
Net Income (Loss)	\$ (134,397)	\$ (51,976)
Other Comprehensive Income	-	-
	-----	-----
Comprehensive (Loss)	(134,397)	(51,976)
	=====	=====
Basic and Diluted Loss per Share Before Extraordinary Gain	\$ (.11)	\$ (.05)
	=====	=====
Extraordinary Gain	\$ -	\$ .01
	=====	=====
Basic and Diluted Net Loss per Common Share	\$ (.11)	\$ (.04)
	=====	=====

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

</TABLE>

REGAL ONE CORPORATION  
 STATEMENTS OF STOCKHOLDERS' DEFICIT  
 Years Ended December 31, 1998 and 1997  
 (See Accountants' Audit Report)

<TABLE>

<S>	<C>	<C>	<C>	<C>	<C>	<C>
					Net Stockholders'	
	Preferred Stock Shares	Amount	Common Stock Shares	Amount	Accumulated Deficit	Equity (Deficit)
Balance, December 31, 1995	464,000	\$ 500	1,024,674	\$5,801,113	\$(6,047,213)	\$ (245,600)
Return of series B preferred stock in connection with sale of Carbonex Systems	(255,035)	-	-	-	-	-

Warrants exercised for the purchase of common stock during 1996	-	-	159,901	130,000	-	130,000	
Warrants exercised for the purchase of common stock during 1996	-	-	12,300	10,000	-	10,000	
Net Income	-	-	-	-	48,822	48,822	
Balance, December 31, 1996	208,965	500	1,196,875	5,941,113	(5,998,391)	(56,778)	
Adjustment to number of shares for prior stock split	-	-	(533)	-	-	-	
Net (Loss)	-	-	-	-	(51,976)	(51,976)	
Balance, December 31, 1997	208,965	500	1,196,342	5,941,113	(6,050,367)	(108,754)	
Stock issued for cash	-	-	10,000	56,000	-	56,000	
Adjustment to number of shares for share cancellations never reissued	-	-	(15,125)	-	-	-	
Net (Loss)	-	-	-	-	(134,397)	(134,397)	
Balance, December 31, 1998	208,965	500	1,191,217	\$5,997,113	\$(6,184,764)	\$(187,151)	

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

</TABLE>

REGAL ONE CORPORATION  
STATEMENTS OF CASH FLOWS  
December 31, 1998 and 1997  
(See Accountants' Audit Report)

<TABLE>

<S>	<C> 1998	<C> 1997
Cash flows from operating activities:		
Net income (loss)	\$ (134,397)	\$ (51,976)
Adjustments to reconcile net loss to net cash used by operating activities:		
Noncash consulting fees	42,000	-
Expenses paid by officer	814	-
Increase (Decrease) in accounts payable and accrued liabilities	31,381	36,881
Total Adjustments	74,195	36,881
Net cash used by operating activities	(60,202)	(15,095)
Cash flows from financing activities:		
Proceeds from sale of stock	56,000	-
Proceeds from stockholder loans	8,965	-
Net cash provided (used) by financing activities	64,965	-

Net increase (decrease) in cash	4,763	(15,095)
	-----	-----
Cash at beginning of year	55	15,150
	-----	-----
Cash at end of year	\$ 4,818	\$ 55
	=====	=====

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

</TABLE>

REGAL ONE CORPORATION  
STATEMENTS OF CASH FLOWS  
December 31, 1998 and 1997  
(See Accountants' Audit Report)

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

	1998	1997
Cash paid during the year for interest	\$ -	\$ -
	=====	=====
Cash paid during the year for income taxes	\$ -	\$ -
	=====	=====

SUPPLEMENTAL DISCLOSURE OF OTHER INVESTING AND FINANCING ACTIVITIES:

During 1998, an officer of the Company paid expenses of \$814.

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

REGAL ONE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 1998 and 1997

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Business

Regal One Corporation (the "Company") located in Las Vegas, Nevada, is a Florida Corporation originally incorporated as Electro-Mechanical Services, Inc., in 1959 in Florida. The Company has been involved in a variety of industries including automobile mufflers, real estate, and the pharmaceutical and health fields. The Company is currently not in formal business operations, but is actively seeking a merger candidate.

The Company has not generated significant revenue during the years ended December 31, 1998 and 1997, and has funded its operation primarily through the issuance of equity. Accordingly, the Company's ability to accomplish its business strategy and to ultimately achieve profitable operations is dependent upon its ability to obtain additional debt or equity financing, or to merge with a going concern Company. There can be no assurance that the Company will be able to obtain additional funding, and, if available, will be obtained on terms favorable to or affordable by the Company. The Company's management is currently exploring a merger option. Ultimately, however, the Company will need to achieve profitable operations and/or merge with a going concern Company in order to continue as a going concern.

In addition, the Company has suffered recurring losses and at December 31, 1998 has a shareholders' deficit. These factors indicate that the Company's ability to continue as a going concern is dependent upon the Company obtaining additional financing to satisfy the operating needs of the Company. The

Company is seeking a merger candidate and believes that a successful merger will occur in the near future.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

#### 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 these estimates.

#### Fair Value of Financial Instruments

Effective July 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments" ("SFAS No. 107"). The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values. Active markets for the Company's other financial instruments that are subject to the fair value disclosure requirements of SFAS No. 107 do not exist and there are no quoted market prices for these instruments. Accordingly, it is not practicable to estimate the fair values of such financial instruments because of (1) the limited information available to the Company, (2) the significance of the cost to obtain independent appraisals for this purpose, and (3) due to the immateriality of such amounts.

#### Income Taxes

In February, 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). SFAS No. 109 required a change from the deferred method of accounting for income taxes of APB Opinion 11 to the asset and liability method of accounting for income taxes. Under the asset and liability method of SFAS No. 109, 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. 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. Under SFAS No. 109, 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.

Effective January 1, 1993, the Company adopted SFAS No. 109. The application of SFAS No. 109 had an immaterial effect on the Company's financial statements for the periods prior to January 1, 1993 due to operating losses incurred by the Company in 1993 and prior years.

#### Concentrations of Credit Risk

Financial instruments which potentially subject the Company to credit risk consist primarily of cash in bank. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits.

#### Earnings per share

In February, 1997, the Financial Accounting Standards Board issued SFAS No. 128, Earnings per Share. SFAS No. 128 simplifies the standards for computing earnings per share ("EPS") and was effective for financial statements issued for periods ending after December 15, 1997, with earlier application not permitted. Upon adoption, all prior EPS data was restated.



Basic EPS is determined using net income divided by the weighted average shares outstanding during the period. Diluted EPS is computed by dividing net income by the weighted average shares outstanding, assuming all dilutive potential common shares were issued.

Since the fully diluted loss per share for 1998 and 1997 was antidilutive, basic and diluted earnings per share are the same. Accordingly, options to purchase common stock in 1998 and 1997 of 2,451,494 shares, and 20,896,500 common shares potentially issuable upon conversion of preferred stock existing at the end of 1998 and 1997 were not included in the calculation of diluted earnings per common share.

#### Comprehensive Income

In June, 1997, the Financial Accounting Standards Board issued SFAS No. 130, Reporting Comprehensive Income. SFAS No. 130 establishes standards for reporting and presentation of comprehensive income and its components in a full set of general-purpose financial statements. This statement does not, however, require a specific format for the disclosure, but requires the Company to display an amount representing total comprehensive income for the period in its financial statements. Comprehensive income is determined by adjusting net income by other items not included as a component of net income, such as the unrealized gain (loss) on certain marketable securities. During the periods presented, the Company had no additional components that were not a part of net income (loss), therefore, comprehensive income and net income are the same amount.

#### NOTE 2 - ACQUISITION OF CARBONEX SYSTEMS CORPORATION

On August 7, 1995, the Company acquired all the outstanding shares of common stock of Carbonex Systems Corporation ("Carbonex"), in a business combination accounted for as a purchase. Carbonex Systems Corporation is a development stage Delaware corporation owning certain exclusive rights to a proprietary emission reduction system for internal combustion engines. The results of operations of Carbonex Systems Corporation is included in the accompanying financial statements since the date of acquisition. The total cost of the acquisition was \$-0-, because the fair market value of the assets of Carbonex Systems was equal to the liabilities assumed.

During 1996, the Company entered into a "Stock Exchange, Settlement Agreement, and General Release", effective June 1, 1996. The agreement called for the exchange of all the outstanding Carbonex shares acquired in the above acquisition for 255,035 shares of the Company's Preferred Series B stock issued to effect the acquisition. The transaction resulted in a gain of \$295,803, which has been included in operations in 1996. The Company's share of the equity in the undistributed earnings (loss) of Carbonex Systems for 1996, through the date of sale, was \$(246,227), and is included in other income.

Following is a summary of net assets and results of operations of Carbonex Systems as of June 1, 1996, and for the periods then ended:

Cash and cash equivalents	\$	70
Receivables		1,960
Patent, net of accumulated amortization		2,858,738
		-----
Total Assets		2,860,768
Accounts payable		(66,095)
Contracts payable		(2,800,000)
Other current liabilities		(762,930)
		-----
Net Assets	\$	(768,257)
		=====
Sales and other revenue	\$	-
Expenses		246,227
		-----
Income before income taxes		(246,227)
Income taxes		-

-----  
 Net Loss                    \$ (246,227)  
 =====

NOTE 3 - PATENT RIGHTS

The Company had a license and Patent Assignment Agreement which grants it an exclusive worldwide license to a proprietary emission reduction system for internal combustion engines upon full payment of \$3,000,000 plus interest at a rate of 6% per annum payable over an 18 month period. The patent is being amortized over its estimated life of 18 years. The following is a recap of the patent:

	1997	1996
Patent cost	\$ -	\$ -
Less: accumulated amortization	-	-
	-----	-----
Net Patent Cost	\$ -	\$ -
	=====	=====

In 1996, the patent was sold along with the sale of Carbonex (see Note 2).

NOTE 4 - CONTRACT PAYABLE

As a part of the acquisition of Carbonex (see Note 2), the Company assumed the License and Patent Assignment Agreement between Carbonex and the patent inventor. The agreement obligates Carbonex to pay the inventor, who is the brother of the Chairman of the Board of Carbonex and the Chief Executive Officer of the Company, \$3,000,000 within 18 months, after which Carbonex will own the issued patent together with all other proprietary rights thereto. This note was transferred to Carbonex's responsibility on June 1, 1996 (Note 2).

NOTE 5 - STOCKHOLDERS' DEFICIT

The authorized number of shares of preferred stock is 50,000,000. The Company's bylaws allow for segregating this preferred stock into separate series. As of December 31, 1998, the Company has authorized 50,000 shares of series A preferred stock and 464,000 shares of series B convertible preferred stock. At December 31, 1998 and 1997, there were no outstanding shares of series A preferred stock. At December 31, 1998 and 1997, 208,965 shares of series B preferred stock were outstanding.

Holders of series A preferred stock shall be entitled to voting rights equivalent to 1,000 shares of common stock. The series A preferred stock has certain dividend and liquidation preferences over common stockholders.

Holders of series B preferred stock shall be entitled to voting rights equivalent to 100 shares of common stock. The series B preferred stock is entitled to a noncumulative dividend of 8.75% of revenues which exceed \$5,000,000. At the option of the holder of series B preferred stock, each share can be converted to common stock at a rate of 100 shares of common for each share of preferred.

As of December 31, 1998 and 1997, no dividends have been declared on the series A or series B convertible preferred stock.

NOTE 6 - STOCK OPTIONS

On May 3, 1995, the Company adopted a stock option plan to provide incentives to those individuals who serve or have served the Company as employees, officers, directors or consultants. Under the plan, the Board of Directors is authorized to grant option to individuals who have contributed, or will contribute to the well being of the Company.

The Company applies APB Opinion 25 in accounting for its fixed stock option plan. Accordingly, since the market value and the option price of the

Company's stock were equal on the measurement date, no compensation cost has been recognized for the plan in 1997 or 1996. Had compensation cost been determined on the basis of fair value pursuant to FASB Statement No. 123, net income (loss) and earnings per share would have been impacted as follows:

	1998	1997
Net Income (Loss)		
As reported	<u>\$ (134,397)</u>	<u>\$ (51,976)</u>
Pro forma	<u>\$ (338,246)</u>	<u>\$ (663,524)</u>
Basic Earnings Per Share		
As reported	<u>\$ (.11)</u>	<u>\$ (.04)</u>
Pro forma	<u>\$ (.29)</u>	<u>\$ (.55)</u>
Diluted Earnings Per Share		
As reported	<u>\$ (.11)</u>	<u>\$ (.04)</u>
Pro forma	<u>\$ (.29)</u>	<u>\$ (.55)</u>

For purposes of estimating the fair value of each option granted in accordance with FASB 123, the Black-Scholes Model was used. The following assumptions were made in estimating fair value:

Dividend yield	0%
Risk-free interest rate	5.50% to 8.50%
Expected life	3 years
Expected volatility	124.42%

Compensation expense that would have been charged to operations had the provisions of FASB 123 been applied were \$203,849 in 1998 and \$611,548 in 1997.

Following is a summary of the status of options outstanding during the years ended December 31, 1998 and 1997:

	Year Ended 12/31/98		Year Ended 12/31/97	
	Weighted Number of Shares	Average Exercise Price	Weighted Number of Shares	Average Exercise Price
Outstanding at January 1	2,451,494	\$ .8125	2,623,695	\$ .8125
Granted	-	-	-	-
Exercised	-	-	(172,201)	.8125
Forfeited	-	-	-	-
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Outstanding at December 31	2,451,494	\$ .8125	2,451,494	\$ .8125
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Options exercisable at December 31	2,451,494	\$ .8125	2,451,494	\$ .8125
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Weighted average fair value of options granted during 1998 and 1997		\$ -		\$ -
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>

## NOTE 7 - EARNINGS PER SHARE

The following data show the amounts used in computing earnings per share and the effect on income and the weighted average number of shares of dilutive potential common stock.

	1998	1997
Income from continuing operations before extraordinary items	\$(134,397)	\$ (67,666)
Less: preferred dividends	-	-
Income available to common stockholders used in basic EPS	<u>\$(134,397)</u>	<u>\$ (67,666)</u>
Income available to common stockholders used in basic EPS	\$(134,397)	\$ (67,666)
Convertible preferred stock	-	-
Income available to common stockholders after assumed conversions of dilutive securities	<u>\$(134,397)</u>	<u>\$ (67,666)</u>
Weighted average number of common shares used in basic EPS	1,182,614	1,196,342
Effect of dilutive securities:		
Stock options	-	-
Convertible preferred stock	-	-
Weighted number of common shares and dilutive potential common stock used in diluted EPS	<u>1,182,614</u>	<u>1,196,342</u>

## NOTE 8 - INCOME TAXES

As discussed in Note 1, the Company adopted Statement of Financial Accounting Standards No. 109 effective January 1, 1993. One of the provisions of Statement 109 enables companies to record deferred tax assets for the benefit to be derived from the utilization of net operating loss carryforwards and certain deductible temporary differences. At December 31, 1998 and 1997, the tax effects of temporary differences that give rise to significant portions of deferred tax assets are presented below:

	1998	1997
Net operating loss carryforwards	\$ 627,617	\$ 582,779
Less: valuation allowance	(627,617)	(582,779)
	<u>\$ -</u>	<u>\$ -</u>

Due to operating losses incurred by the Company, the Company established a related valuation allowance of \$627,617 at December 31, 1998.

As of December 31, 1998, the Company has net operating loss carryforwards of approximately \$1,803,933 for Federal income tax return purposes, which expire through 2013. The future tax benefits are dependent upon the Company's ability to generate future earnings.

NOTE 9 - YEAR 2000 ISSUES

Because many computer systems use only two digits to record the year in date fields, such systems may not be able to accurately process dates including the year 2000 and after. The effects of this problem will vary from system to system and may adversely affect a company's operations as well as the ability to prepare financial statements. In order to determine the impact that Year 2000 issues have on the Company, (1) a complete assessment of all systems potentially affected by Year 2000 issues needs to be completed, and (2) management needs to determine the consequences that its Year 2000 issues would have on its business, results of operations, and financial condition. The Company's assessment of its Year 2000 issues includes addressing whether third parties with whom the Company has a material relationship are Year 2000 compliant.

Although the Company has not completed any evaluation of its Year 2000 issues or assessed third party issues, since the Company currently has no operations and is not reliant on internal computer systems for any matters, it believes that the impact of Year 2000 issues will have an immaterial effect on its business, results of operations, and financial condition.

[ARTICLE] 5

<TABLE>

<S>	<C>	
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[PERIOD-END]	DEC-31-1998	
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[PREFERRED-MANDATORY]		0
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[TOTAL-COSTS]	0	
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[LOSS-PROVISION]	0	
[INTEREST-EXPENSE]	0	
[INCOME-PRETAX]	(134397)	
[INCOME-TAX]	0	
[INCOME-CONTINUING]		0
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[CHANGES]	0	
[NET-INCOME]	(134397)	
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[EPS-DILUTED]	(.11)	

</TABLE>