UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-QSB

_X_ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITITES EXCHANGE ACT OF 1934. For the quarter ended July 31, 2001

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

VECTOR ENERGY CORPORATION

(Name of small business issuer in its charter)

Texas	**76-0582614**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

8303 Southwest Freeway, Suite 950
Houston, Texas 77074
(Address of principal executive office)

(713) 773-3284
(Issuer's telephone number)

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 for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No ___.

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after distribution of securities under a plan confirmed by a court Yes ___ No ___.

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

At September 15, 2001 there were 35,184,286 shares of no par value common stock outstanding.

Transitional Small Business Disclosure Format (Check one) Yes ___ No _X_.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited financial statements of the Company appearing at page F-1 through F-10 hereof are incorporated by reference.

Item 2. Management's Discussion and Analysis or Plan of Operation

On July 31, 2001, The Company had a working capital deficit of $ 5,766,548. This is primarily due to net payables assumed in the acquisition of oil and gas properties, and the classification of the Company's secured debt as current. The Company has begun to settle many of the assumed payables for a combination of cash and the Company's common stock. Management believes that they will be able to continue this.

On May 8, 1998, the Company entered into an asset acquisition transaction in which it acquired its initial operating assets. Prior to this time the Company had no employees or operations.

In exchange for its initial operating assets, the Company issued 313,124 shares of common stock, 30,000 shares of the Company's class AA 6% cumulative convertible preferred stock and assumed $6.1 million in secured debt and $511,465 in accounts payable, net of accounts receivable and cash acquired. The secured debt assumed by the Company is a credit facility secured by the production on the acquired producing properties that allows the Company access to a line of credit of up to $10 million with a national bank.

In connection with the above transaction, the Company additionally issued 2,480,026 shares of common stock, a warrant to purchase an additional 300,000 shares of common stock at $.10 per share, and 500,000 shares of the Company's class B preferred stock to subscribers in exchange for an aggregate consideration of $773,002 in cash and services.

On November 4, 1998, the Company entered into an additional asset acquisition transaction in which the Company issued 1,226,667 shares of common stock and a $120,000 non-interest bearing note and assumed $690,522 in bank debt and $600,954 in accounts payable. Subsequently, the Company issued an additional 500,000 shares of common stock under this agreement. The Company does not believe any further shares will be issued to the Sellers under this agreement.

On March 7, 2000, the Company closed a purchase and sale agreement under which the Company issued 550,000 shares of common stock. In accordance with the agreement, the Company immediately repurchased 16,667 shares of common stock at $3.00 per share. In addition, the Company may be required to issue a maximum of 370,000 additional shares of common stock to the seller.

Liquidity and Capital Resources

On October 19, 2000, the Company sold 543,197 shares of common stock together with a warrant to purchase 543,197 shares of common stock at $0.50 per share and an undivided 2.2% working interest in two nonproducing oil and gas wells to a private investor for a total consideration of $100,000.00 in cash. The investor is also entitled to recoup his investment out of future production from the wells, if any. On October 19, 2000, the closing price of the common stock was $0.24 per share. The proceeds of this transaction were used to fund development of the Mustang Island Properties.

On October 27, 2000, the Company sold 407,398 shares of common stock together with a warrant to purchase 407,398 shares of common stock at $0.50 per share and an undivided 2.2% working interest in two nonproducing oil and gas wells to a private investor for a total consideration of $100,000.00 in cash. The investor is also entitled to recoup his investment out of future production from the wells, if any. On October 27, 2000, the closing price of the common stock was $0.155 per share. The proceeds of this transaction were used to fund development of the Mustang Island Properties.

Both of the transactions in October 2000 were treated by the Company as loans repayable out of production for accounting purposes. The stock issued was booked at its fair market value and treated as a loan cost to be amortized over the life of the loan.

On December 27, 2000, the Company sold certain interest in 5 wells located in McClain, Oklahoma and undivided 10% interest in 6 wells located on the Mustang Island Property to Old Jersey Oil Ventures, LLC. for $1,000,000.00. The brother of the President of the Company is a principal in Old Jersey Oil Ventures, LLC. At the same time Old Jersey Oil Ventures LLC, as holder of $591,849.41 in indebtedness owed by the Company, agreed to exchange such indebtedness for 3,945,663 shares of the Company's common stock. This represented a price of $0.15 per share. On December 27, 2000, the closing price of the common stock was $0.125. Old Jersey Oil Ventures, LLC also exercised warrants to purchase 400,000 shares of the Company's common stock at $0.10 per share. All shares issued to Old Jersey Oil Ventures, LLC. were issued in a private transaction and may only be transferred in a private transaction or pursuant to an applicable exemption to the registration requirements. The Company is under no obligation to register such shares. The proceeds of this transaction were used as follows: $250,000.00 to make payments to general creditors; $300,000.00 to make a principal payment to the lender under the Company's secured indebtedness as a condition to the lender's agreement to enter into the fifth amendment to the credit agreement described below; $50,000 reserved for capital investment on properties owned by the Company in St. Mary's Parish, Louisiana; and $400,000.00 reserved to pay the costs of this registration and to pay principal and interest due under the Company's credit agreement.

On December 27, 2000, the company entered into the Fifth Amendment to its credit agreement. As a result of that agreement, the Company's indebtedness was reduced by $3,000,000 This indebtedness is payable in (a) three (3) monthly installments of $31,250.00 from January 15, 2001 through March 15, 2001; (b) seven (7) monthly installments of $125,000.00 from April 15, 2001 through October 15, 2001 and (c) a final installment of $2,400,845.81 due November 15, 2001. No further borrowings are available. All financial covenants have been removed. As a part of this amendment, the Company issued 3,000 shares of Class A-1 Cumulative Convertible Preferred Stock to its lender in exchange for $3,000,000 in outstanding indebtedness and pledged its interest in the Mustang Island Properties as additional collateral to the lender. Under the terms of the preferred stock, the holder of such stock is required to convert the preferred stock into shares of common stock immediately upon the registration of the common stock. Each share of preferred stock converts into an number of Initial Shares equal to $1,000 worth of common stock at a price equal to the lesser of (i) $0.50 per share or (ii) ninety percent (90%) of the Average Market Price. The Average Market Price is defined as the average of the highest bid and lowest asked prices of the common stock over a period of twenty-one consecutive Trading Days ending on the Trading Day immediately prior to the date of conversion. In addition, following conversion, the holder of each preferred share prior to conversion will also be entitled to receive a number of Contingent Shares equal to one hundred ten percent (110%) of the Liquidation Value of such share divided by the Average Market Price on the first anniversary of the Conversion Date minus the number of Initial Shares. The Liquidation Value is an amount equal to all declared and unpaid dividends and distributions, in any, on the preferred stock plus $1,000. The Company is required to register the resale of the common stock with the Securities and Exchange Commission. On December 27, 2000 the closing price of the Common Stock, which is quoted on the Electronic Bulletin Board under the symbol "VECT", was $0.125 per share.

For the past three months, the Company's oil and gas revenues have been sufficient to satisfy its oil and gas operating expenses and a portion of the interest payments. The Company's general and administrative expenses, development costs and the remainder of the interest payments have been funded primarily from the proceeds from the sale of stock. Pursuant to the Fifth Amendment to the Credit Agreement, the Company escrowed $400,000 to pay principal and interest due pursuant to the Fifth Amendment The company anticipates that wells currently being brought into production will be sufficient to meet its obligations after November 2001. However, there can be no assurance that this will occur. It may be that an additional equity funding will be required to meet the current needs of the Company. Any inability of the Company to raise additional capital under such circumstances will limit the development of most of its oil and gas properties and may prevent the Company from meeting its cash requirements. In any event, it will be necessary for the Company to obtain new financing prior to November 15, 2001. If the wells currently being brought into production perform as expected such financing should be available; however, there is no assurance that such financing will in fact be available or that the wells will, in fact, perform as expected. In the absence of such well performance or financing, the company will not be able to meet the payment due under its credit agreement on November 15, 2001.

The Company is currently negotiating with many of the vendors for which accounts payable were assumed in the asset acquisition transactions, and believes that a significant portion of these payables can be satisfied through the issuance of common stock. If the Company is unsuccessful in these negotiations, additional equity funding may be needed in order to comply with the terms of the revolving credit note.

The Company is aggressively seeking additional property acquisitions with near term revenue generating capability and future development potential. The Company is currently evaluating several potential acquisitions which would utilize a combination of the issuance of its equity securities and additional debt financing.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved from time to time in various claims, lawsuits and administrative proceedings incidental to its business. In the opinion of management, the ultimate liability thereunder, if any, will not have a materially adverse effect on the financial condition or results of operations of the Company

Item 2. Changes in Securities and Use of Proceeds

The information required by this item is provided in the Notes to Financial Statements appearing at pages F-7 through F-10 hereof and are incorporated by reference.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

None

SIGNATURES

In accordance with the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VECTOR ENERGY CORPORATION
(Registrant)

By /S/ Randal B. McDonald, Jr,
Randal B. McDonald, Jr.
Chief Financial Officer
Principal Financial and Accounting Officer

Date: September 19, 2001

By /S/ Stephen F. Noser,
Stephen F. Noser
President
Principal Executive Officer

Date: September 19, 2001

Vector Energy Corporation

FINANCIAL STATEMENTS

July 31, 2001

(Unaudited)

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Vector Energy Corporation
CONSOLIDATED BALANCE SHEET
July 31, 2001
(Unaudited)

ASSETS		
CURRENT ASSETS		
Cash	$	365,377
Certificates of deposit		100,000
Revenue accounts receivable		403,525
JIB accounts receivable		57,772
Total current assets		926,674
PROVED OIL AND GAS PROPERTIES, USING THE FULL COST METHOD OF ACCOUNTING		17,086,769
Less accumulated depreciation, depletion, amortization, and impairment		637,418
Net oil and gas properties		16,449,351
OTHER ASSETS		
Other property and equipment, less accumulated depreciation of $52,821		53,840
Long term accounts receivable		136,642
Deferred loan costs - net		11,947
Other assets		12,353
Total other assets		214,782
	$	17,590,807

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

Vector Energy Corporation
CONSOLIDATED BALANCE SHEET
July 31, 2001
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Line of Credit	$	2,905,846
Notes payable		72,546
Production payments payable		1,212,918
Accounts payable - trade		1,259,512
Royalties payable		524,259
Working interest revenues payable		121,564
Taxes payable		166,337
Advances from related party		152,492
Accrued payroll		106,883
Accrued dividends payable		160,000
Accrued interest		10,865
Total current liabilities		6,693,222
STOCKHOLDERS' EQUITY		
Preferred stock class A-1, cumulative convertible; $1,000 par value per share, 3,000 shares authorized; issued and outstanding		3,000,000
Preferred stock class B, noncumulative nonconvertible; $1 par value per share, 500,000 shares authorized; 500,000 shares issued and outstanding		50,000
Common stock, no par value; 100,000,000 shares authorized; 34,884,286 shares issued and outstanding at July 31, 2001		2,515,111
Additional paid-in capital		19,575,208
Retained earnings		(14,242,734)
Total stockholders' equity		10,897,585
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	17,590,807

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

Vector Energy Corporation
CONSOLIDATED STATEMENT OF INCOME
Three Months Ended
July 31, 2001
(Unaudited)

REVENUES		
Oil sales	$	33,343
Gas sales		503,991
Production byproducts		10,610
Interest income		179
Total revenues		548,123
EXPENSES		
Production taxes		19,274
Lease operating expense		226,271
Depletion of oil and gas properties		58,327
Interest expense		68,325
General and administrative expense		969,104
Total expenses		1,341,301
Net Loss Before Preferred Dividend		(793,178)
Preferred Dividend		60,000
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	$	(853,178)
NET LOSS PER COMMON SHARE		
Basic	$	(0.03)
WEIGHTED AVERAGE NUMBER SHARES OUTSTANDING		32,611,678

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

Vector Energy Corporation
CONSOLIDATED STATEMENT OF CASH FLOWS
Three Months Ended
July 31, 2001
(Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	$ (853,178)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depletion of oil and gas properties	58,327
Amortization expense	11,949
Depreciation expense	5,336
Stock issued for consulting fees	744,500
Increase in accounts receivable	(14,372)
Increase in accounts payable	7,071
Increase in royalties and revenues payable	16,633
Increase in accrued dividends payable	60,000
Increase in other current liabilities	1,573
Increase in other assets	(5,427)
Net cash provided by operating activities	32,412
CASH FLOWS FROM INVESTING ACTIVITIES	
Development Costs Incurred	(127,648)
Purchase of fixed assets	(6,549)
Net cash used by investing activities	(134,197)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payment on Line of Credit	(245,000)
Note repayments	(68,919)
Repayment of production payments	(9,957)
Net cash used by financing activities	(323,876)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(425,661)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	791,038
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 365,377

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

Vector Energy Corporation
Notes to Unaudited Consolidated Financial Statements
July 31, 2001

Management's Representation of Interim Financial Information

The accompanying financial statements have been prepared by Vector Energy Corporation (The Company) without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosure normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as allowed by such rules and regulations, and management believes that the disclosures are adequate to make the information presented not misleading. These financial statements include all of the adjustments which, in the opinion of management, are necessary to a fair presentation of financial position and results of operations. These financial statements should be read in conjunction with the audited financial statements included in the Company's Form 10-KSB, as of April 30, 2001.

Business and Organization

Vector Energy Corporation, a Texas corporation (together with its subsidiary, Vector Exploration, Inc., collectively, "the Company") was formed on June 18, 1998 as a result of an agreement and plan of reorganization. The Company is primarily engaged in the acquisition, development, production and exploration of oil and natural gas properties in the United States.

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Oil and Gas Properties

The Company follows the full cost method of accounting for its oil and gas properties. All costs associated with property acquisition, exploration, and development activities are capitalized in a single, United States cost center. Internal costs directly identified with the acquisition, exploration and development activities of the Company are also capitalized. Capitalized costs are amortized on the unit-of-production basis using proved oil and gas reserves. Capitalized costs are limited to the present value of estimated future net revenues less estimated future expenditures using a discount factor of ten percent. Sales and abandonments of oil and gas properties are treated as reductions of the capitalized cost pool. At July 31,2001, there were no costs of unproved properties or major development projects included in the capitalized cost pool.

Other Property and Equipment

Other property and equipment of the Company consists primarily of computer equipment, vehicles and furniture and fixtures, which are depreciated over estimated useful lives, ranging from three to seven years, on a straight-line basis.

Loss Per Share

Loss per share has been calculated using the weighted average number of shares outstanding. Outstanding warrants and other potentially dilutive securities have been excluded from the calculation of loss per share, as their effect would be anti-dilutive.

Statement of Cash Flows

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

The following is a summary of all significant noncash investing and financing activities and payments made for interest and income taxes for the period ended July 31, 2001:

Noncash activities:	
Common stock issued for consulting fees	$ 744,500
Cash payments:	
Interest	$ 69,631

Acquisitions of Oil and Gas Properties

On May 8, 1998, the Company acquired various working and royalty interests in wells located in Texas, Louisiana and Oklahoma. To effect the transaction, the Company issued 30,000 shares of class AA preferred stock, valued at $3,000,000, and 313,124 shares of common stock, valued at $939,372. In addition, the Company assumed $6,100,000 in bank debt and $511,465 in accounts payable, net of accounts receivable and cash acquired. The Company has capitalized $251,704 in expenses incurred in conjunction with this transaction. Subsequently, the Company issued 116,014 shares of common stock, valued at $163,065, for additional working interests in certain of the properties acquired.

On November 4, 1998, the Company acquired various working interests in wells located in Louisiana, Texas and Oklahoma. To effect the transaction, the Company issued 1,226,667 shares of common stock, valued at $1,840,000, and a $120,000 non-interest bearing note payable to the sellers. In addition, the Company assumed $690,522 in bank debt and $600,954 in accounts payable. The Company has capitalized $15,145 in expenses incurred in conjunction with this transaction. The Company was also required to expend a minimum of $500,000 in capital investment on the properties acquired within nine months. Because such capital investment was not made, the sellers were entitled to receive an additional 500,000 shares of common stock. Subsequently, the Company exchanged the working interests acquired in certain properties in Texas and $30,000 for additional working interests in the properties acquired in Louisiana.

On March 7, 2000, the Company closed a purchase and sale agreement with a company, which is a debtor in possession in a Chapter 11 Bankruptcy. Under the agreement, the Company acquired all of the Bankrupt Debtor's interest in a block located in the Offshore Texas, Mustang Island Area for 550,000 shares of common stock valued at $550,000. In accordance with the agreement, the Company immediately repurchased 16,667 shares of common stock at $3.00 per share, for a total of $50,000. Under the terms of the agreement, in the event that the daily rate of production from the properties acquired averages at least 5,000 Mcf per day over a complete calendar month the seller has the right to put 150,000 shares of common stock to the Company at $3.00 per share. If the seller fails to exercise such right, the Company has the right to call 150,000 shares of common stock at $3.00 per share. In addition, the Company may be required to issue a maximum of 370,000 additional shares of common stock to the seller based upon the required future development costs associated with the properties acquired

Line of Credit

The Company has a $10 million revolving credit note with the First Union National Bank which terminates on November 15, 2001. Interest on the note is payable monthly at a floating rate which was 7.92% at July 31, 2001. The borrowing base under the note is determined periodically based upon the collateral value assigned to the mortgaged properties, and is currently $2,905,846. The borrowing base may be redetermined at the Bank's sole discretion. Principle payments were scheduled at $125,000 per month. In addition, the note places certain restrictions on the use of the revenues from the mortgaged properties. The Company does not anticipate that the borrowing base under the note can be increased without incurring development costs which are significantly greater than those required under the terms of the note.

On December 27, 2000, the company entered into the Fifth Amendment to its credit agreement. As a result of that agreement, the Company's note was reduced by $3,000,000. The note, as amended is payable in six monthly installments of $125,000. from May 15, 2001 through October 15, 2001 and a final installment of $2,400,846 due November 15, 2001. No further borrowings are available. All financial covenants have been removed. As a part of this amendment, the Company issued 3,000 shares of Class A-1 Cumulative Convertible Preferred Stock to its lender in exchange for $3,000,000 in outstanding indebtedness and pledged its interest in the Mustang Island Properties as additional collateral to the lender. Under the terms of the preferred stock, the holder of such stock is required to convert the preferred stock into shares of common stock immediately upon the registration of the common stock. Each share of preferred stock converts into an number of Initial Shares equal to $1,000 worth of common stock at a price equal to the lesser of (i) $0.50 per share or (ii) ninety percent (90%) of the Average Market Price. The Average Market Price is defined as the average of the highest bid and lowest asked prices of the common stock over a period of twenty-one consecutive Trading Days ending on the Trading Day immediately prior to the date of conversion. In addition, following conversion, the holder of each preferred share prior to conversion will also be entitled to receive a number of Contingent Shares equal to one hundred ten percent (110%) of the Liquidation Value of such share divided by the Average Market Price on the first anniversary of the Conversion Date minus the number of Initial Shares. The Liquidation Value is an amount equal to all declared and unpaid dividends and distributions, in any, on the preferred stock plus $1,000. The Company is required to register the resale of the common stock with the Securities and Exchange Commission. On July 31, 2001 the closing price of the Common Stock, which is quoted on the Electronic Bulletin Board under the symbol "VECT", was $0.17 per share.

Notes Payable

The Company is obligated under unsecured installment notes, which were issued to various vendors in settlement of accounts payable. The notes, which bear interest at rates ranging from 0% to 10.5%, call for monthly payments totaling $21,865 at July 31, 2001. The outstanding principal balances totaled $72,546 at July 31, 2001.

Stockholder's Equity

Preferred Stock

The Company has 20,000,000 authorized shares of preferred stock.

The Company is authorized to issue 3,000 shares of Class A-1 Cumulative Convertible Preferred Stock (Class A-1 Preferred Stock). Class A-1 Preferred Stock was issued for $1,000 per share and is entitled to receive cumulative cash dividends at the annual rate of 8% payable annually in arrears commencing December 1, 2001 when and as declared by the Board of Directors. All shares of Class A-1 Preferred Stock were issued to the Company's secured lender on December 27, 2000 as consideration for the reduction in the Company's secured indebtedness by $3,000,000.00 and remain outstanding. The Class A-1 Preferred Stock will convert to common stock upon the effective date of this registration. Each share of Class A-1 Preferred Stock will convert into shares of the Company's number of shares of common stock equal to $100.00 per share plus all accumulated and unpaid dividends (the "Liquidation Value") divided by the lesser of $0.50 or 90% of the average of the highest bid and lowest asked prices of the Common Stock over a period of twenty-one consecutive Trading Days ending on the Trading Day immediately prior to the date of conversion. In addition, on the first anniversary of the conversion, each holder may be entitled to receive additional shares ("Contingent Shares") equal to 110% of the Liquidation Value divided by the average of the highest bid and lowest asked prices of the Common Stock over a period of twenty-one consecutive Trading Days ending on the Trading Day immediately prior to the first anniversary date of such conversion minus the shares received by such holder upon the conversion. If the computation of Contingent Shares results in a negative number then no Contingent Shares shall be issued. Each share of Class A-1 Preferred Stock is entitled to cast a number of votes equal to the number of shares of common stock into which the Class A-1 Preferred Stock is convertible. Accrued and unpaid dividends totaled $160,000 at July 31, 2001.

The Company is authorized to issue 500,000 shares of Class B Preferred Stock, par value $1.00 per share. Class B Preferred Stock is subordinate to Class AA 6% Preferred Stock in priority, both of which are senior to any and all capital stock. The holders of Class B Preferred Stock are not entitled to receive any dividends. As of July 31, 2001 500,000 shares of the Class B Preferred Stock were issued and outstanding. The Class B Preferred Stock is redeemable in whole, but not in part, at the option of the Corporation by resolution of the Corporation's Board of Directors at anytime at $1.00 per share. Each share of Class B Preferred Stock has the voting rights equal to 100 shares of the Company's common stock. The holders of Class B shares are entitled to elect at least two directors to the Board of Directors of the Corporation. The holders of Class B Preferred Stock voting as a class will have the right to remove without cause at any time and replace any director such holders have elected.

Stock Options and Warrants

The Company has granted options to certain key employees to purchase 2,080,000 shares of the Company’s common stock at purchase prices ranging from $0.15 to $0.23 per share. These options expire on dates ranging from August 25, 2005 to March 1, 2006 and are non-transferable. The options, which were issued at a price equal to or exceeding the market value of the underlying stock on the date of the grant, are not intended to qualify as incentive stock options under Internal Revenue Code Section 422. The Company follows the provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation (SFAS No. 123) using a Black Scholes option pricing model.

Also outstanding at July 31, 2001 are warrants for the purchase of 950,595 shares of the Company's common stock at a purchase price of $0.50 per share. The warrants expire on October 19, 2003 and are transferable.