

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-KSB
ANNUAL REPORT
YEAR ENDED JUNE 30, 2006**

Moller International, Inc.

Name of small business issuer in its charter)

California

(State or other jurisdiction of incorporation or
organization)

68-0006075

(I.R.S. Employer Identification No.)

**1222 RESEARCH PARK DRIVE
DAVIS, CALIFORNIA 95618**
(Address of principal executive offices)

Issuer's telephone number (530) 756-5086

Issuer's Facsimile number (530) 756-5179

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 VALUE

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 ☐ No

Check if there is no 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 registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ☒

Revenues for this fiscal year are \$73,817.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.)

As of June 30, 2006, the Company had 45,507,953 common shares issued and outstanding, with a total of 16,562,862 owned by non-affiliates. As of September 7, 2006, the closing price of such common equity was \$0.52 per share, giving an aggregate market value of the voting and non-voting common equity held by non-affiliates as \$8,612,688.24.

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

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

As of June 30, 2006, the company had 45,507,953 common shares issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 ("Securities Act"). The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1990).

Transitional Small Business Disclosure Format (Check one): Yes ☐; No ☒

PART I

Item 1. DESCRIPTION OF BUSINESS

OUR COMPANY

Moller International, Inc. was incorporated April 19, 1983 in California for the purpose of designing, developing, manufacturing and marketing a line of Vertical Take-off and Landing ("VTOL") aircraft. Our flagship model is currently under development and testing and is projected to be a 4-passenger aircraft that will combine the cruise performance of an airplane with the vertical-flight capabilities of a helicopter. It is designated the "M400 Skycar(R)." A related product we are developing is the Aerobot(R) line of unmanned aerial vehicles. While certain engineering problems remain to be solved before we can deliver a production aircraft meeting our design performance specifications, we have been able to conduct flight tests on a production prototype since 2002, including approximately 30 unmanned, tethered tests of the vehicle's vertical takeoff and landing capabilities.

The research and development of our proposed products has been financed from various sources, including sales of our stock to investors, capital contributions and loans from our founder, Dr. Paul S. Moller, and various government and private contracts. We will need to raise substantial additional capital in order to complete the development of our products and to market them.

Since our inception, we have not been subject to a receivership, bankruptcy or similar proceeding, nor have we been involved in any material reclassification, merger, acquisition, or purchase or sale of a significant amount of our assets.

On March 31, 2001, Moller International distributed its 95% ownership of the shares of its (former) subsidiary, Freedom Motors, Inc. to the shareholders of Moller International in a tax-free reorganization.

OUR PRODUCTS

We currently have no products that are commercially marketable. We are in the latter stages of development of a number of innovative aviation products that we hope to launch in the coming years. Our founder, Dr. Paul S. Moller, has for more than thirty-five years been engaged in research and development activities aimed at designing and producing an aircraft that combines the speed and efficiency advantages of the fixed-wing airplane with the vertical take-off and landing and hovering capabilities of the helicopter. We believe that such an innovation will deliver to a wide range of conventional aircraft operators a new level of utility and economy for a variety of aerial applications. By-products of our aircraft development activities, in particular the Moller Rotary Engine and the Aerobot remotely-flown air-borne vehicle, should become important products in their own right and could account for an important segment of our overall sales once production commences. As of the date of this filing, however, it remains uncertain when, if ever, we will enter commercial production of any of our products.

The Skycar and Aerobot are products we plan to offer in the future. They are based upon fundamental research and on earlier prototypes developed by Moller International. The Skycar concept is through the detail design stage and we have a prototype undergoing testing at this point. There are significant technical issues that remain unproven and may preclude us from meeting the

design objectives for the Skycar. The Aerobot is a limited-production vehicle, with twelve prototypes built, tested and delivered to end-users. Neither vehicle is ready for volume production at this time, nor is there any guarantee that they will ever reach a point where they are viable products.

M400 Skycar

Our principal product will be the M400 Skycar vertical take-off and landing ("VTOL") aircraft. The concept of the Skycar as a personal transportation vehicle is that it would be so practical and affordable that it could become a preferred mode of transport, replacing at once the automobile and the private or commercial airplane for many trips. Should we succeed in achieving a production aircraft design meeting our target specifications, we believe the M400 will support such a degree of usefulness.



Moller M400 "Skycar" prototype

Following are our current target design and performance specifications for the M400 4-passenger (including pilot) aircraft:

Passengers.....	4	Dimensions (LxWxH)	19.5'x 8.5'x 7.5'
Cruise speed @ 20,000'....	275 mph	Takeoff and landing area...	35-ft dia
Top speed @ 13,200'.....	375 mph	Noise level at 500 ft (goal)...	65 dba
Maximum rate of climb...	6,000 fpm	Critical failure components.....	none
Maximum range.....	750 mi	Complex moving parts.....	few
Payload excluding fuel....	750 lbs	Piloting difficulty.....	low
Fuel consumption.....	20 mpg	Vertical takeoff and landing.....	yes
Operational ceiling.....	36,000 ft	Garage parking/roadability.....	yes
Gross weight.....	2,400 lbs	Uses non-fossil fuel (ethanol)...	yes
Engine power (2 min rating)	1200 hp	Emergency parachutes.....	yes

Earlier performance numbers vary somewhat from the number shown above. We continuously revise the performance projections to reflect the results of

ongoing analysis and changes to the design characteristics of various components. Recent decreases in projected range were the result of a change to ethanol fuel. Installed horsepower has changed due the projected use of a multi-stage, compound rotary engines of our design, and the on-board stabilization electronics have been redesigned to be faster and more reliable.

We believe that if we succeed in achieving the above cruising speeds, altitudes, payloads, and fuel economy per passenger mile in a production model aircraft, the Skycar will compare favorably with today's light twin-engine and turbo-prop airplanes. But the M400 should offer the additional advantage of needing no runway for take-off and landing, since it will be able to hover and take-off vertically like a helicopter. But because the M400's VTOL capability will be provided by our proprietary "ducted fan" technology rather than a helicopter-type system of main and anti-torque rotors, maintenance and repair costs should be significantly less and safety should be considerably enhanced.

It is important to recognize that the above design specifications are theoretical, based on research, engineering, and flight- and wind tunnel-testing of various components. They have not yet been demonstrated to be achievable in a production model aircraft.

The following table compares certain of the target performance specifications of the M400 to a current production model helicopter and fixed-wing airplane that we believe might be potential competitors for production model M400 customers:

	Powered-Lift	Helicopter	Airplane
	Moller International M400 Skycar®	McDonnell Douglas MD 520 N	Socata TMB S.A. TBM 700
<i>Performance</i>			
High Speed Cruise	330 mph	155 mph	335 mph
Maximum Speed	375 mph	175 mph	345 mph
Operational Ceiling (ft)	35,000	16,300	30,000
Maximum range	750 mi	267 mi	1,796 mi
Rate of Climb	4,900 fpm	2,069 fpm	2,380 fpm
Vertical takeoff and landing	yes	yes	no
<i>Payload and Capacity</i>			
Passengers	4	3 to 4	6
Gross Weight	2,400 lbs	1,591 lbs	4,685 lbs
Maximum Net Payload	750 lbs	1,106 lbs	805 lbs
<i>Safety</i>			
Critical failure components	None	Several	One
Complex moving components	Few	Many	Few
<i>Other</i>			
Maintenance costs	Low	Very high	Moderate
Piloting difficulty	Low	Very high	High
Garage parking / roadability	Yes	No	No
<i>Price</i>	\$995,000	\$1,010,000	\$2,697,000

The above figures represent the actual manufacturers' performance specifications for the helicopter and airplane models listed, and our

theoretical specifications for the Skycar M400. They are presented here to illustrate the comparative utility of the three types of aircraft. However, it is not yet certain that we will indeed achieve our target specifications, nor will we know the actual values for the Skycar until we have completed further development. Also, the \$995,000 selling price for the Skycar is estimated, based on numerous assumptions that may or may not bear out over time. The actual selling price may be more or less than \$995,000.

We believe that certain specific design features of the Skycar® will further facilitate its eventual acceptance as an alternative vehicle of mass transportation. These features will include:

- Computer-augmented flight stabilization system
- Fly-by-wire control systems (electrical wires take the place of mechanical cables) and on-board computers which can interface with and be controlled by remote ATC system computer and navigation resources
- High-speed capability, which maximizes the benefits of personalized air travel.
- Hover or low speed capability, which provides the ability to cue up for entry to or exit from highly controlled air lanes.
- Ability to climb, descend, accelerate and decelerate rapidly to enter and exit air-lanes quickly
- Relative insensitivity to gusts and wind shear that makes tightly constrained flight possible
- VTOL ability to land anywhere which allows emergency exit from air-lanes
- Small size which reduces required vertiport infrastructure dimensions

Notwithstanding these design features, the utility of the Skycar in mass transportation will be limited by existing laws and regulations. For example, Federal Aviation Regulations ("FARs") prohibit operation of civil aircraft within certain airspace, and require minimum altitudes above, and horizontal separation from, obstacles on the ground and in other airspace. In addition, much of the airspace in and around major metropolitan areas require that pilots operating in such areas hold special qualifications. And although we intend that the Skycar have the capability to travel from "garage to garage," in urban and suburban areas existing laws and regulations will preclude most such "off-airport" operations.

Moreover, mass transportation using the Skycar would likely have to rely on some future navigation system such as NASA's (National Aeronautics and Space Administration, an agency of the federal government) proposed Small Aircraft Transportation System ("SATS"), which is funded with public funds. NASA predicts demonstration of a "Highway in the Sky" system by the year 2008, and had a partial demonstration of the system during the first quarter of 2005.

Environmental Noise Issues

The theoretically-achievable noise level of the M400 Skycar with conventional muffling and noise abatement technologies would allow it to fly with somewhat

lower noise levels than present fixed-wing aircraft. It should be considerably quieter than a helicopter because of the enclosed fans instead of the open rotor blades. Use of urban area vertiports is unlikely due to city noise abatement laws unless the Skycar were to employ some degree of mutual noise cancellation. Tests to date by other researchers suggest that a 15-decibel drop in noise is achievable with mutual noise cancellation. If so, it would be possible for the Skycar to operate from most locations except the user's home, where a 30-decibel drop in noise may be required by noise abatement laws. To achieve this reduction in noise level as needed for such a flight originating from a residence, three-dimensional mutual noise cancellation would be required. There is no assurance that such a reduced level of noise can be achieved for the noise spectrum generated by the Skycar.

Further Skycar Development Stages

The company is currently preparing the M400 Skycar prototype, now designated the M400X, for an anticipated manned, untethered flight test. The current configuration of the M400X is equipped with experimental single-rotor rotary engines. These single-rotor engines are being replaced with more powerful twin-rotor engines.

Since July 12, 2002, MI has been successfully conducting demonstration hover flights with this Skycar prototype. The aircraft has flown several times and at altitudes up to forty feet above ground level in stable, controlled flight. While an overhead safety line is used during the flights, it has remained slack during the majority of the flight and never used to support or stabilize the vehicle. The aircraft has been flown by remote control from the ground and has flown without an onboard pilot through this stage of the testing. Success at this stage has depended upon demonstration of a controlled hovering flight, which has now been achieved and documented for the four-passenger M400 Skycar model as it was on several occasions for an earlier 2-passenger model. Success at the next stage will be to demonstrate the same level of controlled flight while the aircraft is under the control of an on-board pilot. In addition, payload objectives will be tested with an increasing payload weight, up to the full payload of 750 pounds if possible.

The previous unmanned hover tests are complete, and many of the required components for the engine upgrade are already fabricated. The purpose of the engine change is to allow the M400 Skycar to undertake "maneuvering" tests at low speed with the safety of significantly higher reserve power. ("Maneuvering" in this context, means lateral and vertical movement at a modest speed where lift remains entirely dependent upon the thrust from the engines (non-aerodynamic lift.)) The cost for these extended tests is expected to be between \$1.5 and \$2 million. The risk at this stage centers almost entirely around the reliability of the various aircraft systems. These flights are to be carried out over water at altitudes up to 50 feet to lessen the damage to the Skycar should a system fail and to reduce the risk of fire to the aircraft and injury to the pilot.

The third phase of the Skycar test program involves flight speeds sufficiently high so that direct lift from the ducts is replaced by aerodynamic lift generated on the wing surfaces, referred to as "transition" testing. This segment of the flight where the aircraft transitions from one mode of flight to the other is considered the most technically challenging, and historically is the most dangerous. Wind-tunnel tests indicate that the Skycar is capable of completing this transition, however a number of factors are present in free flight that cannot be accounted for in a wind tunnel. Therefore there is no

assurance that these tests will be successful without incidents that risk both the aircraft and the pilot. Achieving even one successful transitioning flight would establish the overall viability of the Skycar approach to this historically difficult aspect of VTOL aircraft design.

While the Skycar is marketable during the entire period, a successful demonstration of transition to forward flight may provide the catalyst for credibility of the design and promote capital investments that would allow us to enter into an initial low rate of production. We continue to actively market the vehicle to military and selected non-military clients. Military sales projections are based on the level of interest expressed by military representatives visiting our facilities over the years. While such interest does not constitute a legally-binding commitment, we believe it provides us with some indication of future sales potential. Other near-term potential sales could be to individuals who have contacted us and requested to purchase a Skycar and have subsequently been issued a delivery position. Approximately 100 delivery positions have been assigned. (A delivery position is a right to purchase, but not an obligation to purchase.) Sales, if any, prior to the end of 2005 would likely be limited to sophisticated clients who have evaluated the technical data and arrived at a conclusion about the potential of the aircraft without the added "proof" of a transitioning flight.

Reliability and production feasibility under FAA "airworthiness" standards will next become the company's objective. Tooling up for limited production of an airworthy vehicle for military use will require approximately \$25 million and is expected to take 12 to 15 months. This military model is expected to be developed under military contracts. However there is no assurance that a mass-producible model will result from a limited number of sales to the military or that the military will in fact act upon their current interests.

Aerobot Remotely-operated Aerial Vehicles

Aerobot® is our design for a line of remotely piloted VTOL vehicles. The principal advantage of these craft is the ability to hover at a fixed point in space, which we believe makes them suitable for payloads such as video cameras and other sensors for data acquisition and inspection. The Aerobot is intended to carry a wide variety of customer supplied mission specific payload packages. Payload requirements are model-specific and there are restrictions on weight, size and location. We have incorporated video camera technology, and believe other technologies such as sensors and transmitters are within the Aerobot's payload capabilities, although we cannot guarantee that any payload within weight and size limitations will perform as desired or allow the Aerobot to function properly. Moller has developed and demonstrated both electric- and fuel-powered Aerobots® for commercial and military applications, although we have not commenced commercial marketing of them.

The electric-powered Aerobot®, which employs an umbilical cord to transmit power, data and control signals, can stay aloft for extended periods (8-12 hours or to the limitation of ground-supplied electrical power) at heights of up to 250 feet. The fuel-powered Aerobot® utilizes Moller's rotary engines, which produce greater than 2 horsepower per pound of engine weight. A high power-to-weight ratio, a lightweight airframe, and a patented system for automatic stabilization and control are key design elements of both types of Aerobot®.

The demonstrated performance specifications for the two Aerobot models are set forth in the following table:

	Electric-Powered ES20-9	Fuel-Powered FS24-50
Payload (including fuel)	15 lbs	65 lbs
Empty weight	40 lbs	90 lbs
Hover time	8-12 hours*	1.5 hrs
Hover ceiling	250 ft	2,500 ft
Forward speed	—	50 mph
Size	26"L x 26" W x 14" H	30"L x 30"W x 16"H

* Flight duration is calculated based on estimated run-time of ground-based electrical generator.

We expect to continue to solicit and execute contracts for government use of our Aerobots. As in the past and for the next 18 months, these contracts are expected to be for one-off demonstration vehicles. The \$200,000 to \$300,000 price of these one-off Aerobots will remain 200-to-300% higher than the desired target price of approximately \$100,000 as long as volume is insufficient to establish quantity discounts for its components. This may restrict initial sales to those clients, if any, to whom price is less important than the functional characteristics of the Aerobot. However, if expressed interest translates into increased sales, the production price could reduce to a point where civilian, paramilitary and military use could be broadened, resulting in increased sales. However at this time there is no assurance that volume sales of the company's Aerobots can be achieved.

Moller Rotary Engine

Moller has acquired and developed proprietary technology enabling the Company to manufacture a high performance, low-cost rotary engine that produces more than 2 horsepower per pound of engine weight. Key design characteristics and the resulting attributes of Moller's engines are outlined below and are applied to its intended use as a ducted fan power plant:

Design Feature -----	Attributes -----
Air-cooled or charge-cooled rotor Aluminum housings Simplified Lubrication System	Light Weight
Few moving parts	Low cost + Reliability
Perfect dynamic balance Low vibration Solid engine mounts Small fan tip clearance	High propulsive efficiency
Four-stroke combustion cycle	Good fuel economy + Low emissions + Low noise

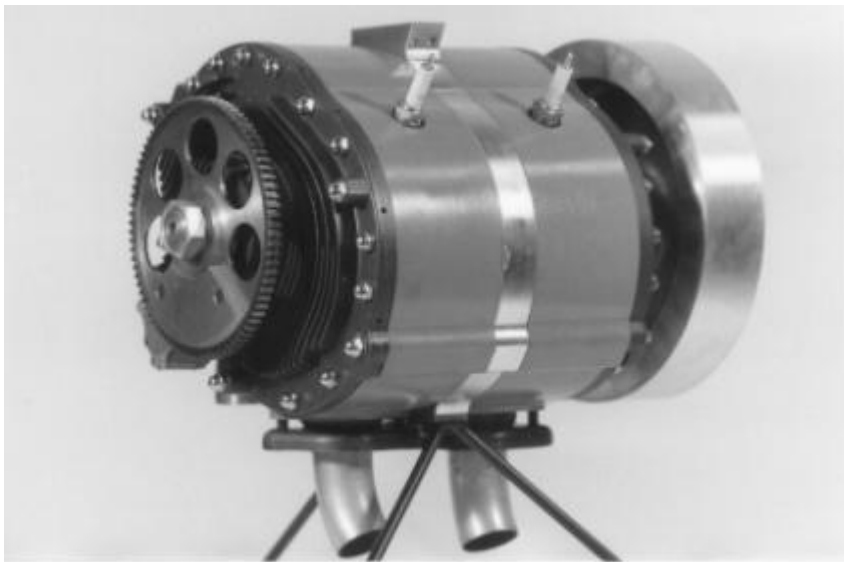
We believe that Moller's rotary engine, called the Rotapower engine, will be advantageous for ducted fan VTOL applications such as those required by the

Skycar® and Aerobot® product lines. The engine's round shape and small size will allow it to be hidden in the center of the duct behind the fan hub. Furthermore, the engine's power-to-weight ratio should enhance performance in VTOL applications, where all of the required lift must be provided by the engine/fan unit without benefit of a wing surface as in a rolling take-off or landing.

Moller International granted Freedom Motors a license to manufacture, market and distribute the Rotapower engine for all applications except for aviation and use in ducted fans. In return for this license, Freedom Motors agreed to pay Moller International a 5% royalty on all sales of the Rotapower engine. See Note G and Note K for additional details.

Moller's unique engine design is based on a rotary engine that was mass-produced by Outboard Marine Corporation ("OMC") from 1972 to 1976. In 1985, Moller purchased the OMC drawings, production routing sheets and engineering support man-hours. The Company subsequently hired the key OMC engineers who had developed the engine, participated in the production engineering process and contributed to the establishment of the service organization.

Using the OMC single-rotor engine as a starting point, Moller created a high-performance, modular design engine. The Company added electronic fuel injection and thermal barrier coatings, and introduced unique seal, lubrication and cooling systems. In all, Moller has made more than 25 major engine design improvements, of which eight are deemed patentable and two are patented and one is patent pending. Prior to entering production, Moller expects to have applied for patents on all key elements.



Specifications of Moller's high-performance engines are as follows:

	High Performance	
	Single-Rotor	Two-Rotor
Specifications Weight Dimensions (L, Diameter) Displacement	55 lb 14 in, 11 in 530cc	85 lb 19 in, 11 in 1060cc
Performance Rated Power Rated Speed Maximum Speed Idle Speed Porting	80 hp 7000 RPM 7500 RPM 1800 RPM Radial	160 hp 7000 RPM 7500 RPM 1800 RPM Radial
General	All engines can operate on regular grade gasoline	

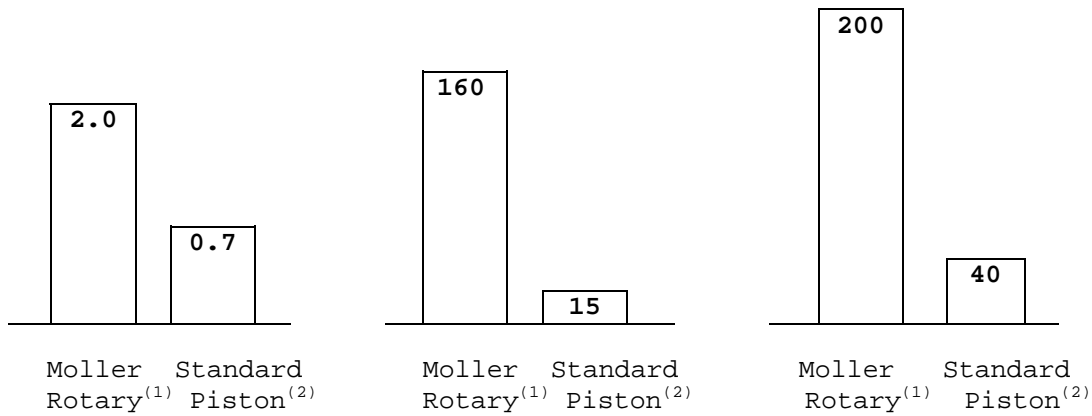
To demonstrate the significance of Moller's rotary engine technology for aircraft applications, the following table and graphs compare the high performance two-rotor engine to a standard piston engine of similar horsepower.

	MOLLER ROTARY ⁽¹⁾	STANDARD PISTON ⁽²⁾
POWER	160 hp	180 hp
WEIGHT	85 lbs	260 lbs
VOLUME	1.0 ft ³	8.6 ft ³
FRONTAL AREA	0.8 ft ²	3 ft ²

Horsepower per Pound
Of Engine Weight

Horsepower per Cubic Foot
of Engine Volume

Horsepower per Square Foot
of Engine Frontal Area



Moller Advantage: 3:1

Moller Advantage: 11:1

Moller Advantage: 5:1

⁽¹⁾ Two rotor, 530cc/rotor

⁽²⁾ Avco Lycoming 0-360-A

Comparison of Moller rotary and Standard Piston Engines

Our Rotapower engine is in very limited production. It has been installed in a number of non-aircraft products for field-testing. The company is presently under contract to develop a diesel-fueled version of its engine. To date the company has demonstrated the ability to operate its engine on diesel fuel at about 60% of the power it can generate on gasoline.

Because of the military's interest in lightweight engine running on diesel or jet fuel the company has previously received government support to achieve its present level of success. Presently the company is testing its engine for long-term durability that means establishing a time between overhauls of at least 1000 hours. It has successfully completed an FAA-type engine durability test of running the engine on gasoline for 150 hours at maximum power. If a 1000-hour-plus test can be achieved with diesel fuel the potential for military and civilian sales of an aircraft Rotapower engine is likely to increase. There is no assurance at this time that this endurance test will be successful. The company does not intend to produce the Rotapower engine for aircraft use, but intends to license it for aircraft and ducted fan use while retaining production of the rotor which requires unique high volume production equipment that the company has exclusive access to.

Liability Insurance

Frank Crystal & Co. have provided us with a comprehensive insurance plan dated July 20, 2000. This plan outlines a Product Liability Proposal for an estimated initial product exposure of \$6,250,000 in annual engine sales. (We estimated our annual sales for the purpose of obtaining the insurance quote and planning our operating costs - we have no particular basis for projecting such volume of sales as of any specific date in the future.) The cost identified in this proposal was an initial deposit of \$25,000 per annum with an audit adjustable

rate of \$4.00 per \$1,000 of sales below \$6,250,000 and \$3.00 per \$1,000 of sales above \$6,250,000. We did not accept the insurance proposal, but believe the premiums quoted (adjusted for inflation) to be representative of our costs to insure ourselves against product liability issued in the near-term. There is no guarantee that these rates will remain effective or apply to the Rotapower engine when actually needed. Higher costs could adversely impact our ability to produce and market an economically competitive engine.

Regulation of Aerobots and Engines

The Aerobot's use is controlled by the FAA if it is untethered, except for military use. No federal, state or local approval is required at this time regarding the design or construction of either the engine or the Aerobot. However there is no assurance that such regulations will not come into existence in the future.

PATENTS

The current status of Moller International's U.S. and Foreign Patents and Trademarks is listed below:

Name (Abbreviated)	Patent/Application Number	Country	Issued (I) Pending (P)
Diesel Fueled Engine	60/671,605	US	P
Improved Vertical Takeoff & Landing	2004/002796	Australia	P
Improved Vertical Takeoff & Landing	2004/002796	Canada	P
Improved Vertical Takeoff & Landing	2003/003730	Europe	P
Improved Vertical Takeoff & Landing	2004/002796	Europe	P
Improved Vertical Takeoff & Landing	0303730	International	P
Improved Vertical Takeoff & Landing	2004/002796	International	P
Improved Vertical Takeoff & Landing	2004/002796	Japan	P
Improved Vertical Takeoff & Landing	6808140	US	I
Robotic or Remotely	0279391	Europe	I
Robotic or Remotely	4795111	US	I
Rotary Engine Having	2315639	Canada	I
Rotary Engine Having	2355653	Canada	P
Rotary Engine Having	989648001	Europe	P
Rotary Engine Having	999630924	Europe	P
Rotary Engine Having	9827045	International	P
Rotary Engine Having	99/29821	International	P
Rotary Engine Having	2000-588502	Japan	P
Rotary Engine Having	3385273	Japan	I
Rotary Engine Having	6164942	US	I
Rotary Engine Having	6325603	US	I
Stabilizing Control	2,354,583	Canada	P
Stabilizing Control	1144249	Europe	I
Stabilizing Control	1144249	Germany	I
Stabilizing Control	99/30392	International	P
Stabilizing Control	2000-592187	Japan	P
Stabilizing Control	6,450,445	US	I
Trademark Aerobot	1,367,510	US	I
Trademark Rotapower	2,101,936	US	I
Trademark Skycar	2000/14454	South Africa	I
Trademark Skycar	2000/14455	South Africa	I
Trademark Skycar	1,739,687	US	I

Trademark Skycar	1,964,355	US	I
Trademark Skycar	76,066,387	US	P
Vertical Takeoff & Landing	000243464	Europe	I
Vertical Takeoff & Landing	266,288	France	I
Vertical Takeoff & Landing	D498201	US	I
VTOL Aircraft	636273	Australia	I
VTOL Aircraft	2075043	Canada	I
VTOL Aircraft	0512345	Europe	P
VTOL Aircraft	0512345	France	I
VTOL Aircraft	0513245	Germany	I
VTOL Aircraft	91/00247	International	P
VTOL Aircraft	0512345	United Kingdom	I
VTOL Aircraft	5115996	US	I

OUR MARKETS

Due to the innovative nature of the Moller Skycar, we cannot be certain of any level of market acceptance for the product. The following discussion of potential markets for our Skycar and Aerobot products is based upon: 1) our observations and understanding of the ways various owners and operators of conventional fixed-wing and rotary-wing aircraft have used those vehicles; 2) our assumptions as to how the proposed design capabilities of our products may prove more efficient, utilitarian, or cost-effective features in those same or similar applications; and 3) anecdotal data from a small number of potential customers who have visited our facilities and expressed interest in the Skycar. However, until we can manufacture and deliver production model aircraft, we cannot be certain that operators will indeed realize benefits by employing our products in place of conventional aircraft employing significantly dissimilar technologies. Our ability to successfully market our Skycar and Aerobot products will depend in large part on the ability of those products to deliver a realizable benefit to users.

In October 1993 Moller International obtained general, infrastructure, environmental, public safety and communications statistical data that we combined with our own research to aid in producing our marketing forecasts. We have continued to develop, update and maintain this data with input from Shephard's Unmanned Vehicles and other publications from the public domain.

Skycar

Prior to full FAA certification (See "Regulation - Airworthiness Certificate Requirements" below), we hope to be able to sell our products to certain operators who are exempt from the civil aviation certification requirements. These may include:

- military and para-military (rescue, drug enforcement, and border patrol)
- wealthy individuals, for use within their own property in the U.S., Australia, Canada, etc.
- foreign countries where FAA certification is not mandatory

No such customers have made any binding commitments with regard to our products.

Market Segments

Although there is no assurance we will be successful, we will attempt to develop markets for the Skycar® within the following aircraft operator segments:

General Aviation

Private Individuals
Corporations
Charter and Rental Services
Aviation Schools
Utilities
News Gathering
Police/Fire/Rescue/Ambulance
Drug Enforcement
Express Delivery
Border Patrol

Military

Surveillance
Air utility vehicle
Rescue
Medical Evacuation

We have relied upon our own research and anecdotal data from a small number of potential customers who have visited our facilities and expressed interest in the Skycar to support our belief that operators in the above categories will be interested in purchasing Skycars. Individual fixed- and winged-aircraft owners, charter and rental service owners, corporate officers, and a variety of other interested parties have given us their input on the suitability and desirability of the aircraft within these fields of use. However, such subjective input does not necessarily indicate that an economically viable market exists for the Skycar. Further, the above listing of potential market segments does not imply that Moller has contacted or received an expression of interest from each such market segment.

Competition

Today, there is no company that we are aware of offering a vehicle that is substantially similar to the Skycar®. Companies periodically emerge with preliminary designs, but to date none has succeeded in demonstrating a working model, owing presumably to the high cost of developing the required technologies. Moller has test-flown an experimental vehicle and is completing the construction of a production prototype. Moreover, we have applied for and obtained patents on many key aspects of the Skycar, which we expect will stave off direct competition to some extent, although there can be no assurance of our ability to successfully defend our patents against infringement. The nearest competition, insofar as we are aware, appears to be the six to nine passenger tilt-rotor BA 609 (Bell-Agusta) which is in development. It's announced price of \$10 million, however, will likely constrain it to a different market than the target market for the Skycar®.

If we are able to successfully demonstrate the Skycar's flight characteristics, we expect that such success will generate renewed competitive interest. Primary competition is expected to come from large aircraft manufacturers because they have the resources necessary to enter the personal VTOL market. Given adequate financing, however, any of a number of existing small and large aircraft manufacturers could develop competitive products. We believe we have one advantage that will prove difficult for potential competitors to overcome, however, and that is our rotary engine and ducted fan propulsion technology. The advantage, however, may depend upon our future ability to successfully defend our intellectual property rights against infringement, of which we cannot be certain.

It is difficult for us to predict the precise sources of competition for our products, or our competitive position in the marketplace, owing to the fundamental dissimilarities between our products and the products that historically have been used in the roles for which our products are intended. Although we may surmise significant benefits to customers in switching to our products, because they represent a unique and innovative technology there is no historical basis for believing that customers will in fact switch.

In marketing the Skycar as a vehicle for personal transportation, we will have to compete against the sundry existing forms of transportation with which people are already familiar and comfortable. These include the automobile, railroads, buses, commercial aviation, and general aviation, among others. Each mode of transportation offers a unique set of advantages and disadvantages, relating to cost, convenience, comfort, safety, and perhaps other considerations. In order for the Skycar to gain acceptance as a mode of personal transportation, prospective users will have to conclude that its particular advantages justify its cost. There is no assurance that sufficient numbers of people will perceive such advantages as to create a viable market for Skycar.

AEROBOTS®

Many of the potential markets for air-borne remotely flown vehicles (Aerobot®) are currently addressed by manned helicopters and airplanes, both of which in our opinion represent significantly less economical solutions. In addition, the unmanned Aerobot® can operate in areas that are prohibitively dangerous for manned aircraft. Furthermore, the Aerobot®'s ducted fan design is well suited for operation in confined quarters where the exposed propeller or rotor blades of alternative solutions (both manned and unmanned) pose significant risks to people nearby and to the aircraft itself.

Market Segments

We believe the Aerobot® is suitable for a variety of commercial and military applications:

Commercial

Bridge and utility line inspection
Building heat loss detection
Smoke stack air quality testing
Electronic news gathering
Sports event reporting
Hazardous waste detection
Natural disaster damage assessment
Law enforcement
Fire surveillance

Military

Battle damage assessment
Electronic counter measures
Target acquisition
Surveillance
Communications relay
Decoy operations

Competition

There are a number of unmanned aerial vehicles ("UAVs") in production today worldwide; however none of these, so far as we are aware, possesses characteristics substantially similar to the Aerobot. The most similar is the CYPHER, developed by United Technologies. The CYPHER is not capable of transitioning to significant aerodynamic flight, is much larger than the Aerobot and is considerably more expensive than the Aerobot. The CYPHER's design is very similar to a helicopter and the price is expected to be roughly equivalent to a small helicopter at \$500,000 or more per vehicle.

The applications identified above in "Market Segments" have been compiled from lists of functions for existing UAVs. For example, the US Air Force has defined the roles and missions for a UAV with VTOL characteristics. This information is published on a publicly available web site (http://www.edwards.af.mil/articles98/docs_html/splash/may98/cover/future.htm). The US Navy's needs and requirements have been described in several articles, one of which is "Autonomous Vehicles and the Net-Centric Battlespace", by Barbara Fletcher, Space and Naval Warfare Systems Center, San Diego. In her paper dated April 24, 2000, Ms. Fletcher describes the potential role of UAVs in communications and control scenarios and specifically discusses the features of the Cypher VTOL UAV. In information describing the Cypher (<http://users.chariot.net.au/~theburfs/URcypher.html>) the company is reported to claim its product's non-defense roles outnumber potential military missions for the UAV, including counter-narcotics, ordnance disposal, forestry, law enforcement and search and rescue. We believe that if a less costly alternative with substantially the same performance characteristics to the Cypher were available, it would be considered by several government agencies.

Model helicopters are also competitors but are dangerous and very difficult to fly. Since both these competitors rely principally on direct lift their range and endurance are both limited compared to a transition-capable Aerobot.

The main advantage of the non-transitioning Aerobot is safety, size, ease of control, and low relative cost even at modest volumes. However the political and financial resources of companies like United Technologies are such that the Aerobot's superior performance does not guarantee it an economically viable market.

REGULATION

Airworthiness Certification Requirements

The Federal Aviation Act of 1958, as amended, vests in the Federal Aviation Administration (commonly, the "FAA") the authority to regulate virtually all aspects of civil (i.e., non-military) aviation within the United States, including pilot certification, airspace usage, and the certification of aircraft. The FAA exercises its authority primarily through the issue and enforcement of regulations, known as the Federal Aviation Regulations (or "FAR"s), which are codified in Title 14 of the Code of Federal Regulations. Among other things, the FARs set forth the type certification requirements (known as "airworthiness standards") for aircraft designs, the requirements for manufacturers' production quality control systems, the requirements for airworthiness certification of individual aircraft, and the operations and maintenance rules for air carriers and repair facilities.

The Aircraft Certification Service (designated "AIR" by FAA) is the department within the FAA that develops and administers safety standards for aircraft and related products that are manufactured in the United States or are used by operators of aircraft registered in the United States. Related products include engines, propellers, equipment, and replacement parts. As a regulatory function, AIR's mission priorities are:

1. continued airworthiness and other activities related to continued operational safety;
2. rulemaking and policy development; and
3. certification.

Continued airworthiness is given the highest priority because these activities have the greatest impact on the safety of operating aircraft and because they promote the continued satisfactory performance of approved systems, such as manufacturers' approved quality control systems. Rulemaking and policy development are considered to be a higher priority than issuing new certificates because the integrity of the certification program depends on the currency of applicable rules and policies.

One of the key goals of the certification and continued airworthiness standards is that each safety-critical system have a reliability of at least 0.999999999 per flight hour, which is another way of saying that a particular safety-critical component or system should have no more than a one-in-one-billion chance of failure for each flight hour. In pursuit of this goal, the regulations address a combination of requirements for design, analysis, test, inspection, maintenance, and operations. To permit design innovation, the regulations for the most part avoid specifying details such as materials, structural concepts, etc.; instead, designers are given a free hand as long as they accept the responsibility for showing that systems with innovative design features meet the FAA's stringent reliability standards.

The cornerstone of AIR's certification process is the "airworthiness certificate," issued for each individual aircraft. Generally, regulations prohibit operating an aircraft without an airworthiness certificate, or in violation of any limitation or restriction of its airworthiness certificate. Certificates may be issued as either "standard" or "special." Aircraft certificated in the Standard category are subject only to the same operating restrictions as most other production aircraft, that is, that they be operated within the manufacturers' approved design limitations for the particular type. "Special" category aircraft might include experimental designs or homebuilt aircraft, for example, and may be subject to various operational restrictions, such as a prohibition against carrying non-crewmember passengers, or operating over densely populated areas.

For a civil aircraft to receive an airworthiness certificate, the FAA must determine that the aircraft conforms in detail to an FAA-approved type design and is in safe operating condition. Similar requirements exist for engines, propellers, and certain materials, parts and equipment installed on certificated aircraft. The first step in the certification of a new design is to establish which body of standards will apply. Because the original aircraft classifications of "airplane," "airship," "rotorcraft," etc. would not accommodate the radical design of the Moller 400 Skycar® (and a couple of other VTOL designs in development by other companies), the FAA in the early 1990s established a new category and class of aircraft: "Powered-lift -- Normal Category," and set about developing an airworthiness criteria manual that would serve as the basis for certification. As of this filing, the manual has not been finalized, but we expect that the draft will suffice for us to proceed with

initial testing toward certification. In fact, the FAA has indicated to us that because of the uniqueness of the Skycar®, they expect to develop the final airworthiness criteria as we progress through the test program.

Once the company has been issued a "Type Certificate" for a particular design, each production aircraft we manufacture to those same specifications will be entitled to a "standard" airworthiness certificate. Even after the Type Certificate is issued, however, AIR has the authority to order us to make design changes if it determines that safety so requires.

Establishment of Skycar Certification Criteria

In 1990 Mr. Jack Allison, formerly a vice president and a director of Moller International, began working with the FAA with the goal of identifying the appropriate airworthiness criteria for certification in a newly-established aircraft category designated "powered lift - normal category," in which the M400 Skycar is classified. The first meeting was to organize the effort to complete the airworthiness criteria manual, and was attended by about 75 representatives from seven foreign and domestic aircraft and aerospace manufacturing companies, and members of the press. As a result of that meeting, Mr. Allison was appointed to the "technical issues panel" charged with responsibility for the primary flight systems. Other panels handled powerplants, avionics, and the airframe. A draft of the manual was issued and is now available.

The FAA has recently informed us that of the original seven firms involved in the effort, Moller appears to be the only one moving toward certification. The FAA has displayed what we regard as a very cooperative attitude through all of our preparatory work.

On May 19, 1999, Mr. Allison provided an informational briefing at Edwards Air Force Base on the Skycar. In attendance were a consortium of (1) test pilots from the Air Force stationed at Edwards AFB, (2) scientists and engineers from NASA Dryden, and (3) flight instructors and aircraft inspectors from the National Test Pilots School. As a consequence of this meeting, Moller received a proposal from this consortium that outlined a combined certification and airworthiness program for the Skycar, whereby the flight certification documentation would be written in parallel with the flight testing. This procedure would accelerate the process of identifying certification criteria and reduce the time necessary to achieve production-oriented procedures and processes. The consortium estimates that the proposal would require Moller to budget \$1.2 million for the program with a time frame of approximately three years to define the requirements for FAA certification. The FAA has not approved or disapproved the proposal, nor is it the agency's function to do so. The objective of this activity is to provide suggested appropriate additions to what we feel is the currently immature language of the FAA's regulations regarding the issuance of Airworthiness Criteria for Powered Lift Normal Category aircraft.

Effect of Certification Requirements On Our Operations

An aircraft's airworthiness certification bears on its usefulness to its owner or operator. In particular, the value to a prospective purchaser of an un-certificated or "special" certificated aircraft may be affected to some extent by the corresponding operational restrictions, which can prevent them from taking full advantage of the aircraft's design capabilities. Certain operators, however, are exempt from the airworthiness requirements to varying degrees, and

we expect that such operators may provide a market for our products prior to final FAA certification. See "Marketing Strategy" below.

Certification testing will be a recurring expense for us as we bring our products to market, and incorporate design improvements into previously certificated models. The initial type certification testing on each aircraft design will encompass design approvals for materials, spare parts, and other equipment to be installed. Therefore, if we or any of our potential strategic partners should choose to make a major modification in a model, such as an airframe re-design or changing a safety-related onboard system, the change may have to undergo additional testing to prove the new system's reliability.

As a future aircraft manufacturer, we will undertake an ongoing obligation to monitor the serviceability and safety of the aircraft we expect to build and sell. We intend to establish and maintain, at our expense, a system of feedback and reporting whereby maintenance mechanics and inspectors can report back to us any and all failures, excessive or unpredicted wear, malfunctions, and flight safety issues of any kind that arise or are detected during maintenance and repair activities. Where appropriate, we will issue "service bulletins" to owners and operators of the affected model, detailing the problem and our recommendation for correction. Where the problem may potentially affect the safety of flight operations, we may recommend to the FAA that they issue an Airworthiness Directive (commonly called an "AD") making the correction mandatory for every operator.

It is impossible to predict the future costs to us of ongoing compliance with federal airworthiness regulations; however, we expect that the costs will be manageable and that we will be able to absorb them in our pricing structure.

Pre-production Test Flight Program

Tethered flight tests have been conducted with the M200X aircraft using the same number of rotary engines (eight) and a forerunner of the type of electronic control and stabilization system as is employed on the M400 Skycar®. We have conducted extensive ground tests of all of the M400's systems and have now completed the initial tethered flight tests and hover demonstration.

We began test flying the pre-production model of the M400 in late 2002. The aircraft was flown tethered so we could test and de-bug the stabilization and control electronics. These flight tests first explored systems functions in the safest portions of the flight envelope, then expanded the envelope. We expect the entire test program, involving many hours of powered tests on the ground and in tethered flight, and several hundred hours of free flight tests, to extend through the year 2006 to achieve FAA "Experimental" certification. However, this forecast is based upon the assumptions that (a) the Company will succeed in raising sufficient capital to cover the costs of flight testing, (b) a number of remaining engineering problems will be resolved through further development, and (c) that the FAA will establish certification criteria for the Skycar that are within our technical capabilities. All of these assumptions remain highly uncertain as of the date of filing of this registration statement.

Pilot Requirements

Initially, a private pilot's license will be required to pilot the Skycar®, primarily to ensure adequate flight management and navigational skills. To obtain a license, the prospective pilot must pass a flight test administered by a licensed flight instructor in order to demonstrate familiarity with its simplified controls. The Skycar® is not piloted like a traditional fixed-wing airplane and has only two hand control sticks that the pilot uses to inform the redundant computer control systems of his or her desired flight maneuvers. The Company plans to have its own pilot training program until the Skycar® is FAA certified. Once the Skycar® is certified, it is expected that all training programs will be provided by private and/or military aircraft flight training schools. The FAA has begun awarding "Powered Lift" pilot's licenses.

MARKETING STRATEGY

In the early stages of sales development, we plan to market primarily through direct selling by Company sales specialists to individual customers within our target markets. Brand exposure may be accomplished through displays at trade shows and industry exhibitions, direct mail, advertisements in aviation publications, and cooperation with the news media. For at least three decades the news media has followed the progress of Paul Moller's VTOL research and experimentation, underscoring the public's perennial fascination with the promise of convenient and affordable air travel made as personal and individualized as automobile travel has been. We expect, but cannot be certain, that the Skycar will continue to receive periodic media coverage as we approach our first delivery schedules.

M400 Skycar®

Although sales of the Skycar® into most civilian markets will require that we be able to deliver an FAA certificated aircraft, the regulations permit certain types of operations by certain defined operators to be conducted without the standard airworthiness certification requirement. These markets include:

Government -- domestic and foreign agencies including:

- Police departments
- Border Patrol
- Forest Service
- Drug Enforcement agencies
- Medical services

Initially, we anticipate that most sales to this segment will consist of Skycars® for test and evaluation. The craft's capabilities should make drug enforcement agencies and Border Patrol viable candidates for early purchases. However, we have not received any commitments from those agencies to make any such purchases.

Military -- Initial sales to domestic and foreign military organizations will likely be for test and evaluation purposes. We anticipate that military organizations will utilize the Skycar® in

critical applications for which competing aircraft are ill suited. For example, the Skycar® is expected to have superior speed, range and VTOL capability for the rescue of crews of downed aircraft with minimal risks. In addition, military subcontractors may wish to use the Skycar® as a platform for autonomous aircraft programs, one of the fastest growing areas of military spending. Autonomous aircraft applications currently utilize un-manned aircraft piloted by infrequent remote control commands or under the control of a monitoring computer. Such aircraft are currently in use by the military as remote data gathering platforms that feed information via radio or other communication links back to a flight control center. Moller expects that military organizations will wish to use Skycars® in a broader range of applications if volume production reduces manufacturing costs and overall pricing. Eventually, we believe the Skycar® has the potential to become the aerial counterpart of the "HMMWV," the military's current ground utility vehicle.

Corporations – Moller intends to sell the M400 Skycar® to corporations for use in the airspace above their property and we plan to specifically target companies in industries such as timber and oil that have survey and exploration needs. The Company also expects that it will be able to address a broader range of commercial applications in some foreign markets due to fewer legal restrictions than in the United States.

Assuming that the Skycar eventually receives full airworthiness certification, we will consider augmenting our sales efforts with retail dealerships, either existing or newly-franchised. Further, we intend to establish a network of regional maintenance and repair facilities, either Company-owned or partnered with existing service facilities, to handle routine maintenance and repair services for non-military Skycars.

MANUFACTURING

Skycars®

We believe that the long-term success of any aircraft manufacturer is dependent on the quality of the vehicle produced. The quality of both the design and manufacturing processes is important. Moller expects to purchase or contract out the major Skycar® components that require capital intensive equipment, subject to Moller's rigid specifications and stringent quality assurances and testing requirements. We expect that some components and parts will be finish-machined in Moller's facilities when they have proprietary technological content, require special finishing, or are small custom parts with little tooling required. Moller plans to perform quality control, assembly and final test work at its own facilities. During 2002 and 2003, any manufacturing work will necessarily be executed using low volume techniques. Special tooling and manufacturing processes are expected to be developed for higher volume production in the year 2004 and beyond.

Airframe manufacture encompasses the assembly of the major airframe components (fuselage, wing and nacelles) and installation of fuel and oil tanks, parachutes, seats, canopy, landing gear, and the vertical thrust vane system. Moller anticipates that a key strategic partner will be required in order to complete composite airframe construction. Moller will require a complete test of all systems through an extensive flight test program before final release.

Important electronic systems include computer stabilization, pilot controls, display, power regulation and engine controls. Electronics manufacture will include the following activities:

- Assembly of electronic sub-systems
- Burn-in of electronic components
- Mounting of printed circuit boards
- Fabrication of electronic enclosures
- Interconnection of components and wiring
- Installation of equipment in airframe

While no specific firm has been identified at this point, we expect to work with one or two key strategic partners to provide electronics and avionics systems for the Skycar®.

The quality control department will be an autonomous organization carefully integrated into every aspect of the production operation. Every employee will play a part in assuring the highest possible level of quality and performance.

Aerobots®

Both electric-powered and fuel-powered Aerobots® can be produced in the present Moller facility in volumes of up to four per week, which is sufficient for currently projected production through 2002. The electric-powered Aerobot® consists of off-the-shelf components and high performance motors, electronic control boards, and a composite frame manufactured by Moller. Both individual components and final assembly are inspected to assure product quality. The fuel-powered Aerobot® utilizes the Moller rotary engine (single-rotor) and thus requires more extensive facilities. The frame of the fuel-powered Aerobot® is of welded construction; the fuel tank, duct and cowling are composites. Some component and subassembly tests will supplement the basic assembly quality control. Costs of manufacture are expected to decrease for both Aerobots® as production volumes increase. However, no specific amount or rate of decrease can be projected at this time.

In most cases, customers require a complete operating system, not just a vehicle. Moller plans to supply the radio control system and, in some cases, install the interface for the payload sensor system.

Engine

We expect that our Freedom Motors affiliate will supply most of the primary engine components necessary to generate a FAA certified Rotapower® engine. For that reason various elements are already incorporated into the basic engine design to satisfy future requirement for FAA certification. For example, dual spark plugs and an appropriate thrust load carrying bearing are already part of the basic design. Moller will inspect, assemble, and test completed engines prior to their sale or incorporation in Skycars® and Aerobots®.

EMPLOYEES

We currently have 7 full-time employees and 4 part-time employees, including 5 management and executive management personnel. We have no specific plans for a significant increase or decrease in the number of our employees. Future staffing needs will depend in large part on any partnering or out-sourcing arrangements we may make for manufacturing of components and sub-systems.

NEED TO RAISE ADDITIONAL CAPITAL TO COMPLETE DEVELOPMENT AND FLIGHT TESTING

We estimate a cost of \$26 million to demonstrate a flight worthy pre-production model of the M400 Skycar. If we are successful, we believe that the M400 Skycar would generate interest within the U. S. military in the larger M600 Skycar. It may require an additional \$40 million to complete an FAA-approved production facility that would allow the production of two M400 Skycars per day. Additional capital of \$20 to \$30 million will be required for start-up and inventory costs. Mass production of a civilian aircraft has never occurred but assuming success at a modest production level we anticipate that both military and civilian interest would justify the very large amount of capital (automobile-level production costs) necessary to achieve volume production of the Skycar. Such a level of production would be most likely to occur by means of a licensing arrangement or a strategic partnership with an established and well-capitalized company.

We anticipate that that if we successfully demonstrate translational flight capability in early 2007, the credibility of the company's technology will be greatly improved. We believe that such credibility, if realized, should provide a business basis for an initial public offering of the Company's common stock to raise the approximately \$90 to \$100 million required to support a modest Skycar production rate of 2 vehicles per day by the end of year 2009. Depending upon the advice of financial consultants we expect to engage, it may be necessary to seek the required capital in two or more stages and from both public and private sources. However, there can be no assurance that we will be able to raise the required capital for such limited production.

If translational flight capability is delayed or prevented for any reason, we may be unable to raise sufficient capital to support future development or production. In that event, the Company may be unable to continue its operations.

RISK FACTORS

Business Viability

We are still in the process of developing our products, and have yet to produce any meaningful level of sales or any profits from these products. There is no clear basis for judging our viability as a business enterprise, or our management's ability to develop the company to profitability.

Limited Experience

Our management has limited experience in aircraft manufacturing. While our management has considerable general business and management experience, and some

specialized knowledge and experience in the in the aircraft industry, none of our current management has significant experience managing a business that manufactures and markets aircraft. Accordingly, our success will depend in large part on our ability to recruit or to contract individuals with specialized skills and knowledge relating to aircraft manufacturing and marketing without adversely impacting the overall budget for employee compensation. There is no assurance that we will be successful in retaining such specialists.

Need for Additional Capital

We will have to raise substantial amounts of capital before we can produce meaningful revenues from sales of our products with no assurance as to when or at what level revenues will commence. We estimate that we will need about \$26 million to demonstrate a fully-functional, pre-production prototype Skycar, and an additional \$40 - \$90 million to complete FAA certification and begin initial production of certified aircraft. Should we be unsuccessful in raising the needed capital, we may never develop into a viable business enterprise. At this time, we have no specific arrangements with any underwriters for the placement of our shares, nor any binding commitments from any person to invest in the Company.

Dilution of Share Value

We will likely sell shares of our stock to raise capital needed to fund future operations. Any such sales will have the effect of reducing the proportionate ownership of existing shareholders.

Impact of Emerging Technologies

Evolving technologies may force us to alter or even abandon our product designs, or may render our proprietary technologies obsolete or non-competitive. Although we believe strongly in the existence of a substantial market for our products, new technologies are being developed and deployed at a rapid rate. It is possible that as time goes on, technological advances in such areas as power plants, propulsion systems, airframe materials, manufacturing systems, and perhaps others, will require us to make costly changes in our strategy or additional investments in equipment and in research and development in order to become or remain competitive.

Impact of Potential Product Liability Claims

The Company may expend an inordinate amount of its resources in litigating product liability claims. Historically, manufacturers of aircraft have been held by the courts to be liable for injuries suffered by crewmembers, passengers, and others where some design deficiency or manufacturing defect was found to have contributed to the injury. Although we intend to take all reasonable precautions in the design and manufacture of our products to ensure that they can be operated safely and without undue risk to life, health, or property, and we intend to purchase insurance against potential product liability claims, it is nevertheless possible that our operations could be adversely affected by the costs and disruptions of answering such claims.

Impacts related to Sarbanes-Oxley Act of 2002

We may be exposed to potential risks relating to our disclosure controls including our internal controls over financial reporting and our ability to have those controls attested to by our independent registered public accounting firm. Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX 404") requires public companies to include a report of management on the company's internal controls over financial reporting in their annual reports, including Form 10-KSB. In addition, the independent registered public accounting firm auditing a company's financial statements must also attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting as well as the operating effectiveness of the company's internal controls.

We will be required to evaluate our internal control systems in order to allow our management to report on, and our independent auditors attest to, our internal controls, as a required part of our Annual Report on Form 10-KSB beginning with our report for the fiscal year ending June 30, 2007. While we expect to expend significant resources over the next year in developing the necessary documentation and testing procedures required by SOX 404, there is a risk that we will not comply with all of the requirements imposed thereby. At present, there is no precedent available with which to measure compliance adequacy. Accordingly, there can be no positive assurance that we will receive a positive attestation from our independent auditors.

In the event we identify significant deficiencies or material weaknesses in our internal controls that we cannot correct in a timely manner or we are unable to receive a positive attestation from our independent auditors with respect to our internal controls, investors and others may lose confidence in the reliability of our financial statements and our ability to obtain equity or debt financing could suffer.

In addition to the above, in the event that our independent auditors are unable to rely on our internal controls in connection with their audit of our financial statements, and in the further event that they are able to unable to devise alternative procedures in order to satisfy themselves as to the material accuracy of our financial statements and related disclosures, it is possible that we would receive a qualified or adverse audit opinion on those financial statements and investors and others may lose confidence in the reliability of our financial statements and our ability to obtain equity or debt financing could suffer.

Item 2. DESCRIPTION OF PROPERTY

We currently lease and occupy a 34,500 square foot building located in Davis, California, which is owned by Dr. Paul S. Moller, the majority shareholder of Moller International. (see Note I to the financial statements)

Item 3. LEGAL PROCEEDINGS

Moller International, Inc. is named as a defendant in a lawsuit pending in Yolo County, California Superior Court captioned Houlihan v. Moller International, Inc., et al. The Complaint, filed in January of 2004 in Sacramento County Superior Court and later transferred to Yolo County Superior Court, alleges that the Company violated certain federal and state securities laws at the time the

plaintiff purchased his shares of common stock in the Company, and later when the Company offered to repurchase those shares. The plaintiff alleges damages of \$490,000 plus interest. The Company's Answer was filed in September 2004, and initial discovery commenced in early October 2004.

The Company intends to contest the case vigorously and while it is too early to assess the likelihood of a favorable outcome or the amount or range of potential loss, the Company and its counsel currently believe that there exist multiple viable defenses to the causes of action in the Complaint.

J.F. Wilson & Associates Ltd. v. Estate of Percy Symens, et al.

Moller International, Inc. is named as a defendant in this lawsuit pending in Yolo County, California Superior Court. The Complaint, filed in April of 2005, alleges that we unlawfully discharged solvents into the environment while doing business at 203 J Street and 920 Third Street in Davis, California, during 1968 to 1980. The complaint seeks injunctive relief and damages of an unspecified amount. Our answer, which denies the allegations in the complaint, was filed in June of 2005, and initial discovery commenced in August of 2005. Discovery has not been completed, no motions have been filed, and the case has not been set for trial. Further site investigation is required to determine the extent of the environmental contamination at these sites, and to determine or estimate its source or sources.

In a related administrative proceeding, on 9/26/06 the California Central Valley Regional Water Quality Control Board issued a draft Cleanup and Abatement Order (CAO) in connection with the property at 920 Third Street. We were named as one of the responsible parties in the draft CAO, along with our CEO and a number of individuals and entities not affiliated with us. This proceeding is at a very early stage, with comments on the draft CAO due by 11/20/06. We intend to challenge the characterization of us as a discharger of environmental contaminants, while also complying with the orders of the Central Valley Regional Water Quality Control Board. Our probable loss has been estimated at this time in the range of \$200,000 to \$1,000,000. We have accrued our estimated liability. It is reasonably possible that these estimates may be revised in the near term as the site investigation and other research and analysis proceeds.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the 2005 Annual Shareholders meeting held on November 5, 2005, the following individuals were elected to the MI Board of Directors by unanimous vote of shareholders present: Paul S. Moller, Faulkner White, Umesh Khimji, Jim Toreson, and Mike Shanley.

PART II

Item 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Moller International common stock is being publicly traded on the OTC-BB stock market. According to NASDAQ Financial data, the average adjusted closing price has ranged from a low of \$0.53 to a high of \$1.30 per share during this reporting period with an trading volume of 12,479 shares per trading day (as of 7 September 2006).

The following table is a summary of Moller International stock performance by calendar quarter since being listed by the OTC market in August 2002.

	High	Low
2002-Q3 (28 Aug to 30 Sep 2002)	\$7.50	\$4.15
2002-Q4 (1 Oct 2002 to 31 Dec, 2002)	\$6.50	\$2.00
2003-Q1 (1 Jan 2003 to 31 Mar 2003)	\$2.20	\$0.70
2003-Q2 (1 Apr 2003 to 27 Jun 2003)	\$1.00	\$0.34
2003-Q3 (1 Jul 2003 to 30 Sep 2003)	\$0.90	\$0.50
2003-Q4 (1 Oct 2003 to 30 Dec 2003)	\$2.30	\$0.65
2004-Q1 (1 Jan 2004 to 31 Mar 2004)	\$1.50	\$0.95
2004-Q2 (1 Apr 2004 to 30 Jun 2004)	\$1.45	\$1.30
2004-Q3 (1 July 2004 to 30 Sep 2004)	\$2.12	\$0.95
2004-Q4 (1 Oct 2004 to 31 Dec 2004)	\$1.50	\$1.25
2005-Q1 (1 Jan 2005 to 31 Mar 2005)	\$1.30	\$0.78
2005-Q2 (1 Apr 2005 to 30 Jun 2005)	\$1.20	\$0.82
2005-Q3 (1 July 2005 to 30 Sep 2005)	\$1.15	\$0.93
2005-Q4 (1 Oct 2005 to 30 Dec 2005)	\$1.40	\$0.60
2006-Q1 (1 Jan 2006 to 31 Mar 2006)	\$1.01	\$0.75
2006-Q2 (1 Apr 2006 to 30 Jun 2006)	\$1.00	\$0.53

Shareholders of Record

As of September 8, 2006 there are 626 shareholders of record for common shares of Moller International.

Dividends

The holders of our common stock have equal ratable rights to dividends from funds legally available for dividend payments when, as and if declared by the Board of Directors of the Company.

To date we have not paid or declared any dividends and we have no intention of declaring or paying any dividends in the foreseeable future.

If we decide to pay dividends, that decision will be made by our Board of Directors, which will likely consider, among other things, our earnings, our capital requirements and our financial condition, as well as other relevant factors. Our Board of Directors may declare and pay dividends to the Company's shareholders in the form of bonus shares. The shareholders would receive bonus shares in lieu of cash dividends, if any, declared and paid by the Company.

Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2006

Moller International continues its research and development activities on the Skycar project with the objective of improving flight duration and range of the aircraft. These efforts are an extension of successful flights throughout the previous years and extensive ongoing engine tests, which we believe, will result in incremental improvements to the existing prototype, future prototypes and/or

production aircraft, should we continue to operate. In addition, the Company continued its efforts to help Freedom Motors promote the Rotapower engine and assisted in discussions that resulted in Freedom Motor receiving two contracts for engine sales and development. Staffing levels decreased slightly as the company continues to reduce labor costs in an effort to conserve available operating funds. Management was successful in keeping Administrative salaries and wages significantly below the prior year's level. Seeking additional funding remains a top priority for the company.

Fiscal 2006 compared to 2005

Results of operations for the 2006 fiscal year varied significantly from 2005. We incurred net losses of \$6,902,166 and \$1,433,425 in fiscal 2006 and 2005 respectively.

Consolidated loss per share was \$.15 and \$.03 for the 2006 and 2005 fiscal years, respectively. We generated no significant amount of revenue in either fiscal year. We are currently using cash to fund operations at an approximate rate of \$65,000 per month, net of engineering revenue received, with the significant non-cash charges being depreciation and amortization of approximately \$30,000 per year, the deferral of certain executive salaries at an annual rate of \$250,000, the deferral of building rent of \$496,800 per year and the recognition of compensation expense related to the fair market value of stock issued for services and stock options granted to our employees of \$3,509,642 in fiscal 2006. \$3,304,172 of this amount related to the fair market value of stock options granted to our CEO and majority shareholder.

Salaries and wages, including benefits, remained relatively constant, representing 11% and 39% of total expenses for the 2006 and 2005 fiscal years, respectively. With the company continuing to conserve cash on hand, some employees voluntarily consented to defer pay, resulting in a total of \$ 293,866 of accumulated short-term deferred payroll as of June 30, 2006. Interest expense increased by \$350,580 over the prior year primarily as a result of the accrual of interest on our loans from Milk Farm Associates and from Dr. Moller. Milk Farm is a related entity because Dr. Moller is the general partner in Milk Farm and has a 34% ownership interest. The loan from Milk Farm is unsecured. It is due on demand and accrues interest at the maximum rate allowed by law. At the fiscal year-end 2006, the outstanding principal amount was \$647,065. Loans from Dr. Moller are also unsecured and carry a 10% annual interest rate. At June 30, 2006, the outstanding principal amount was \$2,037,238.

As of June 30, 2006, Dr. Moller had a balance of \$1,640,987 in deferred wages along with accrued interest. Subsequent to June 30, 2006, Dr. Moller waived the payment of \$1,449,248 and forfeited a portion of this accumulated amount.

Revenues decreased by \$565,015 in 2006. Contract revenues from our affiliated entity, Freedom Motors decreased \$594,300. Miscellaneous revenues increased by \$29,285 due to speaking engagements and, display and rental fees. These increases are not indicative of any meaningful revenue trends.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principals generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of any contingent assets and liabilities. On an on-going basis, we evaluate our estimates. We base our estimates on various

assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements:

Revenue Recognition

We recognize revenue based on the four principles established in GAAP. Those principles state that revenue generally is realized or realizable and earned when all of the following criteria are met:

1. Persuasive evidence of an arrangement exists,
2. Delivery has occurred or services have been rendered,
3. The seller's price to the buyer is fixed or determinable, and,
4. Collectibility is reasonably assured.

EFFECT OF ADOPTING NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." SFAS No. 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R requires that the fair value of such equity instruments be recognized as expense in the historical financial statements as services are performed. Prior to SFAS No. 123R, only certain pro forma disclosures of fair value were required. SFAS No. 123 shall be effective for small business issuers as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The impact of the adoption of this new accounting pronouncement is included in the footnotes to the financial statements.

Item 7. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Moller International, Inc.
Davis, California

We have audited the accompanying consolidated balance sheet of Moller International, Inc. as of June 30, 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended June 30, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Moller International, Inc. as of June 30, 2006, and the results of operations and cash flows for the year ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that Moller International, Inc. will continue as a going concern. As discussed in Note B to the financial statements, Moller International, Inc. suffered recurring losses from operations and has a working capital deficiency, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

MALONE & BAILEY, PC
www.malone-bailey.com
Houston, Texas
October 13, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Moller International, Inc.
Davis, California

We have audited the accompanying Moller International, Inc. and subsidiaries (the Company) consolidated statements of operations, stockholders' deficit and cash flows for the year ended June 30, 2005. These financial statements are the responsibility of Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, Moller International, Inc., and subsidiaries' consolidated results of operations and cash flows for the year ended June 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note B to the financial statements, the Company has not generated any significant revenue from operations and is in need of additional infusions of operating capital in order to complete the development of its Skycar product and other product offerings. This factor raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to this matter are also described in Note B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants
Pleasanton, California
August 8, 2005

MOLLER INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2006

(Audited)

ASSETS

CURRENT ASSETS

Cash	\$ 1,431
Accounts receivable - employees	79,945
Total current assets	<u>81,376</u>

PROPERTY AND EQUIPMENT, net of \$875,498 accumulated depreciation 11,186

OTHER ASSETS 51,548

\$ 144,110

LIABILITIES AND DEFICIT IN STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable, trade	\$ 270,176
Accrued liabilities	285,544
Accrued liabilities-related parties	135,324
Accrued liabilities-majority shareholder	1,798,968
Other notes payable	544,968
Notes payable - majority shareholder	2,037,238
Notes payable - minority shareholders	318,729
Note payable - related parties	647,065
Deferred wages - employees	293,866
Customer deposits	442,267
Total current liabilities	<u>6,774,145</u>

LONG TERM LIABILITIES

Deferred wages and interest-majority shareholder	<u>1,640,987</u>
Total liabilities	<u>8,415,132</u>

DEFICIT IN STOCKHOLDERS' EQUITY

Common stock, authorized, 150,000,000 shares, no par value, issued and outstanding, 45,526,821 shares at June 30, 2006	29,538,873
Accumulated deficit	<u>(37,809,895)</u>
Total deficit in stockholders' equity	<u>(8,271,022)</u>
	<u><u>\$ 144,110</u></u>

See summary of significant accounting policies
and notes to financial statements

MOLLER INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDING JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
REVENUE		
Contract revenues, affiliated entity	\$ 12,600	\$ 606,900
Miscellaneous	61,224	31,939
Total income	73,824	638,839
EXPENSES		
Project labor	216,112	305,788
Stock based compensation	3,509,642	-
Bad debt expense	1,241,692	-
Project materials	41,103	77,317
Project subcontracted services	17,651	110,696
Administrative salaries and wages	355,025	302,704
Other labor	12,336	91,724
Employee benefits and payroll taxes	125,843	118,229
Marketing materials	2,184	5,781
Office and shop supplies	15,144	21,992
Shipping and postage	7,678	12,009
Telephone	7,532	8,516
Travel, automotive, meals	18,021	16,588
Legal, accounting, and consulting fees	319,279	110,718
Patent expense	-	52,276
Rent expense to majority shareholder	526,539	496,800
Utilities	41,035	38,347
Repairs and maintenance	4,206	5,560
Insurance	300	27,246
Depreciation and amortization expense	11,878	29,205
Property, sales and use taxes	5,360	36,835
Bank and loan fees	2,385	2,283
Other expenses	(54,209)	2,976
Total expenses	6,426,736	1,873,590
Loss from operations	(6,352,912)	(1,234,751)
OTHER EXPENSES		
Interest	549,254	198,674
NET LOSS	\$ (6,902,166)	\$ (1,433,425)
Loss per common share, basic and diluted	\$(0.15)	\$(0.03)
Weighted average common shares outstanding	45,204,585	44,650,281

See summary of significant accounting policies
and notes to financial statements

MOLLER INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF DEFICIT IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	Common Stock		Accumulated	Related Party	
	Shares	Amount	Deficit	Receivable	Total
Balances at June 30, 2004	44,625,281	\$ 25,392,447	\$(29,474,306)	\$(1,210,248)	\$(5,292,107)
Common Stock issued	25,000	30,000			30,000
Increase in receivable from related party				(45,800)	(45,800)
Net loss for the year			(1,433,423)		(1,433,423)
Balances at June 30, 2005	44,650,281	25,422,447	(30,907,729)	(1,256,048)	(6,741,330)
Shares issued for Services	291,251	269,542			269,542
Shares issued for deferred compensation	315,532	320,842			320,842
Shares issued for settlement of debt	269,757	285,942			285,942
Decrease in receivable from related party				14,356	14,356
Fair value of employee stock options		205,928			205,928
Fair value of executive stock options		3,034,172			3,034,172
Write off balance due from affiliate				1,241,692	1,241,692
Net Loss For the Year			(6,902,166)		(6,902,166)
Balances at June 30, 2006	45,526,821	\$29,538,873	\$(37,809,895)	-	\$(8,271,022)

See summary of significant accounting policies
and notes to financial statements

MOLLER INTERNATIONAL INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDING JUNE 30, 2006 AND 2005

	2006	2005
Cash Flows Used in Operating Activities		
Net Loss	\$ (6,902,166)	\$ (1,433,425)
Adjustments to Reconcile Net Loss to Net Cash Used :		
Depreciation Expense	11,878	25,017
Stock based compensation	3,509,642	30,000
Bad debt expense--	1,241,692	-
Changes in assets and liabilities:		
Accounts receivable	22,885	(51,491)
Accounts payable	112,660	76,850
Accrued liabilities	728,027	729,932
Customer deposits	(5,374)	25,141
Deferred wages and accrued interest-majority shareholder	432,126	159,998
Due from affiliate	14,356	(45,800)
Net Cash Used in Operating Activities	(834,274)	(483,778)
Cash Used in Investing Activities		
Purchase of equipment	-	4,178
Purchase of other assets	(51,548)	-
Net Cash Used in Investing Activities	(51,548)	4,178
Cash Flows Provided from Financing Activities		
Borrowings from debt	1,228,139	644,719
Payments of notes payable	(367,899)	(139,824)
Net Cash Provided from Financing Activities	860,240	504,895
Net (decrease) In Cash	(25,589)	25,295
Cash Balance at End of Period	1,431	27,013
Cash Balance at Beginning or Period	\$ 27,013	\$ 1,718
Schedule of Non-cash Operating and Financing Activities:		
Shares issued for accrued liabilities	\$ 320,842	\$ -
Shares issued for notes payable – majority shareholder	\$ 285,942	\$ -
Cash Paid During the Period For:		
Interest	\$ 123,870	\$ 14,187

See summary of significant accounting policies
and notes to financial statements

MOLLER INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Moller International Inc., (MI) consolidates the accounts of its wholly owned, inactive subsidiary, Aerobotics Inc. (AI).

MI is the successor to Moller Corporation (MC), an inactive entity. MC's only significant asset is its investment in MI as it holds 25,919,909 shares of MI, representing 58.1% of the outstanding common stock of MI. Dr. Paul S. Moller is the sole shareholder of MC, and thus, the majority shareholder of MI. All significant intercompany transactions and balances have been eliminated.

MI has historically entered into several lines of revenue-producing business activities including the design and development of rotary engines, remotely controlled flying vehicles, automotive mufflers and vertical takeoff and landing aircraft. MI has for the past fifteen years devoted most of its efforts to the design and development of a Vertical Takeoff and Landing (VTOL) vehicle known as the Skycar. The Skycar program is still in the development stage at this point.

Research and Development Costs

All research and development costs are expensed as incurred.

Cash and Cash Equivalents

MI considers all highly liquid debt instruments with an initial maturity date of 90 days or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting periods. Actual results could differ from those estimates.

Loss Per Share (LPS)

Basic LPS excludes dilution and is computed by dividing the loss attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted LPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in the earnings of the entity. Diluted LPS is the same as basic LPS for all periods presented because all potentially dilutive securities have an anti-dilutive effect on LPS due to the net losses incurred. At June 30, 2006, the total number of shares of common stock relating to outstanding stock options and other

potentially dilutive securities that have been excluded from the LPS calculation because their effect would be anti-dilutive approximated 13,074,212 shares.

Property and Equipment

Property and Equipment is recorded at cost and is depreciated over its estimated service life on a straight-line basis. Estimated service lives range from five to fifteen years.

Production and R&D Equipment	\$ 393,158
Computer equipment and software	417,876
Furniture and fixtures	75,650
	<hr/> 886,684
Less accumulated depreciation	(875,498)
	<hr/>
	\$ 11,186
	<hr/> <hr/>

Revenue Recognition

MI recognizes revenue when persuasive evidence of an arrangement exists, services have been rendered, the sales price is fixed or determinable, and collectibility is reasonably assured

In the case of MI's recognition of revenue from engineering services provided to Freedom Motors, an affiliated entity and former subsidiary, which shares common ownership with some of the existing shareholders of MI, the arrangement is the Technology Development and License Agreement entered into between Freedom Motors and Moller International in 1998 (previously filed as Exhibit 10 to the Company's Form 10-SB, filed on EDGAR September 21, 2001). Under this agreement, Moller International committed to providing engineering services, as deemed reasonable, to perform scientific and engineering technical support for the rotary engine. The support is generally in the form of labor using the expertise of MI's employees, and temporary use of a portion of MI's facilities or equipment.

Delivery is considered complete when a specific defined task or milestone is completed, as demonstrated by the issuance of engineering documents (procedures, drawings, models, prototypes, etc.) and provided to Freedom Motors or its assigns. The date the information or material is provided to Freedom Motors is considered the delivery date.

The final criterion, Collectibility, is determined by Freedom Motors' ability and willingness to pay its debts. Since Freedom Motors is itself a startup company, it has not been in a position to pay until it acquired contracts and received revenue from those contracts. When Freedom Motors received revenue during this reporting period, they notified Moller International and stated their intent to pay a portion of fees accumulated for services rendered. When the payment for services is received by Moller International, then management recognizes and records revenue that is equal to the fees received.

Miscellaneous income derived from the sale of t-shirts, model cars, information packets and other items is recognized at the time of sale. Additional contract revenues are generated from the leasing of a full-scale Skycar model for various exhibitions. Revenue from the leasing of the Skycar model is recognized over the term of the contract period. Miscellaneous income and leasing revenues are considered to be insignificant and not critical to the goal of achieving profitable operations.

The company performs contract services for its former subsidiary, Freedom Motors (FM). In accordance with the Technology Development and License Agreement between MI and FM dated October 28, 1999, MI provides FM the personnel and facilities as required to adapt its Rotapower engine to applications where the potential exists for high volume production. MI also handles FM's bookkeeping and other administrative functions. From the date of the spin-off, April 1, 2001, forward, due to the uncertainty of FM's ability to pay amounts owed, MI does not recognize any revenue related to these transactions with until it receives payment from FM. Accumulated billings to FM for the period from April 1, 2001 to June 30, 2005 totaled \$4,109,617. For the year ended June 30, 2006, contract services billed to FM totaled \$1,864,252, resulting in accumulated billings of \$5,109,714. The amount of these billings have been fully reserved against, with a resulting increase in bad debt expense during the period ended June 30, 2006 of \$1,241,692.

For the year ended June 30, 2006, FM remitted a total of \$12,600 in payments to MI which has been recognized as contract revenues in the statement of operations for the year ended June 30, 2006. In addition, in prior years, FM had remitted a total of \$931,317 in payments to MI. Those amounts had been previously classified as a reduction in the A/R from affiliate receivable between the two companies. This receivable was reflected as a reduction in stockholders' equity in MI's financial statements. For the year ended June 30, 2006, this amount was considered uncollectible by management due to Freedom Motor's development stage activities.

NOTE B - GOING CONCERN

MI has a net loss of \$6,902,166 for fiscal 2006 and has an equity deficit of \$8,271,022. MI currently has no revenue-producing products and is continuing its development of products in both the Skycar and Rotary engine programs. Successful completion of product development activities for either or both of these programs will require significant additional sources of capital. Continuation as a going concern is dependent upon the Company's ability to obtain additional financing sufficient to complete product development activities and provide working capital to fund the manufacture and sale of MI's products. These factors raise substantial

doubt as to MI's ability to continue as a going concern.

Management is currently pursuing additional sources of capital in quantities sufficient to fund product development and manufacturing and sales activities.

The majority shareholder of MI is providing funds received from the refinance of both real property owned by him personally and real property owned by a limited partnership of which he is the general partner, in the form of short-term, interest-bearing demand loans to MI. As of June 30, 2006, a total of \$2,037,238 has been loaned to MI from these transactions. In addition, he has deferred payment of current year building rent owed by MI of approximately \$342,200. The total deferred rent owing to Dr. Moller at June 30, 2006 is \$1,421,479.

There can be no assurance that this majority shareholder will continue to have the ability to continue to make such short-term loans to MI in the future. Dr. Moller is under no legal obligation to provide additional loans to the company. In the event that he cannot continue to make such loans, or that MI does not receive funds from other sources, MI may be unable to continue to operate as a going concern.

There is no assurance that the funds generated from these activities or other sources will be sufficient to provide MI with the capital needed to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

NOTE C - Stock-Based Compensation

Prior to December 31, 2005, MI accounted for stock-based compensation under Statement of Financial Accounting Standards No. 123. As permitted under this standard, compensation cost was recognized using the intrinsic value method described in Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations in determining compensation cost for options issued to employees. Accordingly, no compensation cost had been recognized upon issuance of the option prior to January 1, 2006.

Effective January 1, 2006, MI adopted Statement of Financial Accounting Standard No. 123(R) and applied the provisions of the Securities and Exchange Commission Staff Accounting Bulletin No. 107 using the modified - prospective transition method. During the year ended June 30, 2006, MI issued 3,988,914 options with terms ranging from five to ten years and exercise prices ranging from \$0.85 to \$1.03 to employees, of which 3,194,762 were issued to an executive officer with a term of five years and an exercise price of \$0.86 per share. As such, total compensation expense of \$3,240,100 was recognized during the year ended June 30, 2006. Of this amount \$3,034,172 related to the fair value of the stock options granted to an executive officer and \$205,928 related to stock options granted to employees. The following table illustrates the effect on net loss and net loss per share if MI had applied the fair value provisions of SFAS 123R, *Accounting for Stock-Based Compensation*, to stock-based employee compensation relating to stock options for the prior periods presented.

	2006	2005
Net income (loss) as reported	\$ (6,902,166)	\$ (1,433,425)
Add: stock based compensation determined under intrinsic value	-	-
Less: stock based compensation determined under fair value-based method	3,240,100	24,433
Pro forma net loss	\$ (3,662,066)	\$ (1,457,858)
Basic and diluted net loss per common share:		
As reported	\$ (0.15)	\$ (0.03)
Pro forma	(0.08)	(0.03)

The pro forma compensation cost was recognized for the fair value of the stock options granted, which was estimated using the Black Scholes method, based on assumptions including (1) risk-free interest rates ranging from 3.98% to 4.88%, (2) an estimated life of the options of five to ten years, (3) no dividend rate and (4) computed volatility rates ranging from 177.58% to 187% on the underlying stock.

During the year ended June 30, 2006, MI issued 291,251 shares for services to outside consultants and estimated the value of these shares at the market value on the date of issuance of \$269,542.

NOTE D - CUSTOMER DEPOSITS

Customer deposits are payments made to MI, generally at \$10,000 per unit, for the purpose of reserving specific delivery positions for Skycars when they become available for sale to the public. Deposits are refundable at any time upon request.

NOTE E - DEFERRED WAGES

The annual salary of the president \$250,000 is being deferred until MI has reached a consistent level of profitability.

The president is aware and has expressly agreed to defer any accrued wages until such time that the company becomes profitable. The President expects profitability of MI to be greater than a one-year time frame. At of June 30, 2006, as a result of these expectations, has classified the accrued wages of \$1,428,861 along with the accrued interest of \$212,126 as non-current.

At of June 30, 2006, members of management and other employees have deferred \$245,194 of wages along with accrued interest of \$48,672.

NOTE F - NOTES PAYABLE

MAJORITY SHAREHOLDER

Notes payable to the majority shareholder, Dr. Paul S. Moller, are unsecured, and due on demand. There are two separate notes, one for \$1,766,438 which bears interest at 10% per annum, and another note for \$270,800 that is non-interest bearing. During fiscal 2006, Moller loaned MI an additional \$79,254, representing an increase in the interest bearing loan balance. Accrued interest on this loan aggregated \$377,489 at June 30, 2006.

MINORITY SHAREHOLDER

Notes payable to minority shareholders, at June 30, 2006 consisted of short-term borrowings, all due on demand with an interest rate of 10% per annum. The aggregate balance outstanding at June 30, 2006, was \$318,729.

RELATED PARTY

During the year ended June 30, 2006, MI repaid \$169,060 in loans and borrowed an additional \$428,149 had a \$647,065 balance owed to Milk Farm and a related entity. The note is unsecured and bears the maximum interest allowed by law. Accrued interest on this loan totaled \$135,324 at June 30, 2006.

OTHER NOTES - Pelican Ventures

In 2001, Pelican Ventures LLC loaned \$500,000 to MI for the development of a diesel-powered rotary engine. The loan carries interest at 9%, is secured by substantially all assets, and was originally due in 2002.

Pelican canceled the agreement in June 2002 and the dispute has not been resolved. MI ceased accruing interest in August 2002.

NOTE G - COMMON STOCK TRANSACTIONS

During the year ended June 30, 2006, MI issued 291,251 shares of common stock to certain individuals in recognition of various services provided. MI recorded compensation expense of \$269,542 based on a fair market value per share of \$0.53 to \$1.06, determined by taking the closing price for the stock at the dates the services were provided.

During fiscal 2006, MI issued 315,532 shares to a former officer to settle unpaid wages that had been deferred by MI in the amount of \$320,842. Also during the year, MI issued 269,757 shares to the same individual for an outstanding debt amount that MI owed the majority shareholder and CEO. The former officer had loaned the majority shareholder and CEO money, that the CEO in turn loaned to MI. The outstanding debt settled with these shares totaled \$285,942.

During fiscal 2005, MI issued 25,000 restricted shares of common stock to certain individuals in recognition of various services provided. MI recorded compensation expense of \$30,000 based on a fair market value per share of \$1.20, determined by taking the closing price for the stock at the date the services were provided.

NOTE H - LEASE COMMITMENT

MI's operations are housed in one 34,500 square foot building, which is leased from Dr. Moller. The term of the current lease is for ten years ending June 30, 2013, at \$41,400 per month with a provision for an adjustment in the monthly rent in 2008. MI remains liable for all property taxes and insurance on the leased property. The minimum rental commitment remaining on the leased property is \$496,800 per year.

Rent expense charged to operations under this lease, including property taxes, aggregated \$526,539 and \$532,582 for fiscal 2006 and 2005, respectively.

NOTE I - STOCK OPTION PLANS

On January 21, 2004, MI adopted its 2004 Stock, Option and Restricted Stock Benefit Plan. The total shares available for grant under the plan aggregate 7,500,000 of which 1,158,507 are outstanding and 1,408,416 are reserved for issued options to purchase shares as of September 7, 2006.

Previously, MI had its 1991 Stock Option Plan that allowed for the granting of Nonqualified Stock Options (NSO's) to employees and consultants and Incentive Stock Options (ISO's) to employees. The total shares available for grant under that plan were 7,500,000 of which 1,066,552 are reserved for issued options granted as of June 30, 2004.

Neither plan includes either 6,000,000 share options granted to Dr. Moller, or 2,463,829 share options granted to certain non-employees.

Options shall vest and become exercisable at such time or times and on such terms as the Plan Administrators may determine at the time of the grant of the Option. The Plan Administrators shall establish the exercise price payable to MI for shares to be obtained pursuant to Options, which exercise price may be amended from time to time as the Plan Administrators shall determine.

On April 1, 2006, MI granted options to purchase 3,194,762 shares to Dr. Moller, at \$.86 per share, which was the average closing price during the period December 19, 2005 to January 20, 2006. The options terminate on March 1, 2011.

Compensation of Directors

Our employee directors do not receive any compensation for their services as directors. Non-employee directors are entitled to standardized stock option grants on the first day of a directorship year which begins on the date of election to the board. It is pro-rated for a new director appointed after a board year has begun. Non-employee directors receive a grant of 5,000 options to purchase common stock at an exercise price equal to the closing price on the date of appointment.

Option activity for the years ended June 30, 2006 and 2005 is as follows:

	Total	Range of	Total	Weighted
	<u>Granted</u>	Option	<u>vested</u>	Average
		<u>Prices</u>		Exercise
				<u>Price</u>
Balance at June 30, 2004	9,530,381	\$1.34 to \$4.58		\$1.74
Vested at June 30, 2004			9,182,324	\$1.61
Granted	614,264			
Exercised	-			
Forfeited	(1,059,352)			
Balance at June 30, 2005	9,085,293			\$1.57
Vested at June 30, 2005			9,060,293	\$1.57
Granted	3,988,919	\$0.86 to \$1.03		\$0.85
Exercised				
Forfeited	-			
Balance at June 30, 2006	13,074,212			
Vested at June 30, 2006			13,074,212	

Additional option information for the year ended June 30, 2006, is as follows:

Price Range	Outstanding	Weighted Average Price	Weighted Average Remaining Life in Years	Exercisable	Weighted Average Price
\$.81 to \$1.35	6,141,880	\$1.15	3.17	6,116,880	\$1.15
\$1.72 to \$2.67	2,459,644	\$2.16	0.75	2,459,644	\$2.15
\$3.24 to \$5.50	483,769	\$3.94	9.17	483,769	\$3.94
\$.86 to \$1.03	3,998,919	\$0.85	7.53	3,988,919	
	13,074,212	\$1.57		13,074,212	\$1.57

NOTE J - INCOME TAXES

At June 30, 2005, MI had \$28,680,000 in net operating loss (NOL) carryforwards to offset future federal taxable income. During fiscal 2006, the NOL increased by \$1,085,458 resulting in a net operating loss carryforward of \$29,765,458. In view of the uncertainty over MI's ability to generate sufficient taxable income in future years to utilize the NOLs, a full valuation allowance of \$29,765,458 million has been recorded to offset the deferred tax asset, resulting in no net deferred tax asset or liability (changes pending discussion with tax accountant).

NOTE K - LEGAL PROCEEDINGS

Houlihan v. Moller International, Inc., et al.

MI is named as a defendant in this lawsuit pending in Yolo County, California Superior Court. The complaint, filed in January 2004, alleges that MI violated certain federal and state securities laws and failed to disclose pertinent information at the time the plaintiff purchased his shares of MI common stock, and later breached a contract when MI offered to repurchase those shares. The plaintiff alleges damages of \$490,000 plus interest.

The case has been set for trial in November 2006.

J.F. Wilson & Associates Ltd. v. Estate of Percy Symens, et al.

MI is named as a defendant in this lawsuit pending in Yolo County, California Superior Court. The complaint, filed in April 2005, alleges that MI unlawfully discharged solvents into the environment while doing business at 203 J Street and 920 Third Street in Davis, California during 1968 to 1980. The complaint seeks injunctive relief and damages of an unspecified amount. The Company's Answer, which denies the allegations in the complaint, was filed in June of 2005, and initial discovery commenced in August of 2005.

The case has not been set for trial.

Subsequent to June 30, 2006, in a related administrative proceeding on September 26, 2006, the California Central Valley Regional Water Quality Control Board issued a draft Cleanup and Abatement Order (CAO) in connection with the property at 920 Third Street. MI was named as one of the responsible parties in the draft CAO, and intends to challenge the characterization of MI as a discharger of environmental contaminants, while also complying with the orders of the Central Valley Regional Water Quality Control Board. MI's probable loss has been estimated at this time in the range of \$200,000 to \$1,000,000. MI has accrued its estimated cleanup obligation. It is reasonably possible that these estimates may be revised in the near term as the site investigation and other research and analysis proceeds.

NOTE L - SUBSEQUENT EVENTS

As of June 30, 2006, Dr. Moller is owed \$1,640,987 in deferred wages along with accrued interest. Subsequent to June 30, 2006, Dr. Moller waived the payment of \$1,449,248.

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

Vavrinek, Trine, Day & Co., LLP (VTD) has served as our independent registered public accounting firm since 2001. VTD informed us on May 16, 2006 that they declined to be reelected.

The reports of VTD on our consolidated financial statements as of June 30, 2005 and 2004 and for the years then ended contained no adverse opinion or disclaimer of opinion and were not qualified as to uncertainty, audit scope, or accounting principles. During our two most recent fiscal years and through the interim period ended March 31, 2006 and date of this Current Report on Form 8-K, there have been no disagreements with VTD on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which would have caused VTD to make reference thereto in their reports on the financial statements for such years. During the years ended December 31, 2005 and 2004 and through the interim period ended March 31, 2006 and the date of this Current Report on Form 8-K, there have been no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K).

On May 30, 2006, the Audit Committee retained Malone & Bailey, PC as MI's independent registered public accounting firm for the fiscal year ending June 30, 2006.

Item 8A. Controls and Procedures

Our Chief Financial Officer (the "Certifying Officer"), is responsible for establishing and maintaining disclosure controls and procedures for the Company. The Certifying Officer has designed such disclosure controls and procedures to ensure that material information is made known to him, particularly during the period in which this report was prepared. The Certifying Officer has evaluated the effectiveness of our disclosure controls and procedures as of the date of this report and believes that the disclosure controls and procedures are not effective based on the required evaluation. Our auditors discovered numerous accounting adjustments relating to our estimate of its stock based compensation and treatment of its amounts due from affiliate which resulted in additional charges to expense totaling \$4,502,657. We believe this is due to the limited resources devoted to accounting activities during this reporting period and the Company has taken steps to remedy the shortfall by hiring additional personnel to address its accounting functions.

There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Audit Committee

We have an audit committee consisting of a representative of the Board of Directors and two others that meets the definition of "audit committee" set forth in Section 3a(58)(A) of the Exchange Act. The Audit Committee maintains an active role in communication with the Company's independent auditors and with the management of the Company and performs its duties and responsibilities. The Audit Committee for this report period consisted of the following non-employees: Faulkner White and Charles Guenther, and the Moller International General Manager, Bruce Calkins. The members currently serving on the Audit Committee are expected to continue to serve on the Audit Committee until the next annual meeting of the Board of Directors following our Annual Meeting of Shareholders.

PART III

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

The following information is provided for current members of the Board of Directors who served during this reporting period:

Director	Age	Current Term of Office	Director/Officer in any other SEC-reporting Company
Paul Moller	69	10/2005 - 10/2006	No
Faulkner White	55	10/2005 - 10/2006	No
Umesh Khimji	43	10/2005 - 10/2006	No
Jim Toreson	64	10/2005 - 10/2006	No
Mike Shanley	57	10/2005 - 10/2006	No

Resumes of Board of Directors

Paul Moller, Chairman of the Board--Dr. Moller founded the Company and has served as the company's President since its formation. He holds a Masters in Engineering and Ph.D. from McGill University. Dr. Moller was a professor of Mechanical and Aeronautical Engineering at the University of California, Davis, from 1963 to 1975, where he developed the Aeronautical Engineering program. In 1972 he founded SuperTrapp Industries and was Chief Executive Officer as SuperTrapp became the most recognized international name in high-performance engine silencing systems. SuperTrapp Industries was sold in 1988. In 1983 he founded Moller International to develop powered lift aircraft. Under his direction Moller International completed contracts with NASA, NOSC, DARPA, NRL, Harry Diamond Labs, Hughes Aircraft Company, California Department of Transportation and the U.S. Army, Navy, and Air force. These contracts included the development and deployment of numerous unmanned aerial vehicles and Wankel based engines. Dr. Moller has received 43 patents including the first U.S. patent on a fundamentally new form of powered lift aircraft. In 1980 he developed the Davis Research Park, a 38-acre industrial-research complex within the city of Davis, CA in which Moller International is located.

Faulkner White, Director--Mr. White received his B.A. in Psychology (Distinction) with a minor in Computer Science from Dartmouth College in 1972. He has consulted for Apple Computer, Motorola and McDonnell Douglas. In 1995 Mr. White collaborated in the development of a new type of breast biopsy gun for Biopsys Medical Inc., developing software to track the efficacy of the new design for the FDA, and subsequently for the customers themselves. He is currently developing Customer Relationship Management software for the laser eye surgery and cosmetic surgery markets. Mr. White is also a certified DBA in Oracle database technology.

Umesh Khimji, Director--Mr. Khimji is the Chief Executive Officer of the Ajit Khimji Group of Companies, LLC, Muscat in the Sultanate of Oman. He is a member of the Board of Directors in AKGC and in Asha, a group comprised of ten Sultanate of Oman companies, as well as in two companies in France, two in India, two here in the United States (Moller International and a spin-off of Moller International, Freedom Motors, Inc., a privately held Nevada Corporation). He has been instrumental in the start up and direction of private and public companies since 1986. Mr. Khimji's experience includes management, public and private finance, investment planning, development and operations. His firms are actively involved in a variety of market segments including travel & tourism, hotels, resorts; commercial and industrial banking, advertising, construction, contract services, computer software and other types of research and development activities. Mr. Khimji holds a Bachelor of Business Administration from University of San Diego, and is fluent in English, French and several Indian languages. He is experienced in working with people with diverse cultural backgrounds. He was selected as a candidate MI Director when his father, Ajit Khimji, resigned from his position on the Board earlier this year.

Jim Toreson, Director--Dr. Toreson has over 16 years experience as a chief executive, and over 20 years experience in manufacturing, including quality control, materials management, JIT production, process control, and manufacturing engineering. Eight years of experience in flexible automation, statistical process control (SPC), and quality system including ISO 9000 and Six Sigma programs. More recently as the founder of ONSHORE, a management consulting firm specializing in technology-intensive products and services he has acted as the CEO of Chineseinvestors.com, an Internet portal serving the world-wide ethnic Chinese marketplace for financial services; VP of Marketing and Sales of APPIANT Technology, Inc., a NASDAQ company providing ASP services for speech recognition; and VP of Business Development for eSpaces, a company providing physically secure and cyber-secure work spaces. Dr. Toreson has a BSEE and MSEE from the University of Michigan, a Dr. of Science from the University of Nevada, and has completed coursework for his PhD EE at the University of Pennsylvania.

Mike Shanley, Director--Mr. Shanley has been a pilot since 1969, serving with the Royal Australian Air Force in Vietnam in 1971 and has been an enthusiastic supporter of the Skycar project since 1987. Mr. Shanley has a BA in English Literature from the University of Queensland, Australia, is the author of the novel "Strela" and was a magazine publisher and editor from 1987 to 1996. He is presently co-director of a security company based in the United Kingdom providing security at Heathrow, Gatwick, Manchester and Stansted airports, with company revenue in excess of \$3m US. Mr. Shanley is also Chairman of Shanley International Ltd., a company set up specifically to facilitate trade with China.

Item 10. EXECUTIVE COMPENSATION

The following table sets forth a summary of compensation received by each of our officers and directors who received compensation from the Company during the past fiscal year.

Name & Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation	All Other Compensation (\$)	Total (\$)
							Earnings (\$)		
Paul Moller, President	2006	\$250,000(1)	\$0	\$0	\$3,034,172	\$0		\$0	\$3,284,172(1)
Faulkner White	2006	\$0	\$0	\$0	\$0	\$0		\$0	
Umesh Khimiji	2006	\$0	\$0	\$0	\$0	\$0		\$0	
Jim Toreson	2006	\$0	\$0	\$0	\$0	\$0		\$0	
Mike Shanley	2006	\$0	\$0	\$0	\$0	\$0		\$0	

(1)\$250,000 of this amount shown is deferred at the election of the Executive, not as part of any plan.

(2) Each member of the Board of Directors (with the exclusion of Paul Moller) was issued options for 5,000 shares of Moller International stock as compensation for service on the Board for the 12-month term of office.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following are all of the individuals or groups known by the company to be the beneficial owner of more than five (5) percent of any class of the issuer's securities as of September 1, 2005:

Title of Class	Name and Address of Beneficial Owner	Amount & Nature of Beneficial Ownership	Percent of Class
Common Stock(1)	Paul S. Moller (1) (2) 9350 Currey Rd Dixon, CA 95620	27,203,161	56.74% (3)

(1) Has options to purchase 9,194,762 shares.

(2) Total includes 25,819,909 shares beneficially owned by Moller Corp., a California corporation controlled by Paul S. Moller.

(3) 63.98% of class if all existing options are exercised.

Paul S. Moller, President, Director and Chairman of the Board of Directors is the sole shareholder of Moller Corp. Moller Corporation holds legal

title to 25,819,909 of the shares of Common stock listed above as beneficially owned by Paul S. Moller. Rosa Maria Moller, the spouse of Paul S. Moller, owns 547,848 shares of Common stock, which are included in the figure above, although she holds them as separate property in her name alone.

The following are all of our officers and directors who held office during the fiscal year ending June 30, 2005 and who are beneficial owners of our securities:

Title of Class	Name and Address of Beneficial Owner	Amount & Nature of Beneficial Ownership	Percent of Class (3)
Common Stock	Paul S. Moller (1) (2) 9350 Currey Rd Dixon, CA 95620	36,397,923 (D,I)	64.87%
Common Stock	Faulkner White 51 Pinewood Irvine, CA 92604	187,280 (D)	00.37%
Common Stock	Umesh Khimji PO Box 144 Muscat, Sultanate of Oman	1,540,717 (D,I)	02.75%
Common Stock	Jim Toreson HCR61 Box 51 Alamo, NV 89001	25,000 (D)	00.05%
Common Stock	Mike Shanley Bradfield Close Working Surrey GU22 7RE, UK	2,583 (D)	

(1) Total include options to purchase 9,194,762 shares.

(2) Total includes 25,819,909 shares beneficially owned by Moller Corp., a California corporation controlled by Paul S. Moller

(3) Percentage of class based on 56,111,131 potential shares outstanding.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

We currently lease and occupy a 34,500 square foot building located in Davis, California, which is owned by Dr. Paul S. Moller, the majority shareholder of Moller International. (see Note I to the financial statements)

Notes payable to the majority shareholder, Dr. Paul S. Moller (Moller) are unsecured, and due on demand. There are two separate notes, one for \$1,766,438 which bears interest at \$10% per annum, and another note for \$270,800 that is non-interest bearing. (see Note E to the financial statements)

During the year ended June 30, 2006, the Company repaid \$169,060 in loans and had a \$647,065 balance owed to the Milk Farm Associates (Milk Farm), a limited partnership, and a related entity. Dr. Moller is the general partner in Milk Farm and has a 34% ownership interest. (see Note F to the financial statements)

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

Exhibit No. -----	Description -----
Exhibit 31.1	Certification of CEO / CFO
Exhibit 32.1	Certification of CEO / CFO

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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	Year ended June 30,	
	2006	2005
Audit and Quarterly Review Fees	\$ 34,000	\$ 20,108
Audit-related Fees		0
Tax Fees	9,475	5,275
All Other Fees	0	0
Total Fees	\$ 43,475	\$ 25,383

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

MOLLER INTERNATIONAL, INC.

November 2, 2006

/s/ Dr. Paul S. Moller

Date

President, Director

Pursuant to the requirements of the Securities Exchange Act of 1934 this report is signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

SIGNATURE -----	TITLE -----	DATE -----
/s/ Dr. Paul S. Moller -----	CEO, President, Director	11/02/06

/s/ Faulkner White -----	Director	11/02/06
/s/ Umesh Khimji -----	Director	11/02/06
/s/ Jim Toreson -----	Director	11/02/06
/s/ Mike Shanley -----	Director	11/02/06

CERTIFICATION OF CEO PURSUANT TO RULES 13A-14 AND 15D-14 OF THE SECURITIES
EXCHANGE ACT OF 1934, AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Paul S. Moller, certify that:

1. I have reviewed this annual report on Form 10-KSB of Moller International;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
- c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 2, 2006

/s/ Paul S. Moller

CEO and President

CERTIFICATION OF CFO PURSUANT TO RULES 13A-14 AND 15D-14 OF THE SECURITIES
EXCHANGE ACT OF 1934, AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Paul S. Moller, certify that:

1. I have reviewed this annual report on Form 10-KSB of Moller International;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within

those entities, particularly during the period in which this annual report is being prepared;

- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
- c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 2, 2006

/s/ Paul S. Moller

Chief Financial Officer

CERTIFICATION OF CEO PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Moller International (the "Company") on Form 10-KSB for the year ended June 30, 2006 as filed with the Securities and Exchange commission on the date hereof (the "Report"), Paul S. Moller, as Chief Executive Officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to

Section 906 of the Sarbanes-Oxley Act of 2002, to the Best of his knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2006

Signed:

/s/ Paul S. Moller

CEO and President

CERTIFICATION OF CFO PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Moller International (the "Company") on Form 10-KSB for the year ended June 30, 2006 as filed with the Securities and Exchange commission on the date hereof (the "Report"), Paul S. Moller, as Chief Financial Officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the Best of his knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2006

Signed:

/s/ Paul S. Moller

Chief Financial Officer