MEMS USA INC
Form 10KSB
February 02, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-KSB

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2005

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 0-4846-3

MEMS USA, INC.
(Name of small business issuer in its charter)

Nevada	82-0288840
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
5701 Lindero Canyon Road, Suite 2-100 Westlake Village, California	91362
(Address of principal executive offices)	(Zip code)

Issuer's telephone number, including area code (818) 735-4750

Securities to be registered under Section 12(b) of the Act:

Title of each class to be so registered	Name of each exchange on which each class is to be registered
None	N/A

Securities to be registered under Section 12(g) of the Act:

Common Stock, $.001 par value
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 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 |X|

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-K contained in this form, and will not 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. [ ]

The registrant's revenues for its most recent fiscal year were: $8,828,157

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant as of December 26, 2005 was approximately $ 18,987,706.

The number of shares of the common stock outstanding as of December 26, 2005 was 18,397,767.

Documents incorporated by reference: None.

MEMS USA, Inc.

FORM 10-KSB

For The Fiscal Year Ended September 30, 2005

INDEX

		Page
PART I		
ITEM 1.	Description of Business	1
ITEM 2.	Description of Property	9
ITEM 3.	Legal Proceedings	9
ITEM 4.	Submission of Matters to a Vote of Security Holders	11
PART II		
ITEM 5.	Market for Common Equity and Related Stockholder Matters	11
ITEM 6.	Management's Discussion and Analysis	14
ITEM 7.	Financial Statements	17
ITEM 8.	Changes In and Disagreements with Accountants on Accounting and Financial Disclosure	39
ITEM 8A	Controls and Procedures	39
ITEM 8B	Other Information	39
PART III		
ITEM 9.	Directors and Executive Officers of the Registrant	40
ITEM 10.	Executive Compensation	41
ITEM 11.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	42
ITEM 12.	Certain Relationships and Related Transactions	43
ITEM 13.	Exhibits and Reports On Form 10-KSB	43
ITEM 14.	Principal Accountant Fees and Services	44
	Signatures	45

Part I

Item 1. Description of Business.

Unless otherwise indicated, all references to our company include our wholly-owned subsidiaries, MEMS USA, Inc. a California corporation, Bott Equipment Company, Inc., a Texas corporation, and Gulfgate Equipment, Inc., a Texas corporation. In addition, unless otherwise indicated, all common share amounts give effect to a one for 200 reverse split of our outstanding common shares conducted in December 2003.

MEMS USA, Inc. (the "Company") was incorporated in Nevada in 2002. The Company

is comprised of three wholly owned subsidiaries, MEMS USA, Inc., a California Corporation ("MEMS CA"), Bott Equipment Company, Inc. ("Bott") and Gulfgate Equipment, Inc. ("Gulfgate"). In November 2004, the Company formed a joint venture, Can Am Ethanol One, Inc. ("Can Am"). We presently own forty-nine point three percent (49.3%) of Can Am and maintain 50% of the company's voting rights.

We are engaged in the business of developing and manufacturing advanced engineered products, systems and plants, mostly for the energy, oil and natural gas industries. Our business is divided into three operating divisions, including (i) the design, development and operation of ethanol facilities, (ii) the provision of systems and components to the energy sector, and (iii) the design, development and sale of micro electro mechanical systems (MEMS) for major scientific and engineering companies.

MEMS CA was incorporated in November, 2000. MEMS CA is a California based professional engineered systems, products and services company serving the oil, petro-chemical, natural gas and electric utility industries. . During 2004, MEMS CA's engineers designed and constructed an acoustic viscometer. This instrument utilizes sound waves traveling through a fluid stream to determine the fluid's viscosity. To date, the Company has determined that the instrument may be utilized to measure the viscosity of a range of aqueous and organic fluids, including, refined and crude oils. The Company has filed a provisional patent application respecting this device and anticipates filing one or more utility patents respecting this device in the near future. MEMS CA is presently developing a multi-variant pressure, temperature and flow meter use in industrial applications.

During 2004, MEMS CA's engineers also developed blending skid technology. One skid we produced could mix three organic fluids, in differing percentages with extreme accuracy. One of the Company's long term goals is to be able to utilize its blending skid technology to mix ethanol with motor gasoline. When properly mixed, ethanol and gasoline provide a higher octane, cleaner burning fuel for automobiles.

During 2005, MEMS CA's engineers have been charged by the Company to oversee the Company's IFS business. These systems are utilized to filter wastes from oil or water streams. Unlike a typical canister system, such as the oil filter in an automobile, which needs to be periodically replaced and disposed of, the filters utilized in intelligent filtration systems can last for decades. Furthermore, the filter system is self cleaning. Once the system recognizes that its filter is becoming clogged by debris filtered from the fluid flow, it turns the fluid flow through the filter off and "back flushes" the debris caked on the filter into a collection decanter. The system then turns the fluid flow through the system back on through the freshly cleaned filter. The filter cleaning process takes only seconds to complete and repeats as necessary to assure optimum filtration. A facility utilizing IFS technology needn't dispose of contaminated filters, but only need dispose of the contaminate itself. Thus, while a filtration system based upon IFS technology typically requires a greater capital investment on the part of the purchaser, these costs are offset in the long run by savings in filter replacement and disposal costs. The Company anticipates that it may be able to utilize its intelligent filtration systems as an integral part of any ethanol production facility that it may design. The Company is presently aware of three competitors offering similar technologies to MEMS IFS technology.

Presently, MEMS CA's utilizes a direct sales force to market and distribute its products. MEMS CA targets niche business segments and is not dependent upon any one or a few major customers. A typical contract requires MEMS CA to create a

product that previously did not exist or improve upon an existing technology using MEMS (Micro Electro Mechanical Systems) devices. The majority of the monies raised since the Company's acquisition of MEMS CA have been utilized to fund MEMS CA's acquisition and development of new technologies.

Gulfgate produces particulate filtration equipment for the oil and power industries. Gulfgate also produces vacuum dehydration and coalescing systems that remove water from turbine engine oil. These same systems are used by electric power generation facilities to remove water from transformer oils. To help meet its customers' diverse needs, Gulfgate maintains and operates a rental fleet of filtration and dehydration systems.

Bott is a stocking distributor for lines of industrial pumps, valves and instrumentation. Bott specializes in the construction of aviation refueling systems for helicopter refueling on oil rigs throughout the world. Bott also constructs refueling systems for commercial marine vessels. Bott's customers include chemical manufacturers, refineries, power plants and other industrial customers.

MEMS CA, Bott and Gulfgate have a combined direct sales force as well as commissioned sales representatives that sell their products. Can Am was created to manufacture, own and operate one ethanol production facility in British Columbia Canada. In June 2005, the Company and its Canadian counterpart each made a CN$25,000 at risk deposit to open escrow toward purchase of 2,150 acres of land intended to serve as a plant site in British Columbia, Canada ("Purchase Agreement").

Subsequently, the Company paid an additional at-risk deposit of CN$50,000 for an extension of the Closing Date of the Purchase Agreement. As of the date of this report, the Purchase Agreement remains active, but has not closed. Due to the length of time that Purchase Agreement has remained pending, as well as other factors, the Company is contemplating selling its' interest to Accelon Energy System, Inc., the other owner of Can Am Ethanol One, Inc. We will continue to explore other potential plant sites in Canada.

-2-

The plant was to utilize a synthetic biomass conversion process to convert wood waste materials into ethanol. Subject to receipt of the required funding several biomass-to-ethanol plants are planned for Canada that will also use a synthetic biomass conversion process. MEMS USA's engineering group, headquartered in Westlake Village, CA, will develop the engineering data and direct the plant engineering and construction projects. It is anticipated that the Company's Texas subsidiaries will be called upon to supply instrumentation for the project and assist in its modular construction.

In December 2005, the Company incorporated Hearst Ethanol One, Inc., an Ontario corporation ("HEO") for the purpose of building, owning and operating an ethanol production facility in Canada. As of the date of this report, the Company owns ninety-nine point three percent (99.3%) of HEO. Dr. James A. Latty and Mr. Daniel Moscaritolo are presently the only directors and officers of HEO.

On December 21, 2005, HEO entered into a land purchase agreement with C. Villeneuve Construction Company, Ltd. Upon successful completion of due diligence concerning 600 acres of land to be acquired near Hearst, Ontario, Canada and at the discretion of the Company to accept the results, the transaction is anticipated to close on or before May 1st, 2006. Additional details concerning this transaction may be found in the Company's Form 8K report filed December 27, 2005 which is hereby incorporated by reference.

We are continuing the process of vertically integrating our subsidiaries, which we believe will promote efficiency and lower operating costs. Each of our subsidiaries will remain a separate operating entity.

History:

Prior to the reverse acquisition described below, our corporate name was Lumalite Holdings, Inc. and we had not generated significant revenues and were considered a development stage company as defined in Statement of Financial Accounting Standards No. 7. Pursuant to a Merger Agreement and Plan of Reorganization dated January 28, 2004 between us and MEMS USA, Inc., a California corporation ("MEMS-CA"), we acquired all of the outstanding capital shares of MEMS-CA in exchange for 10 million shares of our common stock. Since the stockholders of MEMS-CA acquired approximately 75% of our issued and outstanding shares and the MEMS-CA management team and board of directors became our management team and board of directors, according to FASB Statement No. 141 - "Business Combinations," this acquisition has been treated as a recapitalization for accounting purposes, in a manner similar to reverse acquisition accounting. In accounting for this transaction:

- MEMS-CA is deemed to be the purchaser and surviving company for accounting purposes. Accordingly, its net assets are included in our consolidated balance sheet at their historical book values and the results of operations of MEMS-CA have been presented for all prior periods; and

- Control of the net assets and business of our company were acquired effective February 18, 2004. This transaction has been accounted for as a purchase of our assets and liabilities by MEMS-CA. The historical cost of the net liabilities assumed was $-0-.

-3-

Pursuant to the transaction described above, we changed our name from Lumalite Holdings, Inc to MEMS USA, Inc.

Business Acquisition:

On October 26, 2004 ("Closing Date"), effective October 1, 2004, the Company purchased 100% of the outstanding shares of two Texas corporations, Bott Equipment Company, Inc. ("Bott") and Gulfgate Equipment, Inc. ("Gulfgate") from their president and sole shareholder, Mr. Mark Trumble.

Under the terms of the stock purchase agreement, the Company acquired 100% of the shares of Bott and Gulfgate from Mr. Trumble for $50,000 in cash and 1,309,677 shares of the Company's newly issued common stock.

752,688 shares of the shares issued to Trumble are subject to a one time put. On or about October 26, 2005, Mr. Trumble exercised this put. Under the terms of the put, Trumble has elected to exchange all of the 752,688 shares for an amount equal to $1.86 per share (which is the average price of the Company's stock on the OTC BBC for the thirty trading days comprising September 13, 2004 through October 22, 2004) times the number of shares exchanged by Trumble pursuant to the put. The Company shall have sixty (60) days from the date of exercise to pay off any sums due thereby. An extension for payment of the put has been negotiated between Mr. Trumble and the Company. The Company's performance under the terms of the put is secured by second deeds of trust with vendors' liens in favor of Trumble on certain parcels of the Companies' real estate.

The 752,688 shares subject to the put, have been properly treated as a $1.4

million liability, pursuant to Statement of Financial Accounting Standards no. 150 (SFAS 150) Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity until the terms of the put expire.

The Company agreed to create an employee option plan for its employees and those of its affiliates, including Bott and Gulfgate. In connection with said plan, the Company agreed to file Form S-8 Registration Statement under The Security Act of 1933 (securities to be offered to employees in employee benefit plans) within 30 days of the Closing Date. The Company had also agreed that it would issue Trumble an additional 123,659 shares of the Company's restricted stock if it failed to achieve this milestone. The Company filed the Form S-8 Registration Statement within 30 days of the Closing Date thereby achieving this milestone and avoiding the issuance of penalty shares to Mr. Trumble.

The Agreement also provided that Trumble will personally introduce the Company's officers and representatives to five (5) qualified Texas bankers and that the Company will utilize its best efforts to remove Trumble's name as guarantor from the Bott and Gulfgate lines of credit (See note 8 and 9) within 90 days of the fifth introduction. The Company has agreed that it will issue Trumble an additional 370,977 shares of restricted stock should it fail to achieve this milestone. Mr. Lawrence Weisdorn, Mr. Daniel Moscaritolo and Dr. James Latty have also agreed to join Trumble as guarantors on the Bott and Gulfgate credit lines. Mr. Weisdorn joined Trumble as guarantor on the Bott and Gulfgate credit lines in or around mid-November 2004. Mr. Moscaritolo and Mr. Latty have agreed to join as guarantors should the Company fail to recognize the milestone of removing Trumble's name as guarantor from the existing credit lines within the specified time period. As of the date of this report, only four qualified personal introductions have occurred. Thus, the 90 day milestone has not been triggered. The Company is committed to removing Mark Trumble as guarantor from the existing lines of credit and has submitted applications for credit lines with a number of financial institutions.

-4-

The Company agreed to secure a best efforts underwriting commitment letter from a qualified investment banker within 45 days of the Closing Date to raise a minimum of $2 million in equity capital. An additional 123,659 shares of the Company's restricted stock were to be issued to Trumble should the Company fail to achieve this milestone. The Company obtained a commitment letter within 45 days of the Closing Date thereby achieving this milestone and avoiding the issuance of penalty shares to Mr. Trumble. The Company also agreed, in connection with the $2 million equity raise, that the Company would receive $2,000,000 in gross equity funding within 120 days of the Closing Date. The Company has agreed that it will issue Trumble an additional 123,659 shares of its restricted stock should it fail to achieve this milestone. The Company did not achieve this milestone and is obligated to issue 123,659 penalty shares to Mark Trumble.

Finally, the Company has recognized that Trumble shall sell 326,344 shares of his stock at a purchase price of approximately $607,000 to private parties, including a related party Lawrence Weisdorn, Sr., the former CEO's father and a shareholder and/or Weisdorn Sr.'s assignees pursuant to a written agreement between Trumble and Weisdorn Sr. Should Trumble fail to recognize $607,000, through no fault of Trumble, the Company agreed to issue up to 494,636 shares of restricted stock to Trumble. The percentage of the Penalty Shares the Company shall issue, if any, shall be prorated in accordance with any monies received by Trumble during the 60-day period. It is further understood that the penalties are subject to the following schedule: (1) Trumble shall have recognized at least $75,000 within 15 days of the Closing Date or he shall receive up to 61,829 Penalty Shares; (2) Trumble shall recognize an additional $75,000 within

30 days of the Closing Date or he shall receive up to an additional 61,829 Penalty Shares; (3) Trumble shall recognize an additional $150,000 within 45 days of the Closing Date or he shall receive up to an additional 123,659 Penalty Shares; and (4) Trumble shall recognize an additional $307,000 within 60 days of Closing Date or he shall receive up to an additional 247,318 Penalty Shares. Each milestone is to be calculated as a stand-alone event. All of the above Penalty Share calculations shall be subject to a pro-rata offset for monies received that fall short of the indicated milestones.

On December 15, 2005, the Company assumed Weisdorn Sr.'s obligation to purchase 165,054 shares from Mr. Trumble at $1.86 per share. See note 17, Subsequent Events.

During the first quarter of fiscal year 2005, the Company, in order to avoid the issuance of 61,829 penalty shares, paid $75,000 directly to Mr. Trumble. The Company has recorded this payment as a reduction to additional paid-in capital. As of the date of this report the Company has received approximately $27,000 of the $75,000 from Mr. Weisdorn Sr.

Mr. Trumble did not recognize $307,000 within 60 days of the closing date. As a result, the Company is obligated to issue 247,318 penalty shares to Mr. Trumble. Additionally, the covenant to remove Mr. Trumble from the lines of credit remains and may require us to issue up to 370,977 additional penalty shares in the event that we fail to satisfy that remaining covenant.

Non-Competition Agreement:

The agreement also provides that Trumble shall not for a period of eighteen (18) months following his separation from the Company, unless permitted to do so by the Company, engage, directly or indirectly as an individual, representative or employee of others, in the business of designing, manufacturing or selling products in competition with the Company or any of its subsidiaries in any geographic area where the Company or its subsidiaries are doing business.

Management believes that the acquisition of Bott and Gulfgate will provide the Company with cost effective means to engineer, manufacture and distribute products for its customers in the energy sector. Bott and Gulfgate may also provide or construct products to be used in ethanol production facilities. The acquisition has been accounted for as a purchase transaction pursuant to Statement of Financial Accounting Standards No. 141 Business Combinations (SFAS 141) and accordingly, the acquired assets and liabilities assumed are recorded at their book values at the effective date of acquisition except for the real property which approximate the most current appraised value. Excess cost of $915,373 over the appraised real property and book value of the other acquired assets and liabilities assumed was assigned to goodwill. Goodwill included 370,977 of penalty common shares valued at $809,966. See Part II, Item 7. Financials, Note 2. Acquisitions, for additional information.

ITEM 1 A. Cautionary Statement Regarding Future Results, Forward-Looking Information and Certain Important Factors

We make written and oral statements from time to time regarding our business and prospects, such as projections of future performance, statements of management's plans and objectives, forecasts of market trends, and other matters that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements containing the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimates," "projects," "believes," "expects,"

"anticipates," "intends," "target," "goal," "plans," "objective," "should" or similar expressions identify forward-looking statements, which may appear in documents, reports, filings with the Securities and Exchange Commission, news releases, written or oral presentations made by officers or other representatives made by us to analysts, stockholders, investors, news organizations and others, and discussions with management and other representatives of us.

-6-

Our future results, including results related to forward-looking statements, involve a number of risks and uncertainties. No assurance can be given that the results reflected in any forward-looking statements will be achieved. Any forward-looking statement made by or on behalf of us speaks only as of the date on which such statement is made. Our forward-looking statements are based upon assumptions that are sometimes based upon estimates, data, communications and other information from suppliers, government agencies and other sources that may be subject to revision. Except as required by law, we do not undertake any obligation to update or keep current either (i) any forward-looking statement to reflect events or circumstances arising after the date of such statement, or (ii) the important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or which are reflected from time to time in any forward-looking statement which may be made by or on behalf of us.

In addition to other matters identified or described by us from time to time in filings with the SEC, there are several important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or results that are reflected from time to time in any forward-looking statement that may be made by or on behalf of us. Some of these important factors, but not necessarily all important factors, include the following:

We are an emerging growth company with limited operating history, accordingly there is limited historical information available upon which you can judge the merits of an investment in our company. We commenced operations as a new business engaged in designing and selling micro electro mechanical systems (MEMS) for major scientific and engineering companies in February 2004. To date, we have generated only $197,671 in revenue from our MEMS CA operations. While we intend to remain involved in the MEMS industry, our board of directors recently approved a redirection of our focus towards designing, building and operating ethanol production facilities. We have not commenced meaningful activity in the area of ethanol production and only one member of our management team has any meaningful prior experience in the ethanol industry. In October 2004 we acquired Bott Equipment Company, Inc. ("Bott") and Gulfgate Equipment, Inc., ("Gulfgate"). These companies were and are engaged in the businesses of providing systems and equipment to various industries, including, but not limited to, petrochemical plants, refineries, pulp and paper mills, steel mills, and electrical utilities. Although Bott and Gulfgate are operating companies and together generated net income of $93,624 on $8,714,311 of revenue for the 12 months ended September 30, 2005, we only recently acquired control of Bott and Gulfgate, and have limited experience in running the two companies.

We have generated net losses since inception, which may continue for the foreseeable future as we try to grow our business, which means that you may be unable to realize a return on your investment for a long period of time, if ever. Our present business operations commenced in February 2004. From inception through September 30, 2005, we generated revenues of $8,911,982 and incurred a cumulative net loss of $5,545,454. We expect to continue incurring operating losses until we are able to derive meaningful revenues from our proposed

business relating to ethanol production, energy generation and supply or MEMS.

We have limited available working capital and require significant additional capital in order to sustain our operations, and if we cannot obtain additional financing we might cease to continue. As of September 30, 2005, we had total current assets of $2,635,561 and working capital of $460,260 before including a liability for common stock subscribed of $1,111,000. We believe that we require a minimum of $2,500,000 in order to fund our planned operations over the next 12 months, in addition to the capital required for the establishment of any ethanol production facilities. We plan to obtain the additional working capital through private placement sales of our equity securities. The company has entered into an agreement to sell its securities with the requisite funding, however as of the date of this report, we have not received any funds, nor can there be any assurance that such funds will be forthcoming. See note 17b, Subsequent Events. Should we be unable to raise the required funds, our ability to finance our continued operations will be materially adversely affected.

Our independent auditors' report raises substantial doubt about our ability to continue as a going concern. Their report has an explanatory paragraph stating that our recurring losses from operations since inception, the Company has accumulated deficit of $5,545,454 as of September 30, 2005 raises substantial doubt about our ability to continue as a going concern. Realization of a major portion of the assets reflected on the accompanying balance sheet is dependent upon continued operations of the Company which, in turn, is dependent upon the Company's ability to meet its financing requirements and succeed in its future operations. Management believes that actions presently being taken to revise the Company's operating and financial requirements provide them with the opportunity for the Company to continue as a going concern.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

Because we have few proprietary rights, others can provide products and services substantially equivalent to ours. We hold a provisional patent application relating to our MEMS operations, however we hold no patents or patents applications relating to our energy generation and supply business or our proposed ethanol production business. We believe that most of the technology used in the design and building of ethanol production facilities and in the area of the energy generation and supply business is generally known and available to others. Consequently, others will be able to compete with us in these areas. We rely on a combination of confidentiality agreements and trade secret law to protect our confidential information. In addition, we restrict access to confidential information on a "need to know" basis. However, there can be no assurance that we will be able to maintain the confidentiality of our proprietary information. If our proprietary rights are violated, or if a third party claims that we violate their trademark or other proprietary rights, we may be required to engage in litigation. Proprietary rights litigation tends to be costly and time consuming. Bringing or defending claims related to our proprietary rights may require us to redirect our human and monetary resources to address those claims.

We may not be able to compete effectively or competitive pressures faced by us may materially adversely affect our business, financial condition, and results of operations. We expect to face significant competition in our ethanol production, energy generation and supply and MEMS operations. Virtually all of our competitors have greater marketing and financial resources than us and, accordingly, there can be no assurance that we will be able to compete effectively or that competitive pressures faced by us will not materially adversely affect our business, financial condition, and results of operations.

We are dependent upon our key personnel. Our performance is substantially dependent on the continued services and on the performance of our senior management and other key personnel. We plan to obtain "key person" life insurance for our key personnel, however, at this time, no such policies are in effect. Our performance will also depend upon our ability to retain and motivate other officers and key employees. The loss of the services of any of our executive officers or other key employees could have a material adverse effect on our business, prospects, financial condition and results of operations. Our future success also depends on our ability to identify, attract, hire, train, retain and motivate other highly skilled technical and managerial personnel. Competition for such personnel is intense, and there can be no assurance that we will be able to successfully attract, assimilate or retain sufficiently qualified personnel. The failure to retain and attract the necessary technical, and managerial personnel could have a material adverse effect on our business, prospects, financial condition and results of operations

Item 2. Description of Property

Our executive offices are located in Westlake Village, California and consist of approximately 9,100 square feet. The lease has an initial term of five years ending on December 31, 2008, subject to one five year renewal option.

We also maintain two separate facilities in Houston, Texas from which we conduct the operations of our subsidiaries, Bott and Gulfgate. We own both facilities in fee simple. The Bott facility consists of approximately 91,000 square feet of real estate and 61,000 square feet of buildings. The Gulfgate facility consists of approximately 67,500 square feet of real estate and 34,000 square feet of buildings.

Item 3. Legal Proceedings.

As a normal incident of the businesses in which the Company is engaged, various claims, charges and litigation are asserted or commenced from time to time against the Company. The Company believes that final judgments, if any, which might be rendered against the Company in current litigation are adequately reserved, covered by insurance, or would not have a material adverse effect on its financial statements.

On October 17, 2005, the Company and its officers filed a complaint against Lawrence Weisdorn, Jr. ("Weisdorn), the Company's former Chief Executive Officer and Chairman of the Board of Directors, Lawrence Weisdorn, Sr. ("Weisdorn Sr." and together with Weisdorn, the "Weisdorn Parties"), Nathan Drage ("Drage") and Drage related parties in the Superior Court of the State of California for Los Angeles County, alleging claims for, among other things, breaches of Nevada and federal law and breach of fiduciary duty (the "Action"). The Company's claims were based in substantial part on allegations of the unauthorized issuance of shares of the Company's predecessor's common stock in December 2003, prior to the reverse acquisition and merger with MEMS-CA which was finalized in February, 2004. The Company sought an injunction preventing the Weisdorn Parties and Drage and his related parties from selling or transferring any of the shares of the Company's common stock issued in December 2003, the return of the shares to the

Company for cancellation and monetary damages.

On November 3, 2005, the Weisdorn Parties filed a cross-complaint against the Company and its officers, alleging claims for, among other things, breach of employment agreement, libel and indemnification (the "Weisdorn Counterclaim"). The Weisdorn Parties' claims were based in part on assertions by Weisdorn that he was improperly terminated without cause from his positions with the Company in June 2005, and that he was entitled to indemnification pursuant to Nevada corporations law in connection with the Action. The Weisdorn Parties sought monetary damages.

On December 15, 2005, the Company and its officers entered into a Settlement Agreement and Release with the Weisdorn Parties and other Weisdorn related parties, effective as of July 1, 2005 (the "Settlement Agreement"), pursuant to which the parties agreed to, among other things, dismiss the Action as it related to the Weisdorn Parties, dismiss the Weisdorn Counterclaim, mutually release all claims and mutually indemnify the other parties from certain claims. Weisdorn also agreed to deliver a letter of resignation to the Company, confirming his resignation as Chief Executive Officer and Chairman of the Board of Directors of the Company as of June 25, 2005 and clarifying and confirming the terms of his separation from the Company. The Weisdorn Parties and other Weisdorn related parties further agreed to deliver to the Company all shares or rights to shares of the Company's common stock owned by such parties. The net stock returned to the Company by the Weisdorn parties was 2,699,684 shares, not including 670,000 shares of the Company's common stock to be held by the Company in an account for the benefit of the Weisdorn Parties (the "Retained Stock"), which Retained Stock will be sold for the benefit of the Weisdorn Parties pursuant to the terms set forth in the Settlement Agreement. The Company has the option to purchase any portion of the Retained Stock at a price determined according to the terms of the Settlement Agreement. The Company also agreed to assume the obligations of the Weisdorn Parties and other Weisdorn related parties to purchase certain shares of the Company's common stock from a third party, and the Weisdorn Parties assigned to the Company their interests in certain claims against a third party.

The Settlement Agreement did not in any way affect claims brought in the Action by the Company and its officers against Drage and the Drage-related entities. However, on January 13, 2006, Drage and Adrian Wilson, one of the Drage parties, verbally agreed to a settlement in principal with the Company, which the parties intend to memorialize shortly. In connection with the verbal agreement to a settlement, the Company and its officers filed a Request for Dismissal without prejudice of all claims against Drage and the Drage related entities on January 13, 2006.

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

There were no matters submitted to our security holders during the fourth quarter of the fiscal year ended September 30, 2005.

Part II

Item 5. Market for Common Equity and Related Shareholder Matters.

Market Information

Our common stock is listed on the OTC Bulletin Board under the symbol "MEMS." Set forth below are high and low closing prices for our common stock for each quarter during the two fiscal years ended September 30, 2005. We consider our common stock to be thinly traded and that any reported bid or sale prices may not be a true market-based valuation of the common stock. In reviewing the table below, please note that in December 2003 we conducted a one for 200 reverse split of our common stock and in February 2004 consummated our acquisition of MEMS-California.

Quarter Ended	High	Low
December 31, 2003	$1.75	$0.01
March 31, 2004	$2.75	$1.45
June 30, 2004	$2.50	$1.09
September 30, 2004	$2.29	$1.74
December 31, 2004	$2.32	$1.51
March 31, 2005	$3.30	$2.10
June 30, 2005	$2.59	$1.70
September 30, 2005	$2.45	$1.50

Holders

As of December 26, 2005, there were 2,825 record holders of our common stock.

Dividends

We have not declared or paid any cash dividends on our common stock since our inception and do not contemplate paying dividends in the foreseeable future. It is anticipated that earnings, if any, will be retained for the operation of our business.

Sales of Unregistered Securities

During the fiscal year ended September 30, 2005, we sold unregistered shares of our securities in the following transactions:

In October 2004 the Company issued 1,309,667 shares of its common stock to Mr. Mark Trumble in consideration for the purchase of 100% of the shares of Bott Equipment Company, Inc. and Gulfgate Equipment, Inc. in accordance with the Stock Purchase Agreement ("Agreement") entered into by the Company and Mr. Trumble. (A copy of the Agreement was filed as an Exhibit to our form 10KSB/A filed with the SEC on February 3, 2005.) The Agreement contains covenants in favor of Mr. Trumble that are secured with our promise to issue up to a total of 1,236,591 additional shares of our stock to Mr. Trumble in the event we fail to satisfy those covenants. As of the date of this report, the Company is obligated to issue 370,977 penalty shares to Mr. Trumble. Additionally, certain outstanding covenants may require us to issue up to 370,977 additional penalty shares in the event that we fail to satisfy those covenants.

During the months of February through June 2004, the Company sold 1,331,783 shares of its common stock via a private placement offering (the "PIPE"). The subscription agreement accompanying the PIPE sales provided the purchaser with a warrant under the PIPE. The warrants bore an expiration date of January 27, 2005. In January 2005, forty-five (45) PIPE warrant holders exercised 537,550 warrants and the Company recognized a combined purchase price of $1,178,257. The average price for this transaction was $2.19 per share.

In January 2005, another warrant holder exercised 17,827 warrants and the Company recognized a combined purchase price of $22,284. The average price for this transaction was $1.25 per share.

In April 2005, the company sold 375,000 shares of its common stock via a private placement offering to pre-existing, qualified, non-affiliated investors. The Company recognized a combined purchase price of $750,000. The average price for this transaction was $2.00 per share. The purchase agreement also provided the investors with a warrant to purchase an additional 222,222 shares of the Company's common stock at a price of $2.50 per share as well as a .7 percent (0.7%) equity interest in any wood waste-to-ethanol plant or project, including the first ten ethanol plants or any biomass feedstock, in which the Company holds or will hold an equity position. The warrants granted pursuant to this transaction expired on July 15, 2005 without being exercised. The purchase agreement also granted MEMS the right to vote the investor's 0.7% interest. Thus, MEMS maintains the same 50% voting interest as Accelon Energy System. An exemplar of this contract is attached hereto as Exhibit.

In July 2005 the Company sold 33,334 shares of its common stock via a private placement offering (the "PIPE"). The Company recognized a purchase price of $50,000. The average price for this transaction was $1.50 per share.

Between August and September 2005, we conducted a private placement of units consisting of common shares and warrants pursuant to Section 4(2) of the Securities Act and Rule 506 there under. The Company retained SW Bach & Company pursuant to a certain placement agency agreement dated August 23, 2005 ("Agreement") whereby Bach was retained to place up to 1,500,000 Units at $1.50 per Unit for the Company. Each Unit consisted of a Share of the Company's common stock and a warrant to purchase an additional share of the Company's common stock for $2.25. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock. The unit purchase price was $1.50. The warrant entitles the holder to purchase one share of our common stock at an exercise price of $2.25 per share for a period ending September 2010. As consideration for the Agreement, Bach and its selected dealers were compensated ten percent (10%) of the equity raised together with the reimbursement of non-accountable expenses in an amount of up to 2% of the equity raised, plus a pro-rated due diligence fee not to exceed $25,000 and all reasonable legal fees not to exceed $35,000, and warrants to purchase Units equal to ten percent (10%) of the number of Units sold (Placement Agent Warrants). Each Placement Agent Warrant consists of a warrant to purchase one common share of the Company's Common Stock at $1.50 per share and a warrant to purchase an additional share at $2.25 per share. Bach and its selected dealers stopped activities early after only raising $1,005,000 for the Company through the sale of 670,000 units to 22 accredited investors. Early discontinuation of the private placement resulted in the termination of the sales agency agreement between S.W. Bach and MEMS. As of the date of this report, no unit warrants have been exercised. S.W. Bach & Company will be issued 67,000 Placement Agent Warrants.

-12-

On November 10, 2005, the Company entered into a stock purchase agreement with Mercatus & Partners, Limited, a private limited company of the United Kingdom ("Mercatus Limited"), for the sale of 1,530,000 shares of the Company's common stock for a minimum purchase price of $0.73 per share (the "SICAV One Agreement), and another stock purchase agreement with Mercatus Limited also for the sale of 1,530,000 shares of the Company's common stock for a minimum purchase price of $0.73 per share (the "SICAV Two Agreement" and together with the SICAV One Agreement, the "SICAV Agreements"). The shares offered and sold

under the SICAV Agreements were offered and sold pursuant to a private placement that is exempt from the registration provisions of the Securities Act under Section 4(2) of the Securities Act pursuant to Mercatus Limited's exemption from registration afforded by Regulation S. Pursuant to the terms of the SICAV Agreements, the Company issued and delivered an aggregate number of 3,060,000 shares of the Company's common stock within five days of the execution of the respective SICAV Agreements to a custodial lock box on behalf of Mercatus Limited for placement into two European SICAV funds. The SICAV Agreements provided Mercatus Limited with up to 30 days after the delivery of the shares of the Company's common stock to issue payment to the Company. If payment for the shares was not received by the Company within 30 days of the delivery of the shares, the Company had the right to demand the issued shares be returned. (The Company has not yet received payment for the shares issued pursuant to the SICAV Agreements but has not exercised its right to demand return of the shares.)

On November 12, 2005, the Company also entered into another private stock purchase agreement with Mercatus & Partners, Limited, a private limited company of the United Kingdom ("Mercatus Limited") for the sale of 170,000 shares of the Company's common stock for a minimum purchase price of $0.82 per share (the "Private SICAV One Agreement") and another private stock purchase agreement with Mercatus LP also for the sale 170,000 shares of the Company's common stock for a minimum purchase price of $0.82 per share (the "Private SICAV Two Agreement" and with the Private SICAV One Agreement, the "Private SICAV Agreements"). The shares offered and sold under the SICAV Agreements were offered and sold pursuant to a private placement that is exempt from the registration provisions of the Securities Act under Section 4(2) of the Securities Act pursuant to Mercatus Limited's exemption from registration afforded by Regulation S. Pursuant to the terms of the Private SICAV Agreements, the Company issued and delivered an aggregate amount of 340,000 shares of the Company's common stock within five days of the execution of the respective Private SICAV Agreements to a custodial lock box on behalf of Mercatus Limited for placement into a European bank SICAV fund. Subject to a valuation of the shares, Mercatus LP had up to 30 days after the delivery of the shares of the Company's common stock to issue payment to the Company. If payment was not received by the Company within 45 days of the issuance of the shares to Mercatus Limited, the Company had the right to demand the issued shares be returned. [The Company has not yet received payment for the shares issued pursuant to the Private SICAV Agreements but has not exercised its right to demand return of the shares.]

In 2005 the Company issued a total of 37,940 shares of its common stock for services which totaled $65,495.

Item 6. Management's Discussion and Analysis or Plan of Operation.

Overview

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto. The years 2005 and 2004 represent the fiscal years ended September 30, 2005 and 2004, respectively, and are used throughout the document.

Unless otherwise indicated, all references to our company include our wholly-owned subsidiaries, MEMS USA, Inc. a California corporation, Bott Equipment Company, Inc., a Texas corporation, Gulfgate Equipment, Inc., a Texas corporation, our joint venture Can Am Ethanol One, Inc., a British Columbia corporation and Hearst Ethanol One, Inc., an Ontario corporation ("HEO").

We are engaged in the business of developing and manufacturing advanced

engineered products, systems and plants, mostly for the energy, oil and natural gas industries. Our business is divided into three operating divisions, including (i) the design, development and operation of ethanol facilities, (ii) the provision of systems and components to the energy sector, and (iii) the engineering applications and sale of micro electro mechanical systems (MEMS) for scientific and engineering companies.

To date, our historical revenues through September 30, 2004 had been derived from our MEMS operations. However, in October 2004, we acquired all of the capital shares of Bott Equipment Company, Inc., a Texas corporation ("Bott"), and Gulfgate Equipment, Inc., a Texas Corporation ("Gulfgate"), in exchange for our issuance of 1,309,677 shares of common stock and our payment of $50,000. Bott and Gulfgate were owned by the same shareholder group and were engaged in the businesses of providing systems and components to the energy sector. Bott and Gulfgate are operating companies and together generated a net loss of $241,345 on $7,532,387 (unaudited) of revenue for the 12 months ended September 30, 2004. In the first year of operation under MEMS management Bott and Gulfgate generated revenues of $8,714,311 for an increase over the prior year of $1,181,924 or 15.7%. Net income for the first 12 months ended September 30, 2005 was $93,624, an increase of $334,969 over the prior year.

We have not commenced revenue producing operations in connection with our ethanol production operations.

Corporate Reorganization

Prior to the reverse acquisition described below, our corporate name was Lumalite Holdings, Inc. and we had not generated significant revenues and were considered a development stage company as defined in Statement of Financial Accounting Standards No. 7. Pursuant to a Merger Agreement and Plan of Reorganization dated January 28, 2004 between us and MEMS USA, Inc., a California corporation ("MEMS-CA"), we acquired all of the outstanding capital shares of MEMS-CA in exchange for 10 million shares of our common stock. Since the stockholders of MEMS-CA acquired approximately 75% of our issued and outstanding shares and the MEMS-CA management team and board of directors became our management team and board of directors, according to FASB Statement No. 141 - "Business Combinations," this acquisition has been treated as a recapitalization for accounting purposes, in a manner similar to reverse acquisition accounting. In accounting for this transaction:

- MEMS CA is deemed to be the purchaser and surviving company for accounting purposes. Accordingly, its net assets are included in our consolidated balance sheet at their historical book values and the results of operations of MEMS CA have been presented for all prior periods; and
- Control of the net assets and business of our company were acquired effective February 18, 2004. This transaction has been accounted for as a purchase of our assets and liabilities by MEMS-CA. The historical cost of the net liabilities assumed was $-0-.

As a result of the transaction described above, we changed our name from Lumalite Holdings, Inc to MEMS USA, Inc.

Basis of Presentation

The accompanying condensed consolidated financial statements, included elsewhere in this Annual Report on Form 10-KSB, have been prepared in conformity with

accounting principles generally accepted in the United States of America, which contemplate continuation as a going concern. From inception through September 30, 2005, we generated revenues of $8,911,982 and incurred a cumulative net loss of $5,545,454. We expect to continue incurring operating losses until we are able to derive meaningful revenues from our proposed business relating to ethanol production, energy generation and supply or MEMS. These conditions raise substantial doubt as to our ability to continue as a going concern. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Comparison of Operations

Net sales for the twelve-month periods ended September 30, 2005 and 2004 were $8,828,157 and $83,825, respectively. The sales increases for the twelve months ended September 30, 2005 as compared to the prior year were due to the acquisition of Gulfgate and Bott. Sales for the fourth quarter of fiscal 2005 were at expected levels. This coupled with a record level of orders in sales backlog ($3.1 million) should position the company for a strong first quarter, 2006.

Operating expenses for the twelve-month periods ended September 30, 2005 and 2004 were $4,570,066 and $1,854,840, respectively. Operating expenses increased for the twelve months ended September 30, 2005 as compared to the prior year due to the acquisition of Gulfgate and Bott. We expect operating expenses to increase further as we undertake the design, engineering and construction of one or more ethanol plants in Canada.

For the year ended September 30, 2005, shareholder's equity was $428,632 as compared to $315,298 for the prior year period ended September 30, 2004. The increase in shareholder equity is attributable to the acquisition of Gulfgate and Bott and the sale of MEMS common stock in several private placement offerings.

Interest expense for the twelve-month periods ended September 30, 2005 and 2004 was $84,361 and $-0-, respectively. The increase is attributable to the interest payments made pursuant to the terms of the credit lines (promissory notes) of Bott and Gulfgate.

In summary, net losses for the twelve-month periods ended September 30, 2005 and 2004 were $2,424,798 and $2,269,450 respectively. The increased net loss for the twelve months ended September 30, 2005 as compared to the prior year was primarily due to higher MEMS general and administrative expenses resulting from a ramping up of operations to accommodate the acquisition of Bott and Gulfgate and the initial start-up efforts associated with the Can-Am Ethanol One contract.

Liquidity and Capital Resources

Our plan of operations over the next 12 months includes the continued pursuit of our goal to design, engineer, build and operate one or more ethanol plants. In that regard we are dependent upon Hearst Ethanol One, Inc.'s efforts to raise the necessary capital. We also intend to continue to develop our sensor technology. We believe that our working capital as of the date of this report will not be sufficient to satisfy our estimated working capital requirements at our current level of operations for the next twelve months. Our cash and cash equivalents were $828,153 as of September 30, 2005, compared to cash and cash equivalents of $26,439 as of September 30, 2004

At our current cash "burn rate", we will need to raise additional cash through debt or equity financings during the first half of 2006 in order to fund our continued development of our sensor technology and devices and to finance possible future losses from operations as we expand our business lines and reach a profitable level of operations. Before considering Hearst Ethanol One, Inc., we believe that we require a minimum of $2,500,000 in order to fund our planned operations over the next 12 months, in addition to the capital required for the establishment of any ethanol production facilities. We plan to obtain the additional working capital through private placement sales of our equity securities. As of the date of this report, we have one commitment for the sale of $2.5 million of our securities but, as of the date of this report the Company has not received the funds. In the absence of this commitment there is no assurance that such funds will be available on commercially reasonable terms, if at all. Should we be unable to raise the required funds, our ability to finance our continued operations will be materially adversely affected.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing arrangements.

Item 7. Financial Statements

INDEX TO FINANCIAL STATEMENTS

Report of Independent Certified Public Accountants..
Consolidated Balance Sheet at September 30, 2005..
Consolidated Statements of Operations for the years ended September 30, 2005 and 2004...........
Consolidated Statements of Stockholders' Equity for the years ended
September 30, 2005 and 2004..
Consolidated Statements of Cash Flows for the years ended September 30, 2005 and 2004...........
Notes to Consolidated Financial Statements..

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
MEMS USA, Inc.
Westlake Village, California

We have audited the accompanying consolidated balance sheet of MEMS USA, Inc. and Subsidiary as of September 30, 2004 and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended September 30, 2004. These consolidated financial statements are the responsibility of the 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 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, the financial position of MEMS USA, Inc. as of September 30, 2004 and the results of their operations and cash flows for the year ended September 30, 2004, 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 1 to the financial statements, the Company has suffered recurring losses from operations, has a net working capital deficiency and has not yet established a stable source of revenues, that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Stonefield Josephson, Inc.
CERTIFIED PUBLIC ACCOUNTANTS
Santa Monica, California
January 7, 2005

Report of Independent Registered Public Accounting Firm

To the Board of Directors of:
MEMS USA, INC.
Westlake Village, California

We have audited the accompanying consolidated balance sheet of MEMS USA, Inc. and subsidiaries as of September 30, 2005, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended September 30, 2005. These 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 audits in accordance with the 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 consolidated 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 audits provide a reasonable basis for our opinion.

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

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in the Note 1 to the consolidated financial statements, the Company has incurred recurring losses from operations and has accumulated deficit of $5,545,453 as of September 30, 2005 that raise substantial doubt about its ability to continue as a going

concern. Management's plans regarding those matters also are described in Note 1 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Kabani & Company, Inc.
CERTIFIED PUBLIC ACCOUNTANTS
Los Angeles, California
January 13, 2006

-19-

MEMS USA, INC.
Consolidated Balance Sheet
September 30
A S S E T S

	2,005	
Current Assets:		
Cash and cash equivalent	$ 828,153	$ 2
Accounts receivable, net allowance for uncollectible of $46,196	756,840	
Inventories, net of provision for slow moving items of $25,000	880,320	
Other current assets	170,248	12
Total current assets	2,635,561	14
Plant, property and equipment, net	2,316,835	33
Other assets	388,907	34
Investment in Can Am Ethanol One, Inc.	71,765	
Goodwill	915,373	
Total assets	$ 6,328,440	$ 82
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,395,265	$ 36
Line of credits, Bank	750,744	
Current portion of long-term debt, Bank	29,292	
Liability to be satisfied through the issuance of shares	1,111,000	
Total current liabilities	3,286,301	36
Lon-term liabilities	211,942	15
Loan from shareholders	191,600	
Common shares with mandatory redemption	1,400,000	
Common shares payable under terms of acquisition agreement	809,966	

Total Liabilities	5,899,808	51
Stockholders' equity		
Common stock, $0.001 par value; 100,000,000 shares authorized, 17,404,197 shares issued and outstanding	17,404	1
Stock subscriptions receivable	(250)	(
Additional paid in capital	5,956,931	3,42
Accumulated deficit	(5,545,454)	(3,12
Total stockholders' equity	428,631	31
Total liabilities and stockholders' equity	$ 6,328,440	$ 82

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

-20-

MEMS USA
Consolidated Statement of Operations
Years ended September 30

	2005	2004
Revenue	$ 8,828,157	$ 83,825
Cost of revenue	6,678,185	498,435
Gross profit (loss)	2,149,972	(414,610)
Selling expenses	836,580	--
General & administrative expenses	3,733,486	1,497,750
Merger related expenses	--	357,090
Loss from operations	(2,420,094)	(2,269,450)
Other income and (expenses)	(4,704)	--
Net Loss	$ (2,424,798)	$ (2,269,450)
Net loss per share, basic and diluted	$ (0.14)	$ (0.19)
Weighted average number of shares, outstanding, basic and diluted	16,950,966	12,145,448

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

-21-

MEMS USA, INC.
Consolidated Statement of Equity
For the years ended September 30, 2005 and 2004

	Common stock	Preferred Stock	Subscriptions receivable	Additional in capit

Balance at September 30, 2003	8,590	86	(50,300)	612
Payment on subscriptions receivable			48,250	
Issuance of preferred stock for cash		302		364
Issuance of common stock in connection with LumaLite reverse merger	3,341			(3
Issuance of common stock, converted from preferred stock	664	(388)		
Common stock issued for cash	147			85
Common stock issued for services	698			569
Common stock issued for cash	1,442			1,531
Common stock issued for warrants exercised	210			262
Net loss for year ended September 30, 2004				
Balance as of September 30, 2004	15,092	--	(2,050)	3,422
Payment on subscriptions receivable			1,800	
Common stock issued to acquired Bott & Gulfgate	1,310			890
Common stock issued for cash	964			1,613
Common stock issued for service	38			65
Other adjustments				(35
Net loss for the year				
Balance as of September 30, 2005	$ 17,404	$ --	$ (250)	$ 5,956

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

-22-

MEMS USA, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED SEPTEMBER 30

	2005
Cash flows provided by (used for) operating activities:	
Net loss	$(2,424,798)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation	242,367
Gain on sale or disposal of equipment	(44,743)
Common stock issued for services	65,450
Change in assets and liabilities net of effects from purchase of Bott and Gulfgate:	
Accounts receivable	214,547
Inventories	(236,662)
Other current assets	(24,232)
Accounts payable and accrued expenses	321,789
Accrued salaries to be paid by issuance of common stock	0
Deferred revenue	0

Total adjustments	538,516
Net cash used for operating activities	(1,886,282)
Cash flows from investing activities:	
Purchase of property and equipment	(55,408)
Net proceeds from sale of equipment	87,600
Investment in CanAm One	(71,765)
Other assets	(44,340)
Stock subscription receivable	1,800
Cash balance net of payments for purchase of Bott and Gulfgate	55,712
Net cash used for investing activities	(26,401)
Cash flows from financing activities:	
(Repayment) proceeds on lines of credit and long term debts	(203,107)
Loan from shareholder	191,600
Costs of issuing common stocks	(386,143)
Cash received for shares to be issued	1,111,000
Common stock issued for cash	2,001,047
Net cash provided by financing activities	2,714,397
Net increase in cash and cash equivalents	801,714
Cash and cash equivalents, beginning of period	26,439
Cash and cash equivalents, end of period	$ 828,153
Supplemental disclosure of cash flow information:	
Income taxes paid	$ 27,515
Interest paid	$ 84,361
Supplemental disclosure of non-cash financing activities:	
Common stock (including $1,400,000 of shares subject to mandatory redemption factor) issued for acquisition of Bott and Gulfgate	$ 2,291,935
Common stock issued for services	$ 64,450
Stock issued in exchange for subscriptions receivable	--

The accompanying notes are an integral part of these financial statements

Notes to consolidated financial statements:

(1) Company and Summary of Significant Accounting Policies:

Nature of Business:

MEMS USA, Inc. (the "Company") was incorporated in Nevada in 2002. The Company is comprised of three wholly owned subsidiaries, California MEMS USA, Inc., fka, MEMS USA, Inc., a California Corporation ("MEMS CA"), Bott Equipment Company, Inc. ("Bott") and Gulfgate Equipment, Inc. ("Gulfgate"). In November 2004, the Company formed a joint venture, Can Am

Ethanol One, Inc. ("Can Am"). We presently own forty-nine point three percent (49.3%) of Can Am and maintain 50% of Can Am's voting rights.

MEMS CA is a California based professional engineered systems, products and services company serving the oil, petro-chemical, natural gas and electric utility industries. Gulfgate produces particulate filtration equipment for the oil and power industries. Gulfgate also produces vacuum dehydration and coalescing systems that remove water from turbine engine oil. These same systems are used by electric power generation facilities to remove water from transformer oils. To help meet its customers' diverse needs, Gulfgate maintains and operates a rental fleet of filtration and dehydration systems.

Bott is a stocking distributor for lines of industrial pumps, valves and instrumentation. Bott specializes in the construction of aviation refueling systems for helicopter refueling on oil rigs throughout the world. Bott also constructs refueling systems for commercial marine vessels. Bott's customers include chemical manufacturers, refineries, power plants and other industrial customers.

MEMS CA, Bott and Gulfgate have a combined direct sales force as well as commissioned sales representatives that sell their products.

Can Am was created to manufacture, own and operate one ethanol production facility in British Columbia Canada. The plant was to utilize a synthetic biomass conversion process to convert wood waste materials into ethanol. Subject to receipt of the required funding several biomass-to-ethanol plants are planned for Canada that will also use a synthetic biomass conversion process. (Also see note 6 and 17c.)

We are continuing the process of vertically integrating our subsidiaries, which we believe will promote efficiency and lower operating costs. Each of our subsidiaries will remain a separate operating entity.

Basis of Presentation and Going Concern Consideration:

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

Currently, we have limited available working capital and require significant additional capital in order to sustain our operations and growth. As of September 30, 2005, we had total current assets of $2.6 million dollars and a working capital deficit of $651 thousand dollars. We believe that we require a minimum of $2.5 million dollars in order to fund our planned operations over the next 12 months, in addition to the capital required for the establishment of any ethanol production facilities. We plan to obtain the additional working capital through private placement sales of our equity securities. The company has entered into an agreement to sell its securities with the requisite funding, however as of the date of this report, we have not received any funds, nor can there be any assurance that such funds will be forthcoming. See note 17b, Subsequent Events. Should we be unable to raise the required funds, our ability to finance our continued operations will be materially adversely affected.

Fair Value of Financial Instruments:

The Company measures its financial assets and liabilities in accordance with accounting principles generally accepted in the United States of America. For certain of the Company's financial instruments, including accounts receivable (trade and related party), notes receivable and accounts payable (trade and related party), and accrued expenses, the carrying amounts approximate fair value due to their short maturities.

Use of Estimates:

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

Concentration of Credit Risk:

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and accounts receivable. The Company maintains cash with various major financial institutions and performs evaluations of the relative credit standing of these financial institutions in order to limit the amount of credit exposure with any institution. The Company extends credit to customers based upon an evaluation of the customer's financial condition and credit history and generally requires no collateral. The Company's customers are principally located throughout North America, and their ability to pay amounts due to the Company may be dependent on the prevailing economic conditions of their geographic region. Management performs regular evaluations concerning the ability of its customers to satisfy their obligations and records a provision for doubtful accounts based on these evaluations. The Company's credit losses for the periods presented are insignificant and have not significantly exceeded management's estimates.

Cash and Cash Equivalents:

All highly liquid investments maturing in three months or less when purchased are considered as cash equivalents.

Accounts Receivable:

In the normal course of business, the Company provides credit to customers. We monitor our customers' payment history, and perform credit evaluation of their financial condition. We maintain adequate reserves for potential credit losses based on the age of the receivable and specific customer circumstance.

Inventories:

Inventories are valued at the lower of cost (first-in, first-out) or market value and have been reduced by an allowance for excess, slow-moving and obsolete inventories. The estimated allowance is based on Management's review of inventories on hand compared to historical usage and estimated future usage and sales. Inventories under long-term contracts reflect accumulated production costs, factory overhead, initial tooling and other related costs less the portion of such costs charged to cost of sales and any un-liquidated progress payments. In accordance with industry practice, costs incurred on contracts in progress include amounts relating to

programs having production cycles longer than one year, and a portion thereof may not be realized within one year.

Property and Equipment:

Property and equipment are stated at cost. Depreciation of equipment is provided for by the straight-line method over their estimated useful lives ranging from three to ten years for equipment and 28 to 30 years for plants.

The Company has construction in progress in Los Angeles, California amounting $289,740. The construction in progress has been included in Other Assets in the accompanying financial statements.

Accounts Payable and accrued expenses:

Accounts payable and accrued expenses includes trade accounts payable of $879,733 and $242,904 for years ended September 30, 2005 and 2004 and accrued expenses of $515,532 and $117,495 respectively.

Revenue Recognition

The majority of the Company's revenues are recognized when products are shipped to or when services are performed for unaffiliated customers. Other revenue recognition methods the Company uses include the following: revenue on production contracts is recorded when specific contract terms are fulfilled, which is when the product or service is delivered; revenue from cost reimbursement contracts is recorded as costs are incurred.

Shipping and Handling Costs:

The Company expenses shipping and handling costs as incurred and include the expense in selling, general and administrative expenses.

Advertising Costs:

The Company expenses the cost of advertising as incurred. The advertising expense charged against operations for September 30, 2005 and 2004 were $17,472 and $27,878 respectively.

Income Taxes:

Provisions for federal and state income taxes are calculated on reported financial statement income based on the current tax law. Such provisions differ from the amounts currently payable because certain items of income and expense, known as temporary differences, are recognized in different tax periods for financial reporting purposes than for income tax purposes. Deferred income taxes are the result of the recognition of tax benefits that management expects to realize from the utilization of net operating loss carry-forwards. The amounts recorded are net of valuation allowance and represent management's estimate of the amount that is more likely than not to be realized.

Comprehensive Income (Loss)

As comprehensive income consists only of net earnings, a Schedule of Comprehensive Loss has not been included in these financial statements.

Earnings Per Share:

Basic earnings (loss) per share are computed by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include the number of additional shares of common stock that would have been outstanding if the potential shares of common stock equivalents had been exercised and issued and if the additional common shares were dilutive. Diluted earnings per share 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 then shared in the earnings of the Company. There were 5,849,572 shares and 4,882,819 shares of common stock equivalents for the year ended September 30, 2005 and 2004, respectively which were excluded because they are not dilutive. Common stock equivalents includes, but is not limited to warrants, stock options, convertible debentures, etc.

Stock Based Compensation:

Pro forma information regarding net loss and loss per share, pursuant to the requirements of SFAS 123, for the year ended September 30, 2005 and 2004 are as follows: (Amounts in thousands except per share.)

	2005	2004
Net loss, as reported	$ (2,425)	$ (2,269)
Deduct:		
Total stock-based employee compensation expenses determined under the fair value Black-Scholes method with a 93% and 76% volatility at September 30, 2005 and 2004 respectively, and a 1.5% risk free rate of return assumption	(1,445)	(67)
Pro forma net loss	$ (3,870)	$ (2,336)
Loss per share:		
Weighted average shares, basic and diluted - as reported	16,951	12,145
Basic and diluted, pro forma, per share	$ (0.23)	$ (0.19)

Going Concern:

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates the Company as a going concern. However, the Company has sustained substantial operating losses in recent years ($5,545,454) and has used substantial amounts of working capital in its operations. Realization of a major portion of the assets reflected on the accompanying balance sheet is dependent upon continued operations of the Company which, in turn, is dependent upon the Company's ability to meet its financing requirements and succeed in its future operations. Management believes that actions presently being taken to revise the Company's operating and financial requirements provide them with the

opportunity for the Company to continue as a going concern. We will continue to raise additional cash through debt or equity financings in 2006 in order to meet our working capital requirements.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These changes had no effect on reported financial positions or results of operations.

Recent Accounting Pronouncements:

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs, an amendment of ARB No. 43, Chapter 4. The amendments made by Statement 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. The Company has evaluated the impact of the adoption of SFAS 151, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No.123 (revised 2004), "Share-Based Payment". Statement 123(R) will provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Statement 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance based awards, share appreciation rights, and employee share purchase plans. Statement 123(R) replaces FASB Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. Statement 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in APB Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value- based method been used. Public entities (other than those filing as small business issuers) will be required to apply Statement 123(R) as of the first interim or annual reporting period that begins after June 15, 2005. The Company has evaluated the impact of the adoption of SFAS 123(R), and believes the impact will be significant.

-27-

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." This statement applies to all voluntary changes in accounting principles and requires retrospective application to prior periods' financial statements of changes in accounting principle, unless such would be impracticable. This statement also makes a distinction between "retrospective application" of an accounting principle and the "restatement" of financial statements to reflect the correction of an error. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of SFAS No. 154 to have a material

impact on its financial position or results of operation.

In June 2005, the EITF reached consensus on Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements" ("EITF 05-6") EITF 05-6 provides guidance on determining the amortization period for leasehold improvements acquired in a business combination or acquired subsequent to lease inception. The guidance in EITF 05-6 will be applied prospectively and is effective for periods beginning after June 29, 2005. EITF 05-6 is not expected to have a material effect on its consolidated financial position or results of operations."

(2) Business Acquisition:

On October 26, 2004 ("Closing Date"), effective October 1, 2004, the Company purchased 100% of the outstanding shares of two Texas corporations, Bott Equipment Company, Inc. ("Bott") and Gulfgate Equipment, Inc. ("Gulfgate") from their president and sole shareholder, Mr. Mark Trumble.

Under the terms of the stock purchase agreement, the Company acquired 100% of the shares of Bott and Gulfgate from Mr. Trumble for $50,000 in cash and 1,309,677 shares of the Company's newly issued common stock.

752,688 shares of the shares issued to Trumble are subject to a one time put. On or about October 26, 2005, Mr. Trumble exercised this put. Under the terms of the put, Trumble has elected to exchange all of the 752,688 shares for an amount equal to $1.86 per share (which is the average price of the Company's stock on the OTC BBC for the thirty trading days comprising September 13, 2004 through October 22, 2004) times the number of shares exchanged by Trumble pursuant to the put. The Company shall have sixty (60) days from the date of exercise to pay off any sums due thereby. An extension for payment of the put has been negotiated between Mr. Trumble and the Company. The Company's performance under the terms of the put is secured by second deeds of trust with vendors' liens in favor of Trumble on certain parcels of the Companies' real estate.

The 752,688 shares subject to the put, have been properly treated as a $1.4 million liability, pursuant to Statement of Financial Accounting Standards no. 150 (SFAS 150) Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity until the terms of the put expire.

The Company agreed to create an employee option plan for its employees and those of its affiliates, including Bott and Gulfgate. In connection with said plan, the Company agreed to file Form S-8 Registration Statement under The Security Act of 1933 (securities to be offered to employees in employee benefit plans) within 30 days of the Closing Date. The Company had also agreed that it would issue Trumble an additional 123,659 shares of the Company's restricted stock if it failed to achieve this milestone. The Company filed the Form S-8 Registration Statement within 30 days of the Closing Date thereby achieving this milestone and avoiding the issuance of penalty shares to Mr. Trumble.

The Agreement also provided that Trumble will personally introduce the Company's officers and representatives to five (5) qualified Texas bankers and that the Company will utilize its best efforts to remove Trumble's name as guarantor from the Bott and Gulfgate lines of credit (See note 8 and 9) within 90 days of the fifth introduction. The Company has agreed that it will issue Trumble an additional 370,977 shares of restricted stock should it fail to achieve this milestone. Mr. Lawrence Weisdorn, Mr. Daniel Moscaritolo and Dr. James Latty have also agreed to join Trumble as guarantors on the Bott and Gulfgate credit lines. Mr. Weisdorn joined

Trumble as guarantor on the Bott and Gulfgate credit lines in or around mid-November 2004. Mr. Moscaritolo and Mr. Latty have agreed to join as guarantors should the Company fail to recognize the milestone of removing Trumble's name as guarantor from the existing credit lines within the specified time period. As of the date of this report, only four qualified personal introductions have occurred. Thus, the 90 day milestone has not been triggered. The Company is committed to removing Mark Trumble as guarantor from the existing lines of credit and has submitted applications for credit lines with a number of financial institutions.

The Company agreed to secure a best efforts underwriting commitment letter from a qualified investment banker within 45 days of the Closing Date to raise a minimum of $2 million in equity capital. An additional 123,659 shares of the Company's restricted stock were to be issued to Trumble should the Company fail to achieve this milestone. The Company obtained a commitment letter within 45 days of the Closing Date thereby achieving this milestone and avoiding the issuance of penalty shares to Mr. Trumble. The Company also agreed, in connection with the $2 million equity raise, that the Company would receive $2,000,000 in gross equity funding within 120 days of the Closing Date. The Company has agreed that it will issue Trumble an additional 123,659 shares of its restricted stock should it fail to achieve this milestone. The Company did not achieve this milestone and is obligated to issue 123,659 penalty shares to Mark Trumble.

Finally, the Company has recognized that Trumble shall sell 326,344 shares of his stock at a purchase price of approximately $607,000 to private parties, including a related party Lawrence Weisdorn, Sr., the former CEO's father and a shareholder and/or Weisdorn Sr.'s assignees pursuant to a written agreement between Trumble and Weisdorn Sr.. Should Trumble fail to recognize $607,000, through no fault of Trumble, the Company agreed to issue up to 494,636 shares of restricted stock to Trumble. The percentage of the Penalty Shares the Company shall issue, if any, shall be prorated in accordance with any monies received by Trumble during the 60-day period. It is further understood that the penalties are subject to the following schedule: (1) Trumble shall have recognized at least $75,000 within 15 days of the Closing Date or he shall receive up to 61,829 Penalty Shares; (2) Trumble shall recognize an additional $75,000 within 30 days of the Closing Date or he shall receive up to an additional 61,829 Penalty Shares; (3) Trumble shall recognize an additional $150,000 within 45 days of the Closing Date or he shall receive up to an additional 123,659 Penalty Shares; and (4) Trumble shall recognize an additional $307,000 within 60 days of Closing Date or he shall receive up to an additional 247,318 Penalty Shares. Each milestone is to be calculated as a stand-alone event. The obligations of items 1, 2, and 3 were met which avoided the associated penalty shares. All of the above Penalty Share calculations shall be subject to a pro-rata offset for monies received that fall short of the indicated milestones.

On December 15, 2005, the Company assumed Weisdorn Sr.'s obligation to purchase 165,054 shares from Mr. Trumble at $1.86 per share. See note 17, Subsequent Events.

During the first quarter of fiscal year 2005, the Company, in order to avoid the issuance of 61,829 penalty shares, paid $75,000 directly to Mr. Trumble. As of the date of this report the Company has received approximately $39,000 of the $75,000 from Mr. Weisdorn Sr. The Company has recorded this payment as a reduction to additional paid-in capital. See footnote 17a.

Mr. Trumble did not recognize $307,000 within 60 days of the closing date. As a result, the Company is obligated to issue 247,318 penalty shares to Mr. Trumble. Additionally, the covenant to remove Mr. Trumble from the lines of credit remains and may require us to issue up to 370,977 additional penalty shares in the event that we fail to satisfy that remaining covenant.

Non-Competition Agreement:

The agreement also provides that Trumble shall not for a period of eighteen (18) months following his separation from the Company, unless permitted to do so by the Company, engage, directly or indirectly as an individual, representative or employee of others, in the business of designing, manufacturing or selling products in competition with the Company or any of its subsidiaries in any geographic area where the Company or its subsidiaries are doing business.

-29-

Management believes that the acquisition of Bott and Gulfgate will provide the Company with cost effective means to engineer, manufacture and distribute products for its customers in the energy sector. Bott and Gulfgate may also provide or construct products used in ethanol production facilities. The acquisition has been accounted for as a purchase transaction pursuant to Statement of Financial Accounting Standards No. 141 Business Combinations (SFAS 141) and accordingly, the acquired assets and liabilities assumed are recorded at their book values at the effective date of acquisition except for the real property which approximate the most current appraised value. Excess cost of $915,373 over the appraised real property and book value of the other acquired assets and liabilities assumed was assigned to goodwill. Goodwill included 370,977 of penalty common shares valued at $809,966.

A parallel audit of the pro-forma financial statements for the October 26, 2004 business acquisition has been on-going and is expected to be completed in the second quarter of 2006. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The beginning balances have been audited and are fairly stated.

Current assets	$ 1,826,720
Plant, property, and equipment, net	2,237,749
Total asset acquired	4,064,469
Total liabilities assumed	(1,827,942)
Net assets acquired	2,236,527
Excess costs over fair value	915,373
Total purchase price	$ 3,151,900

The $3,151,900 purchase price was comprised of the following:

Cash	$ 50,000
Common Stock (370,977 penalty shares)	809,965
Common Stock (1,309,677 shares)	2,291,935
Total purchase price	$3,151,900

The following pro-forma summary presents the consolidated results of operations of the Company as if the acquisition had occurred at the beginning of years ended September 30, 2005 and 2004. (Amounts in thousands except per share)

	2005	2004
Net sales	$ 8,828	$ 7,616
Gross Profit	2,150	1,344
Net loss attributable to common shareholders	$ (2,425)	$ 2,510)
Net loss per share	$ (0.14)	$ (0.21)
shares	17,404	12,145

(3) Accounts Receivable:

Accounts receivable has been reduced by an allowance for amounts that may become uncollectible. This estimated allowance is based primarily on Management's evaluation of the financial condition of the customer and historical bad debt experience. The Company has provided reserves for doubtful accounts as of September 30, 2005 in the amount of $46,196 that the Company believes are adequate.

(4) Inventories:

Inventories, net of reserve for slow moving inventory ($25,000), consist of finished goods and work in process in the amount of $502,430 and $402,890 respectively.

(5) Plant, Property and Equipment:

A summary at September 30, 2005 and 2004 are as follows:

	2005	2004
Land	$ 502,000	$ --
Buildings and improvements	1,073,000	--
Furniture, Machinery and equipment	769,590	307,678
Automobiles and trucks	180,651	--
Leasehold improvement	79,105	71,741
	2,604,346	379,419
Less accumulated depreciation	(287,511)	(46,923)
	$ 2,316,835	$ 332,496

Depreciation expense charged to operations totaled $242,367 and $33,023 respectively, for the year ended September 30, 2005 and 2004.

(6) Investments in Can Am Ethanol One, Inc.:

Can Am was created to manufacture, own and operate one ethanol production facility in British Columbia, Canada. In June 2005, the Company and its Canadian counterpart each made a CN$25,000 at risk deposit to open escrow

toward purchase of 2,150 acres of land intended to serve as a plant site in British Columbia, Canada ("Purchase Agreement").

Subsequently, the Company paid an additional at-risk deposit of CN$50,000 for an extension of the Closing Date of the Purchase Agreement. As of the date of this report, the Purchase Agreement remains active, but has not closed. Due to the length of time that Purchase Agreement has remained pending, as well as other factors, the Company is contemplating selling its' interest to Accelon Energy System, Inc., the other owner of Can Am Ethanol One, Inc. We will continue to explore other potential plant sites in Canada.

(7) Goodwill Impairment

The cost to purchase our subsidiaries included in the accompanying financial statements exceeded the fair value of net assets at the date of acquisition has been recorded as Goodwill. The Company assessed the carrying value of this asset in accordance with the requirements of SFAS #142 "Goodwill and Other Intangible Assets". The evaluation is based on estimates of future revenues, profits, and working capital requirements. Based on these assessments, the Company determined that goodwill has not been impaired

-31-

(8) Business Lines of Credits - Bott:

Bott previously maintained three lines of credits with a bank in Houston, Texas. The credit lines were evidenced by three promissory notes, a Business Loan Agreement and certain commercial guarantees issued in favor of the bank. The material terms of these agreements follow:

In May 2004, Bott entered into a promissory note with a bank whereby Bott could borrow up to $250,000 over a three year term. Bott could obtain credit line advances based upon its asset base. The note required monthly payments of one thirty-sixth (1/36) of the outstanding principal balance plus accrued interest at the Bank's prime rate plus 1.0 percent.

In June 2004, Bott executed a promissory note ("Note") with a bank whereby Bott could borrow up to $600,000, at an interest rate equal to the bank's prime rate. The Note provided for monthly payments of all accrued unpaid interest due as of the date of each payment. The Note further provided for a balloon payment of all principal and interest outstanding on the Note's one year anniversary. The Company informed the bank that it would not renew the line of credit and negotiated a long-term promissory note.

This promissory note was finalized in December 2005, for $372,012 at a variable interest rate equal to the bank's prime rate. The note provides for five monthly principal payments of $3,092 and a final payment of the remaining principal and interest in June 2006.

In October 2004, Bott executed a promissory note with a bank that allowed Bott to borrow up to $200,000, at an interest rate equal to the bank's prime rate plus 1.0 percent. The note provided for monthly payments of all accrued unpaid interest due. The note also provided for the payment of $66,666 in the months of December 2004 and January 2005 and payment of the remaining principal and interest in February 2005. The note was paid off in the second quarter.

All of the foregoing promissory notes contained the following common

terms: The notes specified that no advances under the notes may be used for personal, family or household purposes and that all advances shall be used solely for business, commercial, agricultural or similar purposes. Bott could draw down on the lines of credit provided that: it was not in default under the note evidencing the particular line of credit or any other agreement that it might have with the bank; it was not insolvent; no guarantor had revoked or limited the terms of his or her guarantee respecting the note; Bott used the funds available under the particular note for an unauthorized purpose; and/or the bank believed that its interests under the note are not secured. The notes provided the following limitations on the use of methods and advancements respecting the credit line, and the bank may not honor requests for additional advances if: the requested advance would cause the amounts requested under the particular note to exceed its initial limit; Bott's checks or bank cards relating to the credit line are reported lost or stolen; the note is in default; or the amount requested is less than allowed under the note. The notes permit prepayment of all or part of the outstanding balances without penalty.

The Agreements and Notes are secured by the inventory, chattel paper, accounts receivable and general intangibles. The Agreements and Notes are also secured by the personal performance guarantees of Mr. Mark Trumble and Mr. Lawrence Weisdorn (Commercial Guarantees). The Commercial Guarantees require the guarantors to assure that all payments due under the Notes are timely made or to make such payments. All amounts related to Bott's outstanding promissory notes totaled $555,028 on September 30, 2005.

(9) Business Line of Credit - Gulfgate:

In June 2002, Gulfgate executed a promissory note ("Note") with a bank that allowed Gulfgate to borrow up to $200,000 at an interest rate equal to the bank's prime rate, or a minimum interest rate of 5.00% per annum, whichever was greater. Gulfgate could draw down on the line of credit provided: that it was not in default on this Note or any other agreement that it might have with the bank; it was not insolvent; no guarantor revoked or limited the terms of his guarantee; the Borrower used the funds available under the Note for an unauthorized purpose (i.e., other than for a business purpose without first obtaining the bank's written consent); and /or the bank believed that its interests are not secured. The Note provided the following limitations on the use of methods and advancements respecting the credit line, and the bank may not honor requests for advances if: the requested advance would cause the amounts requested under the Note to exceed $200,000; Gulfgate's checks or bank cards relating to the credit line are reported lost or stolen; the Note was in default; or the amount requested is less than allowed under the Note. The Note provided for monthly payments of all accrued unpaid interest due as of the date of each payment. The Note remains in force and effect until the bank provides notice to Gulfgate that no additional withdrawals are permitted (Final Availability Date). Thereafter, payments equal to either $250 or the outstanding interest plus one percent of the outstanding principal as of the Final Availability Date are due monthly until the Note is repaid in full. The Note allows for prepayment of all or part of the outstanding principal or interest without penalty. The Note is secured by Gulfgate's accounts with the bank, and by Gulfgate's inventory, chattel paper, accounts receivable, and general intangibles. The Agreement is also secured by the performance guarantees of Mr. Mark Trumble, Mr. Lawrence Weisdorn and the Company. The personal guarantees require the guarantors to assure that all payments due under the Note are timely made or to make

such payments. Amounts outstanding at September 30, 2005 totaled $195,716.

(10) Liability to be satisfied through the issuance of shares

In September, 2005, the Company incurred a liability for stock subscribed in the amount of $1,111,000. The Company sold 670,000 shares of its common stock for $1,005,000 via a private placement offering through SW Bach & Company, a New York securities dealer. An additional $106,000 was raised through the private sale of stock to two investors. The Company will satisfy its obligations through issuance of 799,054 shares of common stock to shareholders in February 2006.

(11) Long-Term Debts:

Promissory Notes:

In May 2003, Bott executed a promissory note with a bank in the amount of $26,398 at an interest rate equals to four point fifty five percent (4.55%) for a vehicle purchase. The term of the note is for fifty-nine (59) months at $494 per month. Balance outstanding at September 30, 2005 was $15,004

Mortgage:

On May 31, 2002, Gulfgate entered into a $140,000 promissory note ("Note") with a bank in connection with the refinancing of Gulfgate's real estate. The Note bears a fixed interest rate of seven percent (7.00%) per annum. The Loan provided for fifty-nine monthly payments of $1,267 due beginning July 2002 and ending June 2007. The Note may be prepaid without fee or penalty and is secured by a deed of trust on Gulfgate's realty. Gulfgate is required under the terms of a separate agreement to provide replacement value fire and extended coverage insurance having a $2,500 deductible. Balance outstanding at September 30, 2005 was $58,934.

Loans from shareholders:

In September 2005, Daniel K. Moscaritolo, COO and Director, and James A. Latty, CEO and Chairman, ("Lenders") each loaned the Company, $95,800 (collectively, $191,600). The transactions are evidenced by two notes dated November 1, 2005 (hereinafter, "Notes"). The terms of the Notes require repayment of the principal and interest, which accrues at a rate of ten percent (10%) per annum on May 1, 2006. The Notes are accompanied by Securities Agreements that grant the Lenders a security interest in all personal property belonging to the Company, as well as granting an undivided 1/2 security interest in all of the Company's right title and interest to any trademarks, trade names, contract rights, and leasehold interests.

Financing Lease Agreements:

In September 2002, Gulfgate entered into a non-cancelable debt financing agreement ("Agreement") with the bank's leasing corporation for the financing of certain equipment and a paint booth. The Agreement calls for the payment of forty-eight (48) monthly installment payments of $1,556 beginning September 2002 at the interest rate of 6.90 percent per annum. Balance outstanding at September 30, 2005 was $17,988.

Convertible Loan Payable:

In September 2004, the Company entered into a convertible loan with an investor. The principal amount of the convertible loan payable is $150,000 at an interest rate of 8% per annum paid quarterly. The loan is convertible into common stock at any time within two (2) years (24 months) starting September 3, 2004 at the conversion price of $2.20 or 68,182 shares. Each share converted entitles the holder to purchase one additional share of stock at an exercise price of $3.30 within the ensuing 12 months. If at the end of the two year period the loan has not been converted into common stock, the principal amount becomes due and payable.

Summary of long-term notes payable and financing lease are as follow:

Promissory notes for automobile	$ 15,004
Mortgage payable	58,934
Financing lease agreement payable	17,988
Convertible loan	150,000
	241,926
Less current portion	179,292
Long-term	$ 62,634

(12) Income Taxes:

There is no provision for income taxes for the periods presented. Net operating loss carry forwards have been offset in their entirety by a valuation allowance. The reconciliation of the effective income tax rate to the Federal statutory rate is as follows:

	2005	2004
Federal income tax rate	35.0%	35.0%
State income tax rate	6.0%	-0-
Current year losses: loss for which no current benefit is provided	(41.0)	(35.0)
Effective Income Tax Rate	0%	0%

The deferred tax asset results from net operating loss carry forwards of approximately $5.5 million of which $200,000 expires in 2017; $600,000 expires in 2018; $2.3 million expires in 2019; and $2.4 million expires in 2020. The resulting asset of approximately $2.4 million is completely offset by a valuation allowance because of uncertainties as to its realization.

(13) Commitments:

The Company leases one facility for its operations under a lease agreement expiring December 31, 2008. The following is a schedule by years of future minimum base rental payments, excluding operating expenses, required under operating lease, which represents non-cancelable lease terms in excess of one year as of September 30, 2004:

On April 30, 2005, the Company entered into a vehicle lease agreement. The agreement provided for a $25,000 down payment and thirty-eight (38)

monthly payments of $2,884 due on the 1st of each month.

Facility and vehicle leases:	
2006	$182,777
2007	182,777
2008	174,124
2009	37,041
	$576,720

Lease expenses amounted to $151,275 and $121,981 for the year ended September 30, 2005 and 2004 respectively. The Company has employment agreements with certain key executives through 2007 providing aggregate annual compensation of approximately $977,000.

(14) Employee Stock Options:

In connection with the employment agreements, the Company has granted options to certain key executives to acquire common stock of the Company ("Options").

The number of weighted average exercise prices of all options granted for the years ended September 30, 2005 and 2004 are as follows:

	2005		2004	
	Number	Average Exercise Price	Number	Averag Exerci Price
Outstanding at beginning of the year	4,100,388	$ 1.55	3,950,640	$ 1.03
Granted during the year	2,442,000	3.00	152,748	2.07
Outstanding at end of the year	5,338,227	3.00	4,100,388	1.55
Exercisable at end of the year	2,016,002	3.00	54,537	1.08
Exercised during the year	18,327	1.25	3,000	1.00
Cancelled during the year	1,185,834	1.79	0	

(15) Stockholders' Equity

During the months of February through June 2004, the Company sold 1,331,783 shares of its common stock via a private placement offering (the "PIPE"). The subscription agreement accompanying the PIPE sales provided the purchaser with a warrant to purchase additional common stock. The warrants bore an expiration date of January 27, 2005. In January 2005, forty-five (45) PIPE warrant holders exercised 537,550 warrants to purchase an equal number of shares and the Company recognized a combined purchase price of $1,178,257. The average price for this transaction was $2.19 per share.

In October 2004, the Company issued 1,309,677 shares to acquire two Texas

subsidiaries, Bott and Gulfgate. See Note 2.

In January 2005, another warrant holder exercised 17,827 warrants and the Company recognized a combined purchase price of $22,284. The average price for this transaction was $1.25 per share.

In April 2005 the Company sold 375,000 shares of its common stock via a private placement offering to existing shareholders. The Company recognized a combined purchase price of $750,000. The average price for this transaction was $2.00 per share.

In July 2005 the Company sold 33,334 shares of its common stock via a private placement offering to existing shareholders. The Company recognized a purchase price of $50,000. The average price for this transaction was $1.50 per share.

In August 2005, the Company retained SW Bach & Company pursuant to a certain placement agency agreement dated August 23, 2005 ("Agreement") whereby Bach was retained to place up to 1,500,000 Units at $1.50 per Unit for the Company. Each Unit consisted of a Share of the Company's common stock and a warrant to purchase an additional share of the Company's common stock for $2.25. As consideration for the Agreement, Bach and its selected dealers were compensated ten percent (10%) of the equity raised together with the reimbursement of non-accountable expenses in an amount of up to 2% of the equity raised, plus a pro-rated due diligence fee not to exceed $25,000 and all reasonable legal fees not to exceed $35,000, and warrants to purchase Units equal to ten percent (10%) of the number of Units sold (Placement Agent Warrants). Each Placement Agent Warrant consists of a warrant to purchase one common share of the Company's Common Stock at $1.50 per share and a warrant to purchase an additional share at $2.25 per share. Bach and its selected dealers stopped activities early after only raising $1,005,000 for the Company through the sale of 670,000 shares of stock and were paid $162,054 (including attorney's fees and other costs) and will be issued 67,000 Placement Agent Warrants.

In 2005 the Company issued a total of 37,940 shares of its common stock to vendors for services rendered totaling $65,495.

Other adjustments to Additional Paid in Capital is the balance due from Mr. Weisdorn Sr. related to Business Acquisition agreement where Mems paid $75,000 on behalf of Weisdorn, Sr. for the benefit of Mark Trumble (see Note 2). As of the date of this report the Company has received approximately $39,000 of the $75,000 from Mr. Weisdorn Sr. The remaining balance receivable was recorded as a reduction to additional paid-in capital. See footnote 17a.

(16) Resignation of Executive Officer and Board Member:

Effective as of June 25, 2005, Lawrence Weisdorn, resigned his position as Chief Executive Officer and Chairman of the Board. At the same time, Mr. Weisdorn also resigned his position as a director of the Company. James A. Latty, Ph.D, PE was appointed by the Board of Directors to the position of Chief Executive Officer and Chairman of the Board. See note 17a.

(17) Subsequent Event:

(a) On October 17, 2005, the Company and its officers filed a complaint against Lawrence Weisdorn, Jr. ("Weisdorn), the Company's former Chief

Executive Officer and Chairman of the Board of Directors, Lawrence Weisdorn, Sr. ("Weisdorn Sr." and together with Weisdorn, the "Weisdorn Parties"), Nathan Drage ("Drage") and Drage related parties in the Superior Court of the State of California for Los Angeles County, alleging claims for, among other things, breaches of Nevada and federal law and breach of fiduciary duty (the "Action"). The Company's claims were based in substantial part on allegations of the unauthorized issuance of shares of the Company's predecessor's common stock in December 2003, prior to the reverse acquisition and merger with MEMS-CA which was finalized in February, 2004. The Company sought an injunction preventing the Weisdorn Parties and Drage and his related parties from selling or transferring any of the shares of the Company's common stock issued in December 2003, the return of the shares to the Company for cancellation and monetary damages.

On November 3, 2005, the Weisdorn Parties filed a cross-complaint against the Company and its officers, alleging claims for, among other things, breach of employment agreement, libel and indemnification (the "Weisdorn Counterclaim"). The Weisdorn Parties' claims were based in part on assertions by Weisdorn that he was improperly terminated without cause from his positions with the Company in June 2005, and that he was entitled to indemnification pursuant to Nevada corporations law in connection with the Action. The Weisdorn Parties sought monetary damages.

On December 15, 2005, the Company and its officers entered into a Settlement Agreement and Release with the Weisdorn Parties and other Weisdorn related parties, effective as of July 1, 2005 (the "Settlement Agreement"), pursuant to which the parties agreed to, among other things, dismiss the Action as it related to the Weisdorn Parties, dismiss the Weisdorn Counterclaim, mutually release all claims and mutually indemnify the other parties from certain claims. Weisdorn also agreed to deliver a letter of resignation to the Company, confirming his resignation as Chief Executive Officer and Chairman of the Board of Directors of the Company as of June 25, 2005 and clarifying and confirming the terms of his separation from the Company. The Weisdorn Parties and other Weisdorn related parties further agreed to deliver to the Company all shares or rights to shares of the Company's common stock owned by such parties. The net stock returned to the Company by the Weisdorn parties was 2,699,684 shares, not including 670,000 shares of the Company's common stock to be held by the Company in an account for the benefit of the Weisdorn Parties (the "Retained Stock"), which Retained Stock will be sold for the benefit of the Weisdorn Parties pursuant to the terms set forth in the Settlement Agreement. The Company has the option to purchase any portion of the Retained Stock at a price determined according to the terms of the Settlement Agreement. The Company also agreed to assume the obligations of the Weisdorn Parties and other Weisdorn related parties to purchase certain shares of the Company's common stock from a third party, and the Weisdorn Parties assigned to the Company their interests in certain claims against a third party.

-37-

The Settlement Agreement did not in any way affect claims brought in the Action by the Company and its officers against Drage and the Drage-related entities. However, on January 13, 2006, Drage and Adrian Wilson verbally agreed to a settlement in principle with the Company, which the parties intend to memorialize shortly. In connection with the verbal agreement to a settlement, the Company and its officers filed a Request for Dismissal without prejudice of all claims against Drage and the Drage-related entities on January 13, 2006.

(b) On November 10, 2005, the Company entered into a stock purchase

agreement with Mercatus & Partners, Limited, a private limited company of the United Kingdom ("Mercatus Limited"), for the sale of 1,530,000 shares of the Company's common stock for a minimum purchase price of $0.73 per share (the "SICAV One Agreement), and another stock purchase agreement with Mercatus Limited also for the sale of 1,530,000 shares of the Company's common stock for a minimum purchase price of $0.73 per share (the "SICAV Two Agreement" and together with the SICAV One Agreement, the "SICAV Agreements"). The shares offered and sold under the SICAV Agreements were offered and sold pursuant to a private placement that is exempt from the registration provisions of the Securities Act under Section 4(2) of the Securities Act pursuant to Mercatus Limited's exemption from registration afforded by Regulation S. Pursuant to the terms of the SICAV Agreements, the Company issued and delivered an aggregate number of 3,060,000 shares of the Company's common stock within five days of the execution of the respective SICAV Agreements to a custodial lock box on behalf of Mercatus Limited for placement into two European SICAV funds. The SICAV Agreements provided Mercatus Limited with up to 30 days after the delivery of the shares of the Company's common stock to issue payment to the Company. If payment for the shares was not received by the Company within 30 days of the delivery of the shares the Company had the right to demand the issued shares be returned. (The Company has not yet received payment for the shares issued pursuant to the SICAV Agreements but has not exercised its right to demand return of the shares.)

On November 12, 2005, the Company also entered into another private stock purchase agreement with Mercatus & Partners, Limited, a private limited company of the United Kingdom ("Mercatus Limited") for the sale of 170,000 shares of the Company's common stock for a minimum purchase price of $0.82 per share (the "Private SICAV One Agreement") and another private stock purchase agreement with Mercatus LP also for the sale 170,000 shares of the Company's common stock for a minimum purchase price of $0.82 per share (the "Private SICAV Two Agreement" and with the Private SICAV One Agreement, the "Private SICAV Agreements"). The shares offered and sold under the SICAV Agreements were offered and sold pursuant to a private placement that is exempt from the registration provisions of the Securities Act under Section 4(2) of the Securities Act pursuant to Mercatus Limited's exemption from registration afforded by Regulation S. Pursuant to the terms of the Private SICAV Agreements, the Company issued and delivered an aggregate amount of 340,000 shares of the Company's common stock within five days of the execution of the respective Private SICAV Agreements to a custodial lock box on behalf of Mercatus Limited for placement into a European bank SICAV fund. Subject to a valuation of the shares, Mercatus Limited had up to 30 days after the delivery of the shares of the Company's common stock to issue payment to the Company. If payment was not received by the Company within 45 days of the issuance of the shares to Mercatus LP, the Company had the right to demand the issued shares be returned. [The Company has not yet received payment for the shares issued pursuant to the Private SICAV Agreements but has not exercised its right to demand return of the shares.]

(c) In December 2005, the Company incorporated Hearst Ethanol One, Inc., an Ontario corporation ("HEO") for the purpose of building, owning and operating an ethanol production facility in Canada. As of the date of this report, the Company owns ninety-nine point three percent (99.3%) of HEO. Dr. James A. Latty and Mr. Daniel Moscaritolo are presently the only directors and officers of HEO.

On December 21, 2005, HEO entered into a land purchase agreement with C. Villeneuve Construction Company, Ltd. Upon successful completion of due diligence concerning 600 acres of land to be acquired near Hearst, Ontario, Canada and at the discretion of the Company to accept the results, the transaction is anticipated to close on or before May 1st, 2006. Additional details concerning this transaction may be found in the Company's Form 8K report filed December 27, 2005 which is hereby incorporated by reference.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 8A. Controls and Procedures

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, as appropriate, to allow timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer have reviewed the effectiveness of our disclosure controls and procedures and have concluded that the disclosure controls and procedures, overall, are effective as of the end of the period covered by this report. There has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the period covered by this report that have materially affected, or are reasonably likely to materially affected, the Company's internal control over financial reporting.

Item 8B. Other Information

On November 10, 2005, the Company entered into a stock purchase agreement with Mercatus & Partners, Limited, a private limited company of the United Kingdom ("Mercatus Limited"), for the sale of 1,530,000 shares of the Company's common stock for a minimum purchase price of $0.73 per share (the "SICAV One Agreement), and another stock purchase agreement with Mercatus Limited also for the sale of 1,530,000 shares of the Company's common stock for a minimum purchase price of $0.73 per share (the "SICAV Two Agreement" and together with the SICAV One Agreement, the "SICAV Agreements"). The shares offered and sold under the SICAV Agreements were offered and sold pursuant to a private placement that is exempt from the registration provisions of the Securities Act under Section 4(2) of the Securities Act pursuant to Mercatus Limited's exemption from registration afforded by Regulation S. Pursuant to the terms of the SICAV Agreements, the Company issued and delivered an aggregate number of 3,060,000 shares of the Company's common stock within five days of the execution of the respective SICAV Agreements to a custodial lock box on behalf of Mercatus Limited for placement into two European SICAV funds. The SICAV Agreements provided Mercatus Limited with up to 30 days after the delivery of the shares of the Company's common stock to issue payment to the Company. If payment for the shares was not received by the Company within 30 days of the delivery of the shares the Company had the right to demand the issued shares be returned. (The Company has not yet received payment for the shares issued pursuant to the SICAV Agreements but has not exercised its right to demand return of the shares.)

On November 12, 2005, the Company also entered into another private stock purchase agreement with Mercatus & Partners, Limited, a private limited company of the United Kingdom ("Mercatus Limited") for the sale of 170,000

shares of the Company's common stock for a minimum purchase price of $0.82 per share (the "Private SICAV One Agreement") and another private stock purchase agreement with Mercatus LP also for the sale 170,000 shares of the Company's common stock for a minimum purchase price of $0.82 per share (the "Private SICAV Two Agreement" and with the Private SICAV One Agreement, the "Private SICAV Agreements"). The shares offered and sold under the SICAV Agreements were offered and sold pursuant to a private placement that is exempt from the registration provisions of the Securities Act under Section 4(2) of the Securities Act pursuant to Mercatus Limited's exemption from registration afforded by Regulation S. Pursuant to the terms of the Private SICAV Agreements, the Company issued and delivered an aggregate amount of 340,000 shares of the Company's common stock within five days of the execution of the respective Private SICAV Agreements to a custodial lock box on behalf of Mercatus Limited for placement into a European bank SICAV fund. Subject to a valuation of the shares, Mercatus Limited had up to 30 days after the delivery of the shares of the Company's common stock to issue payment to the Company. If payment was not received by the Company within 45 days of the issuance of the shares to Mercatus LP, the Company had the right to demand the issued shares be returned. [The Company has not yet received payment for the shares issued pursuant to the Private SICAV Agreements but has not exercised its right to demand return of the shares.]

Part III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.

Set forth below are our directors and officers.

Name	Age	Position
Dr. James A. Latty	59	Chief Executive Officer, President of the Board of Directors
Daniel K. Moscaritolo	53	Chief Technology Officer, Chief Operating Officer and Director
Richard W. York	57	Chief Financial Officer

James A. Latty, Ph.D., PE was appointed Chief Executive Officer and Chairman of the Board on July 1, 2005, in addition to the position of President, which Dr. Latty has held since September of 2004. Since 1992, Dr. Latty has been president of JAL Engineering, an engineering services provider wholly-owned by Dr. Latty specializing in power and petro-chemical process technologies. From April 2000 to September 2004, Dr. Latty was a director of business development for Rockwell Scientific, Inc.

Mr. Moscaritolo has served as our chief technology officer, chief operating officer and a member of our board of directors since February 2004. Mr. Moscaritolo is a founder of MEMS-California and has served as chief technology officer, chief operating officer and a director of that company since its inception in July 2002.

Mr. York has served as our chief financial officer since November 2004. Mr. York served as controller of PTI technologies, Inc. from 2000 through October 2004 and Rantec Microwave & Electronics, Inc. from 1992 through 2000. PTI and Rantec are both subsidiaries of ESCO Technologies, Inc., a NYSE-listed producer of engineered products and systems for industrial and commercial applications.

All directors serve for a three-year term and until their successors are duly elected and qualified. All officers serve at the discretion of the Board of Directors.

Audit Committee Financial Expert

We do not have an audit committee nor do we have a financial expert.

Code of Ethics

We have adopted a code of ethics that applies to the principal executive officer and principal financial and accounting officer. We will provide to any person without charge, upon request, a copy of our code of ethics. Requests may be directed to our principal executive offices at 5701 Lindero Canyon Road, Suite 2-100, Westlake Village, California 91362.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our officers, directors and persons who beneficially own more than 10% of a registered class of our equity securities to file reports of securities ownership and changes in such ownership with the Securities and Exchange Commission (the "SEC"). Officers, directors and greater than 10% beneficial owners are also required by rules promulgated by the SEC to furnish us with copies of all Section 16(a) forms they file.

-40-

Our officers, directors or 10% shareholders, namely James A. Latty, Daniel Moscaritolo, Richard W. York or Mark Trumble, have filed the reports required by Section 16(a). We have requested that all officers, directors and 10% stockholders file all required reports.

Item 10. Executive Compensation.

Cash Compensation of Executive Officers. The following table sets forth the cash compensation paid by us to our executive officers for services rendered during the fiscal years ended September 30, 2005, 2004 and 2003. The amounts for fiscal years 2003 and 2002 and part of 2004 represent compensation paid to Messrs. Latty and Moscaritolo by MEMS-California, our wholly-owned subsidiary acquired by us in February 2004.

	Annual Compensation				Long-Term Comp	
Name and Position	Year	Salary	Bonus	Other Annual Compensation	Restricted Stock Awards ($)	Co Unde

James A. Latty, CEO	2005	$ 240,000	--	5,950	2
	2004	$ 240,000	--	--	
	2003	$-0-	--	$188,750	
Daniel K. Moscaritolo, COO & CTO	2005	$ 240,000		10,200	1
	2004	$ 240,000		$ 94,770	
	2003	--		$ 15,256	

Option/SAR Grants in 2005 Fiscal Year
Individual Grants

Name	Number of Securities Underlying Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price ($/Sh)
James A. Latty	2,284,343(1)	31.7%	$1.00
Daniel K. Moscaritolo	1,284,343(1)	31.7%	$1.00

(1) Represents options originally granted by MEMS-California in 2002 and assumed by us in connection with our acquisition of MEMS-California in February 2004.

-41-

Aggregated Option/SAR Exercises in 2005 Fiscal Year
and FY-End Option/SAR Values

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options/SARs at FY-End (#)Exercisable/ Unexercisable	I Op E U
James A. Latty	--	--	0 / 2,284,343	$
Daniel K. Moscaritolo	--	--	0 / 1,284,343	$

(1) Based on a closing price of $1.50 per share for our common stock as quoted on the OTC Bulletin Board on September 30, 2005.

(2) Compensation of Directors. At the present time, directors receive no compensation for serving as directors of the company, however, we may in the future begin to compensate our non-officer directors. All

directors receive reimbursement for out-of-pocket expenses in attending board of directors meetings. From time to time, we may engage certain members of our board of directors to perform services on our behalf and will compensate such persons for the services that they perform.

Item 11. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth certain information regarding the beneficial ownership of the shares of our common stock as of December 26, 2005 by (i) each person who is known by us to be the beneficial owner of more than five percent (5%) of the issued and outstanding shares of our common stock, (ii) each of our directors and executive officers and (iii) all directors and executive officers as a group.

Name and Address (1)	Number of Shares	Percentage Owned
Dr. James A. Latty	3,464,468(2)	17.20%
Daniel K. Moscaritolo	2,437,605	12.10%
Richard W. York	5,000	(3)
Mark Trumble	2,100,879(4)	10.43%
All officers and directors as a group (four persons)	8,007,952	39.76%
Mercatus & Partners, LTD	3,400,000	16.88%
All officers and directors and other identified beneficial owners	11,407,952	56.64%

(1) Address is 5701 Lindero Canyon Road, Suite 2-100, Westlake Village, California 91362.

(2) Includes options granted to Dr. Latty to purchase 1,000,000 shares of our common stock.

(3) Less than one percent.

(4) Includes 741,954 shares of our common stock that may be issued to Mr. Trumble pursuant to the Stock Purchase Agreement, dated October 26, 2004.

Equity Compensation Plans

The following table sets forth certain information as of September 30, 2005 concerning our equity compensation plans:

Plan Category	Number of Common Shares to Be Issued Upon Exercise of Outstanding Options	Weighted- Average Exercise Price of Outstanding Options	N S C

Equity compensation plan approved by shareholders	N/A	N/A
Equity compensation plan not approved by shareholders (1)	4,853,029	$1.20

(1) Represents shares of common stock issuable upon exercise of options granted to our officers, Dr. James A. Latty and Daniel K. Moscaritolo, pursuant to written employment agreements. Does not include 1,850,000 shares of common stock reserved for issuance under the MEMS USA, Inc. 2004 Stock Incentive Plan approved by our board of directors in November 2004.

Item 12. Certain Relationships and Related Transactions.

None.

Item 13. Exhibits.

(a) Index To Exhibits

3.1 Articles of Incorporation of the Registrant, as amended

3.2 Bylaws of the Registrant

4.1 Registration Rights Agreement

10.1 Sales Agency Agreement dated August 22, 2005 between S.W. Bach & Company and MEMS USA, Inc., a Nevada corporation

21.1 List of Subsidiaries

23.1 Consent of Independent Certified Public Accountants (FY 2004)

23.2 Consent of Independent Certified Public Accountants (FY 2005)

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002

31.1 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002

32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Item 14. Principal Accountant Fees and Services.

Our board of directors has selected Kabani & Company, Inc. as our independent accountants to audit our consolidated financial statements for the fiscal year 2005. Stonefield Josephson, Inc. previously audited our consolidated financial statements for the two fiscal years ended September 30, 2004 and 2003.

Audit and Non-Audit Fees

Aggregate fees for professional services rendered to us by Kabani &

Company, Inc. and Stonefield Josephson, Inc. for the years ended September 30, 2005 and 2004 were as follows:

Services Provided	2005	2004
Audit Fees..........................	$110,920	$19,200
Audit Related Fees..................	$-0-	$17,000
Tax Fees............................	$-0-	$4,000
All Other Fees......................	$-0-	$-0-
Total.......................	$110,920	$40,200

Audit and Non-Audit Fees

Audit Fees. The aggregate fees billed for the years ended September 30, 2005 and 2004 were for the audits of our annual financial statements and reports.

Audit Related Fees. The aggregate fees billed for the year ended September 30, 2005 were for review of our quarterly financial statements.

Tax Fees. The aggregate fees billed for the years ended September 30, 2005 and 2004 for professional services related to tax compliance, tax advice and tax returns preparation.

All Other Fees. There were no other fees billed for the years ended September 30, 2005 and 2004 for services other than the services described above.

Pre-Approval Policies and Procedures

We have implemented pre-approval policies and procedures related to the provision of audit and non-audit services. Under these procedures, our board of directors pre-approves all services to be provided by Kabani & Company, Inc. and Stonefield Josephson, Inc. and the estimated fees related to these services.

(a) SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MEMS USA, Inc.
(Registrant)

Date: January 31, 2006

/s/

James A. Latty
Chief Executive Officer