



CEOCFO

Interviews & News!

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breaking news and corporate changes with CEO, CFO and Analyst Interviews

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U.S. Microbics is working with the heads of state and federal government in Mexico to create new jobs and economic prosperity as they establish infrastructure, technology and protocols for a new environmental cleanup industry with beneficial social and economic change for the country

U.S. MICROBICS INC.

**Environmental
(BUGS.OB)**

U.S. Microbics, Inc.

**6451 El Camino Real Ste. C
Carlsbad, CA 92009
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**Robert Brehm
President and CEO**

BIO:

Robert C. Brehm has served as CEO since July 19, 1997. He has a double engineering degree in electrical engineering and computer science and an MBA from UC Berkeley in Finance and Accounting. Mr. Brehm has operated a large chemical production facility for a Fortune

500 company, owned several software companies, a finance company, and an investor relations company. He understands the scientific aspects of the microbial technology business as well as the business, marketing, promotion and financial requirements for success in a public enterprise.

Company Profile:

U.S. Microbics Inc. (BUGS.OB) is a business development and holding company that acquires, develops, and deploys innovative environmental technologies for soil, groundwater, and carbon remediation; air pollution reduction; and agricultural yield enhancement using local resources to stimulate regional economies in developing nations.

Key product lines offered are:

Bio-Raptor™ & Microbial Application System™ Products

The **Sub-Surface Waste Management Bio-Raptor™** is a patented bioremediation shredder, sprayer, conveyor system for cleaning up hydrocarbon contaminated soils. It treats soil contamination on-site, slashing costs, maximizing material treatment surface area and aeration, reducing retention time, minimizing potential liability through on-site treatment and elimination of contaminant transportation-related risks and site downtime.

Bi-Agra™ - Agricultural Growth Enhancement Products

The key benefits of the agricultural products include a dramatic increase in seed germination and survival rates, less water

and fertilizer usage, greener turf applications, fruit and vegetable harvests that can be picked sooner, have higher weight and yields and a lower mortality rate due to healthier plants.

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com**

CEOCFO: Mr. Brehm, it has been about a year since we have spoken; how has BUGS changed over the year?

Mr. Brehm: "I think BUGS has made a lot of internal changes in the past year as we have redefined our long term goals and objectives to react to the needs of the marketplace. When we talked last year, we were just starting to become entrenched in Mexico working with various state governors, federal agencies including their EPA, and the national university who is now our partner on many environmental cleanup projects. We are creating an environmental industry with new job opportunities and less pollution for the Mexican people. They have embraced our technology, our project management skills and experience and I believe BUGS has a bright future in Mexico in the years ahead."

CEOCFO: Will you tell us why Mexico has so much opportunity for BUGS?

Mr. Brehm: "I will give you some background on the environmental marketplace in the United States versus Mexico and I will think you will see why Mexico makes a lot of sense for our technology. In the US, environmental consulting firms are selling a "billable hour" of en-

gineering time to review, monitor and report on an environmental problem. The report is submitted to a responsible governmental agency which makes sure the project is in compliance with any cleanup order and the consultant is paid for the time. However, many times the pollution problem continues to exist at the detriment of the people of the area. There is little or no incentive to cleanup the problem, only extend it as long as possible to increase the revenue for the consultant. This is the classic "treat the symptom, not the problem" philosophy that has been prevalent in the US since the EPA was formed in the early 1970's. It has been estimated that over 70% of all the environmental projects started since the EPA was created in the 1970's are still open and being studied (and billed)!

The BUGS environmental philosophy is to solve the problem by removing the pollution and go on to the next project – a paradigm-shifting philosophy that is not well received in the US by government empire-builders who want many open projects to justify their existence and budgets! It is the main reason why it is very difficult for a small alternative technology company like BUGS to gain significant traction in the U.S. environmental market.

The environmental conditions and loss of life in Mexico, however, create a unique and potentially very profitable opportunity for BUGS and its technology as we help the country cleanup its pollution problems and create new jobs and regional economic prosperity. There are many compelling political, economic, and social factors that make Mexico a great opportunity for BUGS technology. First, the World Trade Organization (WTO) of which the US, Mexico and a variety of other countries are members of, all have an agreement to clean up the environment as a condition to doing business with each other. France, Germany and the European Union, which are heavily invested in Mexico, put a lot of pressure on Mexico, through the WTO, to initiate an environmental cleanup program even though they had very little

infrastructure for measuring or cleaning up pollution. There was an enormous amount of pressure in terms of potential sanctions and loss of foreign investment unless Mexico took a proactive stance on the environment. Second, over the past several years with the increase in oil prices, Mexico has a significant cash surplus and their oil company, PEMEX, has committed over \$1B for environmental cleanup using approved technologies such as provided by BUGS. Third, there is a side bar agreement to NAFTA, signed by President's Fox and Bush in early 2003, which adopted U.S. Federal regulatory standards to toxic releases of petroleum hydrocarbons, which our technology

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treats very well. Fourth, we have a Mexico affiliate with much experience in state and federal government contracting who is also an environmentalist and wants to help his country clean up its pollution problems. He is committed to helping us become a dominant player in Mexico. Fifth, many of the political candidates for Governor and other federal posts ran on a political platform that emphasized environmental cleanup and the establishment of new jobs and clean air, water and soil for their voters and they need a solution which we can provide as we want to hire local people and train them how to cleanup their own problems. For those reasons, and many more, we chose to be in Mexico."

CEOCFO: Is there any fall-out to you from the current unrest between US and Mexico?

Mr. Brehm: "As a U.S. citizen I disapprove of all illegal actions at our borders. However, there is an enormous incentive from Washington for US companies all across the nation, to create business and to create industries in Mexico that employ Mexicans in Mexico so they can have good jobs down there rather than giving them an incentive to come across the border. Therefore, we have worked with government officials here in the US and they have significant funds for investing in companies and specifically projects down in Mexico that employ

Mexican workers. For example, the Governor of Veracruz has accepted our proposal to implement eleven emergency response centers for pollution cleanup and we estimate 500 to 1000 new jobs will be created just in that state alone. With many states facing major pollution problems across the country of Mexico, we think there will be significant new environmental jobs for college interns and graduates from the universities as well as for laborers and technicians. Since the EPA was created, the environmental services industry has become a \$200 billion market in the United States. We think over the next few years that the environmental business to be generated in Mexico is probably in the 5 to \$10

billion range and fortunately we seem to be at the forefront of that wave."

CEOCFO: Will you describe what US Microbics does?

Mr. Brehm: "We started out as an environmental product company and that moved to becoming an environmental engineering services company. We have evolved over the last several years to become somewhat of an economic development company, using the environmental industry as our tool. In Mexico we have worked at the governor level, the presidential level and head of the EPA level with the government officials down there, and convinced them that due to these external pressures, from NAFTA and WTO (World Trade Organization),

that they need to implement an environmental program which meets US federal standards. Also compelling is the fact that there is little clean water in Mexico and there are enormous spills from oil, gas, and diesel that have never been cleaned up. It puts an emphasis on them to do something about it for their people. We have come in and suggested to them that we implement a program that not only cleans up their environment but also hires people, creates jobs and requires polluters to pay for their pollution. Because we are creating environmentally compliant property, foreign investment can now come into the country and increase the overall general welfare of not only the country, but also the localities. That change and maturity over the years has finally culminated in a proactive environmental policy supported by the elected officials in Mexico, which helps the country enormously. We think the environmental stewardship philosophy can then be transferred to different parts of Latin America all the way to the tip of South America.”

CEOCFO: Is it mostly state-by-state that you will be doing projects, and will you tell us how it is going to happen?

Mr. Brehm: “The stance of the new president of Mexico, Felipe Calderon, who was previously the energy minister of the country and in charge of the environment policy; is proactive not reactive concerning the environment. They are trying to solve the problem, rather than reacting to the problem when it occurs thus showing the WTO countries that they are cleaning up the environment and creating jobs, which keeps foreign trade and investment coming into Mexico. PEMEX has allocated a billion dollar fund to clean up the country, however the implementation of is more than likely going to be done on the state level. We have introduced the concept of “emergency response centers” to the governors of Puebla and Veracruz as a method to react to emergency pollution problems with direct reimbursement from PEMEX and they have been very receptive to the idea.”

CEOCFO: What is the timetable going forward?

Mr. Brehm: “We just completed about a \$1.5 million project for a major U.S. manufacturer doing business in Mexico. Why was that so important? Because it was the first project in the entire country under the new environmental laws, which has been completed and we received major recognition from both federal enforcement and other government officials for a job well done. Therefore, it was very good for us and also gave them the credibility for implementing a program that will clean up their country. We are also working on several projects for the government of Puebla, which are already in process and we are starting to do some work for the federal utility company across the entire country. We are also ready to start work with the governor of Veracruz on the emergency response centers pending budget approval. I cannot put a definitive time on those projects, but I can tell you that they are committed to doing it and we are working out the final financial reimbursement details for the operating contracts at this point in time. We hope to have the emergency response centers started in 2007.”

CEOCFO: Do you need additional personnel?

Mr. Brehm: “Our primary goal in Mexico is to first get the work and then teach the Mexican people and graduates of their university and technicians and laborers, how to clean up the country themselves. We do that by working with the university as our partner with most of the projects throughout the country so that we can utilize their people in various aspects of it. Secondly, we do use subcontractors from the U.S., but primarily subcontractors from Mexico or companies that are working in Mexico that have experience in the environment and civil engineering. We often act as the general contractor or prime subcontractor. Additional projects also mean that we will be hiring more project support people in California, Colorado and Texas. So yes we will be hiring people in the U.S., but our primary goal is to start having people in Mexico, solve the problems of Mexico.”

CEOCFO: What is the financial situation at BUGS today?

Mr. Brehm: “Sales are down a little this year only because of the transition from

South Carolina projects, which were our primary revenue source last year to Mexico projects which are just ramping up. However, at the end of the fiscal year we did have a significant backlog of authorized contracts in Mexico, which surpasses the total of the prior two years revenue so we are starting FY 2007 in good shape. We are also working on a major landfill project and the emergency response centers project in Veracruz. We expect to be able to make some announcements of their status as soon as the new legislators are installed on December 1 of this year. The governors are committed to doing the project and we hope to have very favorable results to report in 2007.”

CEOCFO: Will you tell us about the Emergency Response Centers?

Mr. Brehm: “The Emergency Response Center is an interesting concept. If there is a hazardous waste spill in the U.S., which many of us are most familiar, either the Hazardous Materials (HAZMAT) people or the local fire department will appear to cleanup the mess. However, down in Mexico they do not have that concept of a HAZMAT or a local Fire Department treating anything contaminant spills. For the most part, the national petroleum company, PEMEX, the company that drills all the oil and exports it to different nations, is responsible for the clean-ups and they have allocated \$1B for that purpose. Since the problems occur on a state level, the governors are interested in implementing a cleanup program for civil defense purposes on a state-by-state basis. The governor of Veracruz, being a very forward-looking and proactive environmentalist, decided that emergency response stations for contaminant cleanup is the wave of the future for his state. Not only will they help clean up the environment and create jobs, a variety of good things are happening economically and politically for the governor and Veracruz. He has committed to putting in 11 Emergency Response Centers (ERC) around their state. We brought the capital financing to the table and now they are deciding specifically where those sites are going to be and what the timetable is for putting them in and finalizing the operating contracts. We expect the implementation of those to take about a year and we hope to start in 2007. We presented the ERC concept at the 2006 Hurricane Con-

ference in Mexico and the consensus was that there are five other governors wanting to implement similar programs as Veracruz but they want to see the first ones in operation first. We see a bright future for Emergency Response Centers across the entire country.”

CEO CFO: Other than the time factor, are there any challenges that you foresee?

Mr. Brehm: “We are very proactive with meeting all the parties that are involved with the decision-making on both the state and federal levels. The federal government in Mexico tends to set the policies and the number of dollars that are available. They also decide how the states access the funds. It is up to the state to determine how specifically they are going to utilize the funds. Mario Marin Torres, the Governor of Puebla, happens to be the national coordinator of all emergency response and we are working on key infrastructure projects for him. He has helped introduced us to some of the other governors, and wants to spearhead the

ERC concept throughout the country. We try to work with all the decision makers including the labor unions and political leaders and other people who have a say in what is going to happen because we are creating a brand new industry with a major social and economic change for the country. It is all positive and we hope to not only be the orchestrator but also the implementer along with the Mexican people over the next decade.”

CEO CFO: Why should potential investors be looking at BUGS now?

Mr. Brehm: “I have personally been working on this project for 10 years and we have tried to find markets that will use our alternative technology. Mexico officials and their people have been very receptive to us. Our technology is protected under Mexico federal law unlike many Asian countries. We believe our technology was one of the first five technologies, which were licensed and approved to be used in Mexico when registration commenced and the only one that

is biotechnology based at that time. We believe that BUGS is on the precipice of a major change. With pending ERC contracts over \$160MM and over \$10MM in current authorized contracts, we could have a very significant future for our shareholders. For a company that is doing less than a million dollars a year right now, this new revenue is a home run after many years of base hits! The variable in the project is when will that happen? I do not know the answer to that, but we are working on it as diligently as possible. We are hoping to meet our internal deadlines, however we are on Mexico time, which is not the same as the instantaneous turn-around that we all have become accustomed to in the U.S., so we have to be patient and work with our friends in Mexico at their pace. The important point is that the parties on both sides are fully committed to making it happen and when it does, our shareholders could be very happy!”

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