US BIODEFENSE INC
Form 10KSB
March 18, 2008

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

FORM 10-KSB

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2007.

o 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 000-31431

US BIODEFENSE, INC.
(Name of small business issuer in its charter)

Utah (State or other jurisdiction of incorporation or organization)	33-0052057 (IRS Employer Identification No.)
300 State Street East, Suite 226 Oldsmar, Florida (Address of principal executive offices)	34677 (Zip Code)

(727) 417-7807
(Issuer’s telephone number)

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

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

Common Stock, $0.001 par value
(Title of Class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Act. o

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and disclosure 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. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

State issuer's revenues for its most recent fiscal year: $25,000

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. As of March 13, 2008: $975,945 based on a total of 813,284 shares of our common stock held by non-affiliates on March 13, 2008 at a closing price of $1.20 per share.

State the number of shares outstanding of each of the registrant's classes of common stock as of March 13, 2008: 11,214,075

Documents incorporated by reference: None.

Traditional Small Business Disclosure Format (Check One): Yes o No x

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US BIODEFENSE, INC.

FORM 10-KSB
For the fiscal year ended November 30, 2007

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PART I

Forward Looking Statements

This annual report on Form 10-KSB contains forward-looking statements that involve risks and uncertainties. You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in the forward-looking statements for many reasons, including the risks described in this report and other filings we make from time to time with the U.S. Securities and Exchange Commission. Although we believe the expectations reflected in the forward-looking statements are reasonable, they relate only to events as of the date on which the statements are made. We do not intend to update any of the forward-looking statements after the date of this report to conform these statements to actual results or to changes in our expectations, except as required by law.

Item 1. Description of Business

Business History

We incorporated in Utah on June 29, 1983 under the name Teal Eye, Inc. In 1984, we merged with Terzon Corporation and changed our name to Terzon Corporation. On September 7, 1984, we changed our name to Candy Stripers Candy Corporation and engaged in the business of manufacturing and selling candy and gift items to hospital gift shops across the country. In 1986, we ceased the candy manufacturing operations and filed for Chapter 11 Bankruptcy protection. After emerging from bankruptcy in 1993, we remained dormant until January 1998, when we changed our name to Piedmont, Inc. On May 12, 2003, we changed our name from Piedmont, Inc. to US Biodefense, Inc.

On August 7, 2006, we completed the acquisition of Emergency Disaster Systems, Inc., a California corporation incorporated on July 19, 2006. Emergency Disaster Systems is engaged in the business of disaster mitigation and emergency preparedness. We purchased a 100% interest in Emergency Disaster Systems for an aggregate of $25,000 in cash. The Emergency Disaster Systems, Inc. system was designed in 1989 to provide earthquake preparedness supplies to communities in California. On September 24, 2007, we distributed all of the shares of Emergency Disaster Systems, Inc. stock to our stockholders on a pro rata basis and thus exited that business.

Effective January 10, 2008, we experienced a change in control as the result of a series of transactions. Effective on that date, we executed an employment agreement with Scott Gallagher pursuant to which he became our Chairman of the board of directors and Chief Executive Officer. Simultaneously, our former Chairman, David Chin, resigned as an officer and director of the corporation leaving Mr. Gallagher as our sole director. Also effective of that date, Mr. Gallagher and a Company controlled by him, 221 Fund, LLC acquired 95.6% of our common stock. As a result of these transactions Mr. Gallagher assumed control of our Company. On the same date, we changed our business direction and began doing business as “Internet Holdings” to focus on acquiring direct navigation Internet domain names that could be developed into profitable business ventures.

On February 12, 2008, we announced our intention to acquire 100% of the shares of Elysium Internet, Inc., a direct navigation Internet media company in exchange for stock and a note to FTS Group, Inc. Our Chairman and Chief Executive Officer, Scott Gallagher, is also the Chairman and Chief Executive Officer of FTS Group, Inc. As of the date of this annual report, the transaction has not closed.

Business of Issuer

Principal Products and Principal Markets

During fiscal year 2007, we focused our efforts on evaluating the economic potential of new biological technologies as we discovered them. However, we were not in the business of researching and developing such technologies ourselves. We intended to license intellectual property from researchers or organizations to evaluate its commercial feasibility. We planned to develop relationships with universities and private entities to utilize research facilities and manpower to appraise the marketability of the technologies. In the event a technology was found to have viable commercial applications, we would seek third-parties to manufacture items for sale to government and corporate customers. We planned to rely upon marketing, distribution and co-promotion agreements for the dissemination of the items produced.

Our primary source of revenues in 2007 was derived from our emergency disaster preparedness subsidiary, Emergency Disaster Systems, Inc., which we acquired in August 2006. Emergency Disaster Systems provides mitigation services, emergency preparedness, and first response products to communities, government agencies, corporations and healthcare organizations. The basic kits contain a three day supply of food and water, in addition to first aid, lighting, hygiene and personal care items and can be scaled for individual use or for a family. Emergency Disaster Systems also sells a stand-alone emergency radio siren product. We believe these items help mitigate a person’s vulnerability to disasters such as fires, floods and earthquakes.

In September 2007, we effectuated a spin-out of Emergency Disaster Systems through a pro rata distribution of Emergency Disaster Systems, Inc. stock to our stockholders. Subsequent to our fiscal year end, on January 10, 2008, we experienced a change in control. As a result, we changed our business focus to acquiring and developing direct navigation Internet domain names and began doing business as “Internet Holdings.” On February 12, 2008 we announced our intention to acquire Elysium Internet Inc., an Internet Media Company operating in the direct navigation Internet Directory space. As of the date of this report, the acquisition has not closed.

Distribution Methods of Our Products

During 2007, we primarily used a direct sales approach to sell our products. Sales personnel would contact existing customers to encourage recurring purchases. To attract new customers, we primarily relied upon word-of-mouth referrals, as well as conducting, supporting or attending community outreach events to generate awareness of our brand and product offerings. In addition to our direct sales efforts, we established a website at www.EDisasterSystems.com as an e-commerce website for consumers to purchase our disaster preparedness products.

Competitive Business Conditions and the Issuer's Competitive Position

Our Emergency Disaster Systems business was highly competitive. We had a large number of competitors, all of which were established longer and had substantially greater financial resources and larger technical staffs. We also competed with specialized entities that were able to concentrate their resources on particular areas.

Employees

As of November 30, 2007, we had one employee. Subsequent to our change in control, at March 13, 2008, we had one part-time employee. We anticipate hiring additional employees as our business needs increase. We also intend to control costs by using the services of independent consultants and contractors when possible rather than hiring employees.

Risk Factors

We will not be able to attain profitability without additional funding, which may be unavailable.

We have limited capital resources. Additionally, we distributed the assets of our last business in September 2007. We agreed to acquire Elysium Internet, Inc. in February 2008, but the acquisition has not yet closed. As of the date this

Annual Report is filed, we do not own assets that can generate sufficient revenues to cover our expenses. To date, we have funded our operations from the sale of equity securities and limited cash from our prior operations. Unless we begin to generate sufficient recurring revenues to finance our current operations, we will experience liquidity and solvency problems. Such liquidity and solvency problems may force us to go out of business if additional financing is not available. No alternative sources of funds are available to us in the event we are unable to identify adequate capital.

Our independent registered public accountants have qualified their report to express substantial doubt about our company's ability to continue as a going concern.

As of November 30, 2007, we have an accumulated deficit in the amount of $4,883,975. Taking this fact into account, our independent registered public accountants have expressed substantial doubt about our ability to continue as a going concern in their report to the financial statements included in this annual report. If our business fails, you may face a complete loss of your investment.

We intend to undertake a rescission offer related to our spin-out of Emergency Disaster Systems, Inc. We could be subject to certain contingent liabilities as a result of the rescission offer which would be adverse to our business and operations.

We intend to undertake a rescission offer to recipients of the shares of Emergency Disaster Systems, Inc. common stock that we distributed in September 24, 2007. We are issuing this rescission offer because we believe the distribution may have been in violation of certain registration requirements under the Securities Act of 1933, as amended.

If all the eligible purchasers elect to accept the rescission offer, we believe we will be required to pay an estimated $18,985 representing the estimated value of the shares of Emergency Disaster Systems, Inc. at the time of the distribution, plus additional legal and accounting costs. Because our prior management participated in the spin-off and have indicated they are not interested in rescission, we believe that holders of a majority of the shares of Emergency Disaster Systems, Inc. will waive their rescission rights, and the amount we may be required to pay will be lower than the total estimated value of Emergency Disaster Systems, Inc. shares. However, we have not yet received such waivers.

There is considerable legal uncertainty under both federal and state securities laws concerning the efficacy of rescission offers and general waivers and releases with respect to barring claims that would be based on securities law violations. The rescission offer may not terminate any or all potential contingent liability that we may have in connection with that distribution. In addition, we may not be able to enforce the waivers we may receive in connection with the rescission offer to bar any claims based on allegations of federal or state securities law violations that the rescission offerees who accept our offer may have, until the applicable statutes of limitations have run.

While we believe that this rescission offer will satisfy certain requirements and laws, the conditions and criteria for satisfying federal and most state rescission requirements are predicated primarily on factual circumstances rather than on objective standards. Given the size of our company and our working capital deficit, we may not have sufficient funds to satisfy any additional rescission rights and costs in which case our future results of operations could be adversely affected and we could be forced to cease operations.

The Rescission Offer could strain our current finances and could delay our implementation of our business plan.

We estimate that the rescission offer of our September 2007 distribution of shares of Emergency Disaster Systems could cost us $18,985 plus additional legal and accounting expenses. We currently do not have sufficient cash to pay for such rescission offer. We believe we will not need the total amount of such funds because we believe the holders of a majority of the shares distributed will not participate in such rescission. However, if we do have to pay the total amount, we will have to borrow funds to cover those expenses. We may not have access to such funds which could cause further liability under federal and state law. Additionally, if we borrow such funds, it will increase our debt which could inhibit us from implementing our business plan.

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We have a new and unproven business model and we may not be able to implement the business plan.

Our proposed business model is unproven and may not be successful. In February 2008, we agreed to acquire Elysium Internet, Inc., a direct navigation internet media company. The success of our proposed business model will depend upon acceptance of our products and services by the market. However, there can be no certainty regarding how well our new business will be accepted by the market. Moreover, if the new business model is not favorably received by the market, we may not be able to recoup any investment in our new business, and our business may fail.

Our management is involved with other business activities, which could reduce the time they allocate to our operations.

Our operations depend substantially on the skills and experience of Mr. Scott Gallagher, our Chief Executive Officer. Mr. Gallagher is currently involved in other business activities and may, in the future, become involved in other business opportunities. If a specific business opportunity becomes available, Mr. Gallagher may face a conflict in selecting between US Biodefense and his other business interests. We have not yet formulated a policy for the resolution of such conflicts.

Our stock is a speculative investment that may result in losses to investors.

The trading price of our common stock is subject to wide fluctuations in response to various events or factors, many of which are beyond our control. In addition, the stock market may experience extreme price and volume fluctuations, which, without a direct relationship to the operating performance, may affect the market price of our stock.

Our current management may control the right to vote our common stock and they may be able to control our company indefinitely.

As of March 13, 2008, our Chief Executive Officer owns or controls the right to vote over 89.17% of our outstanding common stock. As a result, our Chief Executive Officer may be able to effectively control our management and affairs and all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, for an indefinite period of time. This concentration of ownership might adversely affect the market value of our common stock in the future and the voting and other rights of our other stockholders.

“Penny Stock” rules may make buying or selling our securities difficult which may make our stock less liquid and make it harder for investors to buy and sell our shares.

Trading in our securities is subject to the SEC's "penny stock" rules and it is anticipated that trading in our securities will continue to be subject to the penny stock rules for the foreseeable future. The SEC has adopted regulations that generally define a penny stock to be any equity security that has a market price of less than $5.00 per share, subject to certain exceptions. These rules require that any broker-dealer who recommends our securities to persons other than prior customers and accredited investors must, prior to the sale, make a special written suitability determination for the purchaser and receive the purchaser's written agreement to execute the transaction. Unless an exception is available, the regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the risks associated with trading in the penny stock market. In addition, broker-dealers must disclose commissions payable to both the broker-dealer and the registered representative and current quotations for the securities they offer. The additional burdens imposed upon broker-dealers by these requirements may discourage broker-dealers from recommending transactions in our securities, which could severely limit the liquidity of our securities and consequently adversely affect the market price for our securities.

Our securities have been thinly traded on the Over-the-Counter Bulletin Board, which may not provide liquidity for our investors.

Our securities are quoted on the Over-the-Counter Bulletin Board. The Over-the-Counter Bulletin Board is an inter-dealer, over-the-counter market that provides significantly less liquidity than the NASDAQ Stock Market or national or regional exchanges. Securities traded on the Over-the-Counter Bulletin Board are usually thinly traded, highly volatile, have fewer market makers and are not followed by analysts. The Securities and Exchange Commission's order handling rules, which apply to NASDAQ-listed securities, do not apply to securities quoted on the Over-the-Counter Bulletin Board. Quotes for stocks included on the Over-the-Counter Bulletin Board are not listed in newspapers. Therefore, prices for securities traded solely on the Over-the-Counter Bulletin Board may be difficult to obtain and holders of our securities may be unable to resell their securities at or near their original acquisition price, or at any price.

Investors must contact a broker-dealer to trade Over-the-Counter Bulletin Board securities. As a result, you may not be able to buy or sell our securities at the times that you may wish.

Even though our securities are quoted on the Over-the-Counter Bulletin Board, the Over-the-Counter Bulletin Board may not permit our investors to sell securities when and in the manner that they wish. Because there are no automated systems for negotiating trades on the Over-the-Counter Bulletin Board, they are conducted via telephone. In times of heavy market volume, the limitations of this process may result in a significant increase in the time it takes to execute investor orders. Therefore, when investors place market orders, an order to buy or sell a specific number of shares at the current market price, it is possible for the price of a stock to go up or down significantly during the lapse of time between placing a market order and its execution.

We do not intend to pay dividends in the foreseeable future. Therefore, you may never see a return on your investment.

We do not anticipate the payment of cash dividends on our common stock in the foreseeable future. We anticipate that any profits from our operations will be devoted to our future operations. Any decision to pay dividends will depend upon our profitability at the time, cash available and other factors. Therefore, you may never see a return on your investment. Investors who anticipate a need for immediate income from their investment should not purchase the securities.

Item 2. Description of Property

Description of Property

Until January 10, 2008, we leased an approximately 6,012 square foot office and warehouse space located at 375 South 6th Avenue, City of Industry, CA 91746 at a rate of $6,290 per month. On January 10, 2008, we moved our principal offices to 300 State Street East, Suite 226, Oldsmar, Florida 34677. We rent space on a month to month basis from FTS Group, Inc. at a rate of $1,000 per month. We do not have a formal lease agreement in place at this time. We believe that this arrangement is suitable given the nature of our current operations.

Item 3. Legal Proceedings

On November 6, 2006, Sandra Sawyer filed a suit in Los Angeles Superior Court against US Biodefense, Inc. and David Chin, one of our officers and directors at the time the lawsuit was filed, alleging a breach of contract by Mr. Chin in relation to the purchase of our Company by Mr. Chin from Ms. Sawyer. On April 20, 2007, Mr. Chin filed a cross-complaint against the plaintiff alleging breach of contract. On November 21, 2007, we reached a settlement with Ms. Sawyer, whereby we agreed to pay to Ms. Sawyer an aggregate sum of $90,000 over 15 months. In the event of default, we will be required to pay Ms. Sawyer a sum of $225,000 less any payments made under this agreement. We were in compliance with this settlement agreement through February 29, 2008.

There are no other material litigations, claims or assessments pending or threatened against the Company or its officers or directors in their capacity as such.

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

On September 24, 2007, a stockholder holding 61.8% of our issued and outstanding common stock voted to approve the distribution to our stockholders as of September 7, 2007, all shares of Emergency Disaster Systems, Inc. then held by us. On September 24, 2007, we distributed to our stockholders on a pro rata basis, 100% of the outstanding shares of Emergency Disaster Systems, Inc. As a result, we no longer hold any shares of Emergency Disaster Systems, Inc.

On December 3, 2007, a stockholder holding 61.8% of our issued and outstanding common stock voted to authorize a one for one thousand reverse split of our outstanding common stock. On December 3, 2007, we effectuated a reverse split of our outstanding shares of common stock. Immediately after the reverse split, we had 63,284 shares of common stock outstanding.

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PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

Market Information

Our common stock is currently traded on the Over-the-Counter Bulletin Board under the stock ticker symbol "USBF." The following table sets forth the monthly high and low prices for our common stock on the OTCBB for each quarter of the last two fiscal years.

Quarter Ended	High	Low
November 30, 2007	$0.005	$0.005
August 31, 2007	$0.014	$0.009
May 31, 2007	$0.016	$0.012
February 28, 2007	$0.025	$0.020
November 30, 2006	$0.15	$0.04
August 31, 2006	$1.60	$0.04
May 31, 2006	$4.28	$1.50
February 28, 2006	$4.40	$1.85

On December 3, 2007, we effectuated a reverse split of our outstanding common stock on a 1 for 1,000 basis. Prior to the reverse split, our common stock traded on the OTCBB under the ticker symbol "UBDE." After the reverse split was completed our ticker symbol was changed to "USBF."

Holders

As of March 11, 2008, we had approximately 11,214,075 shares of common stock, par value $0.001, issued and outstanding held by approximately 637 stockholders of record.

Dividends

We have never declared or paid any cash dividends on our common stock. For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. Any future determination to pay dividends will be at the discretion of our Board of Directors and will be dependent upon then existing conditions, including our financial condition and results of operations, capital requirements, contractual restrictions, business prospects, and other factors that the board of directors considers relevant.

Recent Sales of Unregistered Securities

On August 7, 2006, we entered into a Stock Purchase Agreement with Equity Solutions, Inc., a California corporation, whereby we sold an aggregate of 2,000,000 shares of restricted common stock to Equity Solutions at a price per share of $0.10, for total cash proceeds of $200,000.

On January 10, 2008, we issued 5,000,000 shares of common stock to Scott Gallagher. The shares were valued at $150,000.

On January 10, 2008, we issued 5,000,000 shares of common stock to 221 Fund, LLC. The shares were valued at $150,000.

For these issuances, we relied on the exemption from the registration requirements of the Securities Act provided by Rule 506 of Regulation D. The persons who received such unregistered shares were either accredited investors (as that term is defined in Rule 501(a) of Regulation D), or alone or through a purchaser representative had such knowledge and experience in financial and business matters as to be capable of evaluating the risks of the investment, and received information regarding our Company and the acquisition transaction. All stock certificates bear a restrictive legend stating that the shares have not been registered under the Securities Act and cannot be sold or otherwise transferred without an effective registration or an exemption there from.

Securities Authorized for Issuance Under Equity Compensation Plans

This information is incorporated by reference to Item 12 of this annual report.

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

Introduction

The following discussion and analysis of financial condition and results of operations is based upon, and should be read in conjunction with our audited consolidated financial statements and related notes thereto included elsewhere in this report that have been prepared in accordance with accounting principles generally accepted in the United States.

Overview

We incorporated in the State of Utah on June 29, 1983 under the name Teal Eye, Inc. In 1984, we merged with Terzon Corporation and changed our name to Terzon Corporation. On September 7, 1984, we changed our name to Candy Stripers Candy Corporation and engaged in the business of manufacturing and selling candy and gift items to hospital gift shops across the country. In 1986, we ceased the candy manufacturing operations and filed for Chapter 11 Bankruptcy protection. After emerging from Bankruptcy in 1993, we remained dormant until January 1998, when we changed our name to Piedmont, Inc. On May 12, 2003, we changed our name from Piedmont, Inc. to US Biodefense, Inc.

On August 7, 2006, we completed the acquisition of Emergency Disaster Systems, Inc., a California corporation incorporated on July 19, 2006. Emergency Disaster Systems is engaged in the business of disaster mitigation and emergency preparedness. We purchased a 100% interest in Emergency Disaster Systems for an aggregate of $25,000 in cash. The Emergency Disaster Systems, Inc. system was designed in 1989 to provide earthquake preparedness supplies to communities in California. On September 24, 2007, we distributed all of the shares of Emergency Disaster Systems, Inc. stock to our stockholders on a pro rata basis and thus exited that business.

Effective January 10, 2008, we experienced a change in control as the result of a series of transactions. Effective on that date, we executed an employment agreement with Scott Gallagher pursuant to which he became our Chairman of the board of directors and Chief Executive Officer. Simultaneously, our former Chairman, David Chin, resigned as an officer and director of the corporation leaving Mr. Gallagher as our sole director. Also effective of that date, Mr. Gallagher and a Company controlled by him, 221 Fund, LLC acquired 95.6% of our common stock. As a result of these transactions Mr. Gallagher assumed control of our Company. On the same date, we changed our business direction and began doing business as "Internet Holdings" to focus on acquiring direct navigation Internet domain names that could be developed into profitable business ventures.

On February 12, 2008, we announced our intention to acquire 100% of the shares of Elysium Internet, Inc., a direct navigation Internet media company in exchange for stock and a note to FTS Group, Inc. Our Chairman and Chief Executive Officer, Scott Gallagher, is also the Chairman and Chief Executive Officer of FTS Group, Inc. As of the date of this annual report, the transaction has not closed.

Critical Accounting Policies

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations are discussed throughout this section. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

The Company recognizes revenue from the sale of products, and from the performance of services to both related and non-related parties. The Company recognizes revenue from the sale of products on the gross amount charged basis. Under this method of recording the sale of products, the cost of goods sold reflects the cost of the goods sold to the customer plus the Company's cost of executing the transaction. The Company has chosen this method since it takes ownership of the products that it purchases for resale and assumes the risks and rewards of ownership of the goods.

For sale of products, revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the contract price is fixed or determinable, title and risk of loss has passed to the customer and collection is reasonably assured. The Company's sales are typically not subject to rights of return and, historically, sales returns have not been significant.

Revenues from services are recognized upon provision of services to the customer. Unearned service revenue is deferred and recognized ratably over the duration of the service term.

Accounts receivable of the Company are reviewed to determine if their carrying value has become impaired. The Company considers the assets to be impaired if the balances are greater than six months old. Management regularly reviews accounts receivable and will establish an allowance for potentially uncollectible amounts when appropriate. When accounts are written off, they will be charged against the allowance. Receivables are not collateralized and do not bear interest.
Inventory - Inventory was stated at the lower of cost or market. Inventory consisted of purchased items held for resale. Inventory was monitored by our management for excess and obsolete items, and we made the necessary valuation adjustment when required.

Fixed Assets - Fixed assets are stated at cost, less accumulated depreciation. Depreciation is provided principally on the straight-line method over the estimated useful lives of the assets, which is generally 3 to 10 years. The cost of repairs and maintenance is charged to expense as incurred. Expenditures for property betterments and renewals are capitalized. Upon sale or other disposition of a depreciable asset, cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in other income (expense).

We periodically evaluate whether events and circumstances have occurred that may warrant revision of the estimated useful lives of fixed assets or whether the remaining balance of fixed assets should be evaluated for possible impairment. We use an estimate of the related undiscounted cash flows over the remaining life of the fixed assets in measuring their recoverability.

Comprehensive Income - Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income," establishes standards for the reporting and display of comprehensive income and its components in the financial statements. For the years ended November 30, 2007 and 2006, we had items that represent other comprehensive income, and accordingly, have included a schedule of comprehensive income in the financial statements.

Income taxes - We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, which requires recognition of deferred tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carry-forwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Stock-based compensation - On January 1, 2006, we adopted SFAS No. 123 (R) "Share-Based Payment" which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases related to an Employee Stock Purchase Plan based on the estimated fair values. Prior to January 1, 2006, we measured compensation cost for stock-based employee compensation plans using the intrinsic value method of accounting as prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. For non-employee stock-based compensations, we recognize expense in accordance with SFAS 123(R) and value the equity securities based on the fair value of the security on the date of grant.

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Results of Operations

REVENUE

Revenue for the period ending November 30, 2007 was $25,000 for services compared to revenue of $96,667 for the same the period ending November 30, 2006. Revenue from services is derived from the recognition of deferred revenues from stock received relating to our arrangement to identify technology commercialization opportunities for Diamond I to research universities, government laboratories and third member private parties. The decrease in revenue was related to a decrease in stock received for services performed during the period. The decrease is also related to a decrease in related party revenue from Financialnewsusa.com, a related party, to which we provided biodefense-related industry news and information to Financialnewsusa.com.

EXPENSES

Total expenses for the year ended November 30, 2007 were $743,633 compared to expenses of $364,577 for the period ending November 30, 2006. The increase of $379,056 is primarily related to increased costs stemming from stock issued for consulting services as well as $190,000 in settlement reserve expenses relating to a lawsuit in which the Company was named and the possibility of the Company effecting a rescission offer during the next 12 months. Expenses relating to stock issuances to consultants increased to $467,190 from $270,200 for the same period of 2006 resulting in an increase of $196,990.

General and administrative expenses increased to $86,443 for the period ending November 30, 2007 compared to general and administrative expenses of $36,206 for the same period of 2006. The increase in general and administrative expenses is related to increased costs surrounding our spin-off of Emergency Distribution Systems.

We expect to continue to incur expenditures in the foreseeable future related to the development and future expansion of our business operations. Over the next 12-month period we expect overall operating expenses to increase as we pursue business opportunities in the Internet domain and related Internet media space.

LOSSES

Our loss from continuing operations for the period ending November 30, 2007 was $718,633 compared to a loss from continuing operations of $248,955 for the same period of 2006. We experienced a loss of $110,237 from discontinued operations compared to income from discontinued operations of $35,206 for the same period of 2006. Our net loss for the period ending November 30, 2007 was $828,870 compared to a net loss of $213,749 for the same period of 2006. The $615,121 year over year increase in our net loss was related to increased stock issuance costs and increased general and administrative costs primarily related to the spin-off of Emergency Disaster Systems as well as $190,000 in settlement reserve expenses relating to a lawsuit in which we were named and the possibility that we intend to effect a rescission offer during the next 12 months. For at least the next 12 months, we expect net losses to continue until such time we develop or acquire a business that can sustain itself based on operations. We believe that as we develop or acquire Internet domain and media related assets and businesses we can meet our goal of turning profitable in the next 12 to 24 months. However, due to funding needs, market uncertainties and a variety of other factors that are out of our control we cannot guarantee the accuracy of our expectations and when or if we will ever become a profitable business.

LIQUIDITY AND CAPITAL RESOURCES

As of November 30, 2007 we had total assets of $49,451 consisting of $359 in cash, $47,500 in marketable securities and $1,592 of property and equipment. As of November 30, 2007 we had total liabilities of $245,146 consisting of

$47,946 of accounts payable, $7,200 due to related parties and $190,000 as a settlement reserve.

We have limited cash on hand and will require additional capital to support strategic acquisitions and to fund our current expansion plans. We may be unable to continue operations for the next 12 months if we are unable to generate revenues or obtain capital infusions by issuing equity or debt securities in exchange for cash. There can be no assurance that we will be able to secure additional funds in the future to stay in business. Our principal accountants have expressed substantial doubt about our ability to continue as a going concern because we have limited operations.

We expect to close the acquisition of Elysium Internet, Inc. in the near term. The completion of this acquisition would have a significant impact on our operations. However, we cannot predict with certainty whether the proposed transaction will be consummated or whether the proposed acquisition will become profitable.

Our management anticipates the need to hire additional full or part-time employees over the next 12 months as we continue to increase our operations. At this time we believe that our operations are currently on a small scale that is manageable by our current staff. While we believe that the addition of employees is required over the next 12 months, we have retained two independent consultants and contractors to perform development related activities and market Internet related products and services we are currently developing.

We do not have any off-balance sheet arrangements.

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Item 7. Financial Statments

The following documents (pages F-1 to F-9) form part of the report on the Financial Statements

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Gruber & Company, LLC

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF
US BIODEFENSE, INC.

We have audited the accompanying consolidated balance sheets of US Biodefense, Inc. as of November 30, 2007 and 2006, and the related consolidated statements of operations, comprehensive income, stockholder's equity (deficit) and cash flows for the each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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 consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of the Company's internal control over its financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of US Biodefense, Inc. as of November 30, 2007 and 2006, and the results of its consolidated operations and cash flows for each of the years then ended, 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 described in Note 1 to the financial statements conditions exist which raise substantial doubt about the Company's ability to continue as a going concern unless it is able to generate sufficient cash flows to meet its obligations and sustain its operations. Those conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Gruber & Company, LLC

Lake Saint Louis, Missouri

March 13, 2008

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US BIODEFENSE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

NOVEMBER 30, 2007 AND 2006

Assets

	2007	2006
Current assets		
Cash and cash equivalents	$ 359	$ 22,663
Marketable securities available for sale	47,500	73,000
Accounts receivable, net of allowance of $20,000 in 2006	-	54,827
Inventory	-	75,355
Total Current assets	47,859	225,845
Property and equipment, net of accumulated depreciation of $885 and $59 at November 30, 2007 and 2006	1,592	2,418
Customer List	-	7,500
Deposits		

	-	1,000
Total Assets	49,451	236,763
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities		
Accounts payable and accrued expenses	47,946	19,278
Due to related parties	7,200	-
Deferred revenues	-	25,000
Total current Liabilites	55,146	44,278
Settlement reserve	190,000	-
Total liabilities	245,146	44,278
Stockholders' equity:		
Common stock 100,000,000 shares authorized, $0.001		
par value, 63,284,047and 39,059,047 shares issued	63,284	39,059
and outstanding at November 30, 2007 and 2006		
Additional paid in capital	4,677,496	4,235,531
Other comprehensive income (deficit)	(52,500)	(27,000)
Accumulated deficit	(4,883,975)	(4,055,105)
Total stockholders' equity (deficit)	(195,695)	192,485

Total Liabilities and stockholders' equity (deficit)	49,451	236,763

See notes to the financial statements.

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US BIODEFENSE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED NOVEMBER 30, 2007 AND 2006

	2007	2006
REVENUES		
Revenues from services	$ 25,000	$ 50,000
Revenues-Related parties	-	46,667
Total Revenues	25,000	96,667
EXPENSES		
Research and development expenses	-	32,171
General and administrative expenses	86,443	36,206
General and administrative expenses:		
Related party	-	3,500
Stock issued for consulting services	467,190	270,200
Impairment of assets	-	22,500
Settlement reserve	190,000	-
Total Expenses	743,633	364,577
Loss from continuing operations before income tax benefit	(718,633)	(267,910)
Income tax benefit	-	18,955
Loss from continuing operations	(718,633)	(248,955)
Discontinued Operations (Note 11)		
Income (loss) from operations of discontinued emergency disaster preparedness subsidiary (including gain on disposal of $235,148)	(110,237)	44,565
Income tax	-	(9,359)
Income (loss) on discontinued operations	(110,237)	35,206
Net loss	(828,870)	(213,749)
Weighted average number of shares outstanding	51,661,547	33,867,797
Basic and diluted net income (loss) per common share	$ (.02)	$ (0.01)

See notes to the financial statements.

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US BIODEFENSE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED NOVEMBER 30, 2007 AND 2006

	2007	2006
Net loss	$ (828,870)	$ (213,749)
Unrealized income (loss) on securities held for resale, net of (inclusive of) income tax of $19,150 in 2006	(25,500)	(57,850)
Total comprehensive income	$ (854,370)	$ (271,599)

See notes to the financial statements.

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US BIODEFENSE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED NOVEMBER 30, 2007 AND 2006

	Common Stock Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive Income	Total
Balance, November 30, 2005	30,304,047	$ 30,304	$ 3,773,086	$ (3,841,356)	$ 30,850	$ (7,116)
Stock issued for cash	2,000,000	2,000	198,000			200,000
Stock issued for consulting services	6,755,000	6,755	263,445			270,200
Capitalization of acquired company			1,000			1,000
Change in unrealized gain on available for sale securities, inclusive of tax effects of $19,150					(57,850)	(57,850)
Net loss for the year ended November 20, 2006				(213,749)		(213,749)
Balance, November 30, 2006	39,059,047	$ 39,059	$ 4,235,531	$ (4,055,105)	$ (27,000)	$ 192,485
Stock issued for compensation	10,000,000	10,000	90,000			100,000
Stock issued for consulting services	14,225,000	14,225	352,965			367,190
Remove capitalization of spun-off company			(1,000)			(1,000)
Change in unrealized gain on available for sale securities, inclusive of tax effects of $0					(25,500)	(25,500)
Net loss for the year ended November 30, 2007				(828,870)		(828,870)
	63,284,047	$ 63,284	$ 4,677,496	$ (4,883,975)	$ (52,500)	$ (195,695)

See notes to the financial statements.

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US BIODEFENSE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2007 AND 2006

	2007	2006
Cash flows from operating activities:		
Net income (loss)	$ (828,870)	$ (213,749)
Adjustments to reconcile net income (loss) to net cash		
from operating activities:		
Gain on spin-off subsidiary	(235,148)	-
Depreciation	826	59
Impairment of assets	25,500	22,500
Consulting services received by receipt of stock	-	(50,000)
Stock issued for consulting services	367,190	270,200
Stock issued for compensation	100,000	
Provision for bad debts	-	20,000
Forgiveness of debt	-	(79,167)
Changes in operating assets and liabilities:		
Accounts receivable	54,827	(74,827)
Inventory	75,355	(75,355)
Prepaid expenses	-	20,000
Band overdraft	-	(3,947)
Accounts payable and accrued expenses	(67,224)	9,682
Deferred revenues	(25,000)	(26,667)
Settlement reserve	190,000	-
Total cash flows from operating activities	(342,544)	(181,271)
Cash flows from financing activities:		
Advances from (repayments to) related parties, net	311,740	(1,812)
Proceeds from sale of common stock	-	201,000
Total cash flows from financing activities	311,740	199,188
Cash flows from investing activities:		
Decrease in Deposit	1,000	-
Purchase (disposal) of customer list	7,500	(7,500)
Purchase of license	-	(2,500)
Purchase of equipment	-	(2,477)
Total cash flows from investing activities	8,500	(12,477)
Increase (decrease in) cash and cash equivalents	(22,304)	5,440
Cash and cash equivalents, beginning of year		