# FORM 10KSB40

Annual and transition reports of small business issuers [Section 13 or 15(d), S-B Item 405]

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## FILER

**MOTORVAC TECHNOLOGIES INC**

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U. S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

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

| | |
|---|---|
| FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998 | COMMISSION FILE NO. 000-28112 |

MOTORVAC TECHNOLOGIES, INC.
(Name of Small Business Issuer in its Charter)

| | |
|---|---|
| DELAWARE | 33-0522018 |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

1431 S. Village Way, Santa Ana, California 92705
(Address of Principal Executive Offices)(Zip Code)

Issuer's telephone number: (714) 558-4822

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

None

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

Common Stock, $0.01 Par Value

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

The issuer's revenues for the fiscal year ended December 31, 1998 were $10,017,020.

The aggregate market value of the voting and non-voting stock held by non-affiliates of the issuer as of March 15, 1999, was $3,163,044. Shares of common stock held by each officer and director and by each person who owns 5% or more of the outstanding common stock of the Company have been excluded because such persons may be deemed to be affiliates.

The total number of shares outstanding of the Issuer's Common Stock was 4,464,918 as of March 15, 1999.

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DOCUMENTS INCORPORATED BY REFERENCE

Issuer's definitive Proxy Statement to be filed with the Commission pursuant to Regulation 14A in connection with the Issuer's 1999 Annual Meeting of Stockholders is incorporated herein by reference into Part III of this report.



MOTORVAC TECHNOLOGIES, INC.

FORM 10-KSB
YEAR ENDED DECEMBER 31, 1998

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PART I

This Annual Report on Form 10-KSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends that such statements shall be protected by the safe harbors provided for in such sections. Such statements are subject to risks and uncertainties that could cause actual results to vary materially from those projected in the forward-looking statements, including, but not limited to, those set forth in "Risk Factors" below and in the Company's other periodic filings with the Securities and Exchange Commission (the "Commission"). The Company may experience significant fluctuations in future operating results due to a number of economic, competitive, governmental and technological factors, including, among other things, changes in laws, the size and timing of customer orders, new or increased competition, delays in new product introductions and enhancements, quality control difficulties, changes in market demand, market acceptance of new products, product returns, seasonality in product purchases by distributors and end users, and pricing trends in the automotive after-market industry in general, and in specific, markets in which the Company is active. Any of these factors, or others, could cause operating results to vary significantly from those in prior periods, and those projected in the forward-looking statements.

ITEM 1. DESCRIPTION OF BUSINESS.

MotorVac Technologies, Inc. (the "Company") designs, develops, assembles, markets and sells the MotorVac CarbonClean System, its primary product line, for the diagnosis, maintenance and repair of internal combustion engine fuel systems primarily for the automotive after-market repair and service industry. The MotorVac CarbonClean System is comprised of a fuel system cleaning machine and a proprietary cleaning detergent. Servicing an engine with the MotorVac CarbonClean System enhances engine performance by removing dirt, carbon deposits and other contaminants from fuel systems of both gasoline and diesel-powered engines. Additionally, the MotorVac CarbonClean System's diagnostic capabilities help to ensure fuel system safety and reliability by allowing the technician to check fuel pressure, fuel volume and system leak down (internal fuel pressure system loss). The Company believes that its MotorVac CarbonClean System enhances both the vehicle manufacturers' mandated goal to develop efficient fuel distribution systems that meet increasingly stringent state and federal emission requirements and customer demands for enhanced engine performance and improved fuel economy.

The Company markets diesel engine cleaning systems under the trade name Industrial Diesel Tune System ("IDT"). The IDT essentially functions the same way as the MotorVac CarbonClean System but is designed to handle the unique properties of a diesel engine. The IDT system works on all types of diesel engine applications, including on-highway, marine, construction, transit, agricultural, mining, industrial and power generation. It is designed to address a fleet operator or owner-operator's concerns for low engine emissions, low fuel costs and low maintenance costs.

The Company also designs, assembles, markets and sells the TRANSTECH(R) Transmission Service System. This product, first offered in December 1997, allows the vehicle's transmission pump to flush out the old fluid and pump in new fluid, allowing for essentially all of the old fluid to be replaced. The Company believes TRANSTECH(R) provides a shop owner with a quicker, safer and more profitable way to service automatic transmission systems. The system is unique because it provides the operator with two service modes--fluid replacement only and fluid plus filter replacement. The Company believes that this service will give repair shops the ability to upsell the service and provide an OEM recommended service.

In 1998, the Company launched a new division called Automotive Solutions. This division will market products specifically to the quick-service market, including approximately 20,000 lube and tune centers in the United States alone. The Company believes that its primary product line does not fit the requirements of a typical quick-service shop operator. These shops are looking for services that can be performed in under fifteen minutes. The first product introduced in this division is the Carbon Tune product line. This line consists of a three-step fuel system cleaning kit, and the CT2100 System, a small, portable engine decarbonizer and fuel system cleaning machine. The CT2100 System





is a quick and simple delivery device for the Carbon Tune detergents. A Carbon Tune service is a ten-minute service that does not require a certified technician to complete.

The Company was incorporated in the State of Delaware on June 19, 1992 as CarbonClean Corporation. In August 1992, the Company acquired certain assets from Enviromotive, Inc. ("EMI"), an independent third party, which, in February 1992, had acquired the assets from the Chapter 11 Trustee in the Parker Automotive Corporation bankruptcy proceeding. At the same time, a then existing affiliate of the Company licensed from EMI the worldwide rights to utilize certain patent rights and certain trademarks and service marks, including the name "CarbonClean" (collectively, the "EMI Property"), and the affiliate of the Company sublicensed to the Company the right to utilize the EMI Property in the United States and Canada. In March 1993, CarbonClean Corporation changed its name to MotorVac Technologies, Inc. The trade name MotorVac is used by the Company throughout North America. The Company also uses the trade name CarbonClean in North America, but the Company uses the CarbonClean name outside of the United States and Canada because the Company believes the trade name CarbonClean has stronger brand name recognition outside the United States and Canada. Through a series of restructuring effected in 1994 and 1995, the Company acquired the license to utilize the EMI property worldwide. Effective as of December 31, 1995, the Company purchased all of the EMI Property from EMI.

## INDUSTRY OVERVIEW

The Fuel System Contamination Problem. Today's engines are computer controlled and, although generally effective in providing reliable performance and reasonable fuel mileage while complying with applicable state and federal emission standards, they provide little opportunity for adjustment when driveability problems occur.

The Company believes that the automotive service and repair industry, along with vehicle owners, are experiencing some or all of the following problems:

- Driveability Problems. A driveability problem is present when a vehicle is not performing well and the problem is difficult to solve or repair.

- Tune-Ups. Tune-ups are presently done as preventive maintenance and do not usually correct or reduce driveability problems with today's engines.

- Emissions. In response to emission programs established in most states, emission testing and repair has become a major profit center for many automotive service and repair facilities, most of which do not have a complete fuel system cleaning service.

Alternative Solutions. In addition to the Company's products, the Company believes there are presently three main product lines broadly available to address the market opportunity created by the fuel system contamination problem:

The first product solution is positioned as a fuel tank additive and marketed as a fuel system cleaner by such companies as Wynn's International, Inc., First Brands Corporation (which markets and sells STP) and Pennzoil Company (which markets and sells GUMOUT).

The second product solution is presented by national brands of gasoline, such as Chevron with Techron and Mobil, that include additives that purport to clean fuel injectors and other parts of the fuel system.

The third product solution, currently offered by companies such as Borg Warner and Champion, are pressurized spray cans that contain solvents which are sprayed into the engine's fuel system, usually without the aid of any mechanical process regulating pressure and flow or longevity of the cleaning process.





The Company believes that the foregoing methods provide an incomplete solution to the fuel system contamination problem primarily because (i) they usually introduce the cleaning additive in a more diluted form than the MotorVac CarbonClean System and/or (ii) the cleaning additive does not remain in the fuel system during the cleaning process for as long a period of time as with the MotorVac CarbonClean System. In addition, some of the chemical solutions are highly flammable and could actually contribute to the engine contamination problem.

The MotorVac CarbonClean System Solution. The Company markets and sells the MotorVac CarbonClean System for the diagnosis, maintenance and repair of both gasoline and diesel engine fuel systems. The MotorVac CarbonClean System is comprised of a machine and a proprietary detergent. Servicing an engine with the MotorVac CarbonClean System simultaneously accomplishes two goals:

Diagnosis. The MotorVac CarbonClean System is a fuel system diagnostic tool that allows the technician to check fuel pressure, fuel volume, system leak down and fuel pump, and to perform "dead-head" tests in order to identify problems and ensure overall system reliability and safety.

Repair. The MotorVac CarbonClean System is a repair tool that enhances engine performance by removing dirt and carbon deposits, through a three-step process, from the complete fuel system (air intake through the fuel rail, throttle plate, idle control devices, injector screens and pintel, intake valves, combustion chamber, O2 sensor, catalytic converters and exhaust system components). Central to the cleaning process is the MotorVac CarbonClean detergent, which is a proprietary detergent that is safe for use in all engines and that survives combustion, thereby cleaning the entire fuel system from the air intake through the catalytic converter.

The Automatic Transmission Service Problem. According to industry studies, over 13 million transmissions fail every year. One of the most common causes of transmission failure is fluid contamination. The Company believes that the traditional "drop the pan" method of flushing and replacing automatic transmission fluid is incomplete and hazardous. It is incomplete because this method only replaces approximately 25% of the old fluid, leaving most of the old, dirty and burnt fluid trapped in the torque converter, clutch drums and valve body. It is hazardous because there is always a potential for spills on the technician or on the shop floor.

The TRANSTECH(R) System Solution. The Company markets and sells the TRANSTECH(R) Transmission Service System for exchanging automatic transmission fluid. The TRANSTECH(R) is designed to connect to transmission coolers and exchange virtually 100% of the used fluid in the vehicle's transmission. Using a closed-loop connection, the service eliminates the potential for hazardous fluid spills. A TRANSTECH(R) service takes approximately fifteen minutes. The system also allows the shop to offer an OEM recommended service, which includes a transmission filter change.

MOTORVAC'S PRODUCTS

The MotorVac CarbonClean System and IDT System--Product Overview.

The Company markets and sells internal combustion engine fuel system cleaning systems for both gasoline and diesel-powered engines under the trade names MotorVac CarbonClean System in the United States and Canada and CarbonClean System in other international markets. The MotorVac CarbonClean System is comprised of fuel system cleaning machines and proprietary cleaning detergents designed for both gasoline and diesel engines.

The gasoline system machine is a twelve-volt-powered two-line cleaning system which connects to the engine through vehicle-specific adapters for all types of carbureted and fuel-injected engines. The machine passes a detergent and gas mixture over the components of the fuel system. Carbon, gum and varnishes built up in these areas are softened and removed, and then passed out the exhaust.

The Company markets its diesel engine cleaning system under the trade name Industrial Diesel Tune ("IDT"), which is comprised of a patented diesel engine cleaning machine and a proprietary diesel detergent. The IDT System





passes a concentrated mixture of MotorVac3D cleaning detergent and diesel fuel through the components of the fuel system while the engine is running. The system removes both organic and inorganic fuel deposits that build up in the fuel injectors, injection pumps and combustion chambers.

The Company believes that its proprietary cleaning detergent is the safest and most effective engine fuel system cleaner on the market. It is safe for use on all engine components and will not harm injectors or any sensitive computer components. The Company has obtained test results that indicate that the MotorVac CarbonClean System and the IDT System improve the performance of the vehicle, increase fuel mileage and reduce harmful emissions.

The Company also markets and sells, both separately and together with its fuel system cleaning machines, standard and deluxe adapter kits which allow the Company's fuel system cleaning machines to be connected to the fuel system lines of most vehicles on the road today.

During the Company's fiscal year ended December 31, 1997, the Company derived approximately 75% of its total sales from sales of fuel system cleaning machines, approximately 17% of total sales from sales of fuel system cleaning detergent, and 8% of its total sales of adapters and parts. During the twelve-month year ended December 31, 1998, the Company derived approximately 73% of its total sales from sales of fuel system and transmission cleaning machines (including 29% from TRANSTECH(R)), approximately 21% of its total sales from fuel system cleaning detergents, and 6% of its total sales from sales of adapters and parts.

TRANSTECH(R) Transmission Service System -- Product Overview.

The TRANSTECH(R) System is an automatic transmission fluid exchange machine. Unlike a typical transmission service which only replaces approximately 25% of the used fluid, the TRANSTECH(R) can replace virtually 100% of the old fluid with new fluid in about fifteen minutes. The Company believes that it provides a shop owner with a quicker, safer and more profitable way to service automatic transmission systems. The system is unique because it provides the operator with two service modes--fluid replacement only and fluid plus filter replacement. The Company believes that this will give the repair shop the ability to upsell the service and provide an OEM-recommended service.

Carbon Tune Engine Decarbonizing and Fuel System Cleaning Kit -- Product Overview.

Carbon Tune is a three-part kit that cleans the air intake system, fuel system, combustion chambers and exhaust system of the vehicle. The kit includes an air intake aerosol, an engine decarbonizer and a patented fuel conditioner that helps keep the engine clean. The air intake aerosol is the same air intake detergent used in the MotorVac CarbonClean System. The fuel conditioner is a new patented product used as a fuel additive and is included as part of the service. The kit is also sold in concentrated form to the consumer after the service to maintain the peak performance of the engine.

The Company believes that the products used in this kit provides the quick-serve shop operator with the safest and most effective fuel system cleaning product in the quick service market. Carbon Tune products do not contain alcohol or any flammable chemicals. In addition, its formulas have been proven effective by independent tests and have been used in thousands of professional MotorVac services worldwide.

Product Warranties. The Company offers a limited warranty covering parts for a period of one year from the date of sale to the end user on all equipment distributed in the United States. For equipment delivered internationally, the Company provides a limited parts warranty only for a period of either 12 or 18 months from the date of shipment. The Company also offers a limited warranty for a period of one year for all of its proprietary fuel system detergents. During the Company's fiscal year ended December 31, 1997, the Company's aggregate warranty expense was approximately $108,000. During the Company's fiscal year ended December 31, 1998, the Company's aggregate warranty expense was approximately $213,000. The increase in 1998 was due to expenses incurred for correction of a flow control device; this problem has been corrected and no further warranty cost for this device is anticipated. There





can be no assurance that future warranty expense will not have an adverse effect on the Company's results of operations or financial condition.

Fuel System Cleaning Detergents. The Company markets and sells its proprietary fuel system detergents in both the United States and international markets utilizing different trade names in different markets. All of the Company's detergents clean dirt, varnish, waxes, carbon and other types of contaminants that build up in critical areas of the engine. The Company's detergents will not damage vehicle surfaces or paint, and are safe for use on all engine fuel system components (will not harm injectors or any sensitive computer components).

## PRODUCT DISTRIBUTION

The Company's products are currently sold through a national and international distribution network consisting primarily of the categories described below:

Snap-on Incorporated. The Company sells the MotorVac CarbonClean System, the IDT System, the TRANSTECH(R) System, the CT 2100 and the MotorVac CarbonClean Detergent and Top Engine Cleaner to Snap-on for distribution through Snap-on's tool and equipment network, made up in the U.S. of approximately 3,800 Snap-on dealers and approximately 325 tech reps selling to approximately 300,000 automotive after-market consumers.

Snap-on is a leading manufacturer and distributor of high-quality hand tools, power tools, tool storage products, diagnostics and shop equipment and information services primarily for use by professional technicians.

The Company entered into an Exclusive Distribution Agreement dated as of April 10, 1995 (the "Snap-on Distribution Agreement") with Snap-on. Pursuant to the Snap-on Distribution Agreement, the Company appointed Snap-on as its exclusive distributor in the United States and Canada of the Company's "Sun" branded engine cleaning systems, fuel system detergent, transmission systems and enhanced adapter kits. The Company has the right, however, to enter into other distribution arrangements in the United States and Canada for machines that perform the same functions as the Sun System being sold through Snap-on and for its fuel system detergent in the same formulation as that sold to Snap-on, as long as the container is different and provided that the machines are not identical in design to the Sun System. In order to maintain its exclusivity, Snap-on must meet minimum purchase requirements set forth in the Snap-on Distribution Agreement. The Snap-on Distribution Agreement expired on April 10, 1998 but under an annual Automatic Renewal Provision, was extended to April 10, 1999. Neither Snap-on nor the Company had delivered written notice of cancellation as of February 10, 1999. Accordingly, the Company anticipates automatic renewal as of April 10, 1999. However, the agreement may be terminated prior to such dates in the event of certain defaults by the Company or Snap-on.

Other Independent Distributors. The Company also markets the MotorVac CarbonClean System, the Carbon Tune System, the TRANSTECH(R) System and IDT System throughout the United States and Canada through a small network of independent distributors. In addition, the Company markets the CarbonClean System, the TRANSTECH(R) System and IDT System in over 55 countries worldwide through local and, in some cases, multinational independent distributors.

In general, the Company's international distribution agreements provide that the distributor has the exclusive right to sell and distribute the Company's products within the specified territory. The distribution agreements generally include minimum performance goals that, if not met, entitle the Company to terminate the agreements.

During the fiscal years ended December 31, 1998 and 1997, respectively, sales of the Company's products to divisions of Snap-on Incorporated accounted for approximately 73% and 72%, respectively, of the Company's net sales. No other distributor or customer accounted for more than 10% of the Company's net sales in the years ended 1998 and 1997.

For the fiscal year ended December 31, 1998 and the fiscal year ended December 31, 1997, international sales accounted for approximately 18% and 26%, respectively, of the Company's net sales.





MARKETING

The Company's primary market consists of automotive service and repair shops, including independent, chain and dealership facilities. The Company estimates that there are over 300,000 automotive service and repair shops in the United States and Canada and approximately 1.5 million in other countries.

The Company has retained the services of a press relations agency for the purpose of increasing consumer awareness of the MotorVac CarbonClean service through editorial coverage in general consumer and enthusiast publications, including daily newspapers.

ASSEMBLY AND QUALITY ASSURANCE

The Company assembles, finishes and packages its fuel system cleaning machines at its Santa Ana, California facilities. See "Business--Properties." The Company purchases the component parts utilized in the assembly of its fuel system cleaning machines from independent third-party suppliers and the Company assembles the machines at its facility. The Company's internal manufacturing operations consist primarily of the production of prototypes, test engineering, material and component part purchasing, assembly, testing, quality control and technical service.

The Company anticipates that its existing production facilities and equipment will be adequate to meet the Company's manufacturing needs for the next two to three years for its existing product lines.

The Company maintains the MotorVac quality control system that begins with design and continues through assembly, marketing, sales and customer service. The Company involves its design and engineering department, manufacturing personnel, marketing and sales departments in quality control.

As stated above, the Company relies upon outside suppliers for the manufacture of the component parts for its fuel system cleaning machines. Although certain of these component parts are obtained from a single supplier or a limited number of suppliers, the Company believes that there are a sufficient number of alternative sources of supply for all of the component parts utilized in its machines, except for the pumps incorporated into its machines. With respect to the pumps, the Company currently relies upon Tuthill Corporation, a single supplier, to manufacture a Company-designed proprietary pump. While the

Company believes it could secure another manufacturer of the pump, as pumps from alternate suppliers have been tested and approved, any significant interruption in deliveries of pumps could have a material adverse effect upon the Company's results of operations and financial condition until such time as the Company was able to secure an alternative supplier.

While, to date, the Company has not experienced any significant interruptions in the supply of its components, there is no assurance that significant supply interruptions will not occur in the future.

BACKLOG

The Company normally does not have any significant backlog.

COMPETITION

The automotive service and after-market products industries are highly competitive and require substantial technical expertise and capital resources. These industries are characterized by an abundance of manufacturers focusing on the technician, equipment and other after-market performance enhancements. The Company believes that competition in the automotive service and after-market products industries is based primarily on product performance, ease of operation, price, product selection, product availability and service. The Company's core products compete with





a variety of products designed to clean engine fuel systems and reduce emissions while improving performance, including gasoline fuel additives, detergent additives that are mixed with fuel in the fuel tank, and solvents that are introduced directly into the fuel system, either with or without the aid of a mechanical delivery system. The Company's transmission service product competes with a variety of different systems designed to flush old fluid out of the vehicle's transmission system and replace it with new fluid. Some competitive systems are strictly fluid exchange machines, while others allow the technician to replace the transmission filter and perform an OEM-recommended service. Most of the Company's competitors in each of these product categories have significantly greater financial, manufacturing, marketing, distribution and other resources than the Company.

With respect to direct competition with the Company's integrated fuel system cleaning machine and detergent delivery system, the Company is aware of a few manufacturers that produce products capable of performing functions similar to those performed by the Company's products. One such competitor is Injector Clean Systems, Inc., which manufactures a fuel injector cleaning machine and cleaning detergent. Their product is distributed worldwide by Bilstein Corporation under the Bilstein brand. In addition, a large number of companies, such as Wynn's International, Inc., First Brands Corporation (which markets and sells STP) and Pennzoil Company (which markets and sells GUMOUT), offer fuel additives that are marketed as fuel system cleaners with claims that they improve performance, reduce exhaust emissions and improve fuel economy. Moreover, many national brands of gasoline, including Chevron with Techron and Mobil, advertise that their gasoline additives clean fuel injectors and other parts of the fuel system.

With respect to direct competition with the Company's transmission service system, the Company is aware of several manufacturers that produce products capable of performing functions similar to those performed by the Company's products. One competitor is Wynn's International, which markets the TransServe systems and also competes with the Company in the fuel system service equipment market. Other competitors include Norco Industries (which markets the Flo-Dynamics line of machines) and Century Manufacturing (which markets the T-Tech machines).

The business of providing an integrated fuel system cleaning service is relatively new and the Company anticipates that competition will likely increase from existing competitors, companies that are not currently competitors but have the financial resources and expertise to compete in this market and newly-formed companies as market awareness of the fuel system contamination problem increases, and as and when government-mandated emissions testing programs expand. The same is true for the Company's transmission service product. Increased competition from manufacturers or distributors of fuel system or transmission system service products similar to that offered by the Company could result in price reductions, reduced margins and loss of market share, all of which could have a material adverse effect on the Company's results of operations and financial condition. There can be no assurance that the Company will be able to successfully compete in this marketplace.

GOVERNMENTAL REGULATION

The Company's operations are subject to a number of federal, state and local laws relating to environmental, health, safety and labor matters. The Company believes its business is operated in substantial compliance with all material applicable government regulations. There can be no assurance that future regulations will not require the Company to modify its products, business or operations to meet environmental, health, safety or labor requirements, or that the Company will be able, for financial or other reasons, to comply with such future requirements. Failure to comply with future governmental regulations could subject the Company to fines and injunctions, which could result in a material adverse effect on the Company's results of operations and financial condition. Although the Company is not aware of any claim involving violation of environmental, health, safety or labor laws or regulations, there can be no assurance that such claims may not arise in the future, which may have a material adverse effect on the Company.

The Company's products are marketed in part based on their ability to reduce air pollution and other harmful emissions from diesel and gasoline internal combustion engines as required by foreign, federal, state and local governmental regulations. Significant changes in such laws that reduce or alter clean air requirements, or the failure of the Company's products to enhance compliance with such laws in the future, could have a material adverse effect on the Company's results of operations.





INTELLECTUAL PROPERTY

The Company relies on patent and trademark protection and nondisclosure agreements to protect its intellectual property. The Company believes that its owned and licensed trade names and trademarks are critical to the Company's marketing strategy and its business.

The Company licensed the rights under a patent which covered certain aspects of the Company's gasoline and diesel fuel system cleaning machines. The license agreement terminated on May 1, 1997. The Company has its own patents pending on its fuel system cleaning machines. Regarding the TRANSTECH(R) machine, the Company has purchased the patent from a third party in exchange for royalty payments which amounted to approximately $25,000 in 1998.

The Company purchases all of its fuel system cleaning detergents from Shrader Packaging Co., Inc. ("Shrader"), a single supplier, under an Exclusive Supply Agreement. Under the agreement's terms, Shrader has agreed to produce and deliver to the Company, and the Company has agreed to buy, all of the detergents required by the Company in its business. The Company is also required to make minimum annual purchases of $250,000 per year (this requirement has been met for 1998), subject to annual inflation based increases. Shrader has agreed to limit price increases to increases in its material costs and operating overhead as necessary to maintain Shrader's profit margins. Under the Exclusive Supply Agreement, Shrader has agreed that it will not produce or sell any detergents substantially similar to the chemical formulations produced for the Company or which are in competition with the Company's chemical formulations without the Company's written permission.

In exchange for its exclusive rights to the chemical formulations, the Company has agreed that in the event that it ceases purchasing the chemical formulations from Shrader, it will purchase Shrader's remaining inventory of chemical formulations and Shrader will not, for a period of one year thereafter, sell any of the chemical formulations to any distributors of the Company or any competitors of the Company. In addition, the Company has obtained a right of first refusal from Shrader to purchase Shrader's worldwide rights to the chemical formulations. The chemical formulations used in the Company's detergents are the proprietary property and a trade secret of Shrader but, to the Company's knowledge, are not patented or otherwise protected. There can be no assurance that Shrader will be able to maintain its chemical formulations as trade secrets or that others will not independently develop chemical formulations that are similar to or competitive with Shrader's chemical formulations. The Company believes that the proprietary nature of the Company's detergents and the Company's exclusive right to obtain those detergents from Shrader are important to the Company's business and any loss of such proprietary protection or the exclusive rights to obtain the detergents could have a material adverse effect on the Company's results of operations and financial condition. See "Risk Factors--Dependence Upon Single Sources of Supply; Lack of Long Term Supply Contracts for Machine Components."

RESEARCH AND DEVELOPMENT

For the fiscal years ended December 31, 1998, the Company spent $22,893 on research and development; in 1997, the Company spent $21,220.

EMPLOYEES

As of December 31, 1998, the Company had 42 employees, all of which were full-time employees, including 14 employed in sales and marketing, 19 employed in research and development, technical support and production, and 9 employed as administrative, accounting and support staff. None of the Company's employees are represented by unions, and the Company considers its employee relations to be good.





RISK FACTORS

Historical Operating Losses; Accumulated Deficit; Profitability Uncertain

From August 28, 1992 (inception) for each year through December 31, 1998, with the exception of 1997, the Company incurred net losses. As of December 31, 1998, the Company had an accumulated deficit of $12,047,741. There can be no assurance that the Company will be able to achieve or maintain profitable operations in the future. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Dependence Upon Single Sources of Supply; Lack of Long Term Supply Contracts for Machine Components

The formulations utilized in the Company's gasoline and diesel detergents are manufactured by Shrader, an independent third party. These formulations are the proprietary property and a trade secret of such party, but are not, to the Company's knowledge, patented or otherwise protected. There can be no assurance that the supplier will be able to maintain its chemical formulations as trade secrets or that others will not independently develop chemical formulations that are similar to or competitive with the supplier's chemical formulations. The Company currently relies upon this supplier as its primary supplier of the Company's gasoline and diesel engine detergents under the terms of an exclusive supply agreement (the "Exclusive Supply Agreement"). The Company considers its detergents to be important proprietary assets. The loss by the supplier of the proprietary protection for its detergent formulas, a significant interruption in detergent deliveries by the supplier or the inability to obtain detergents from the supplier for any reason for any significant period of time could have a material adverse effect upon the Company and its results of operations. See "Business--Intellectual Property."

The Company relies upon outside suppliers for the manufacture of the component parts of its fuel system cleaning and transmission service machines. The Company does not have written long-term contracts with any of these suppliers. The Company generally estimates its anticipated need for components over a three-month period and submits purchase orders to its suppliers for such amounts. There can be no assurance that the Company's suppliers will be able to make timely delivery of components in the future. The inability of the Company to obtain the components necessary to enable it to fill its then-existing orders for any reason, including, but not limited to, shortages, product delays or work stoppages experienced by the Company's suppliers, could have a material adverse effect on the Company's results of operations and financial condition.

Certain of the Company's component parts are obtained from a single supplier or a limited number of suppliers. The Company believes, however, that there are a sufficient number of alternative sources of supply for all of the component parts utilized in its machines, except for the pumps incorporated into its machines. With respect to the pumps, the Company relies upon Tuthill Corporation, a single supplier, to manufacture a Company-designed proprietary pump. While the Company believes it could secure another manufacturer of the pump, any significant interruption in deliveries of the pumps could have a material adverse effect upon the Company's results of operations and financial condition until such time as the Company was able to secure an alternative supplier.

Dependence Upon Significant Customer

During the fiscal year ended December 31, 1998 and December 31, 1997, the Company derived approximately 73% and 72%, respectively, of its total sales from sales to Snap-on, Incorporated, a distributor of the Company's products. No other customer accounted for more than 10% of the Company's net sales during these years. Any significant decrease in sales to Snap-on, which are not offset by increases in sales to other existing or new distributors, would have a material adverse effect upon the Company's results of operations and financial condition.





Future Capital Requirements

The Company believes that available working capital at December 31, 1998 of $ 3,486,973 will be sufficient to allow the Company to meet its obligations as they become due through January 1, 2000. To the extent that the Company's cash flow from operations, if any, are insufficient to fund the Company's activities, the Company will be required to raise additional funds through equity or debt financings. No assurance can be given that such financing will be available on terms acceptable to the Company, if at all, and if available, such financing may result in further dilution to the Company's stockholders and/or in additional interest expense. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business."

Competition; Technological Developments

The automotive service and after-market products industries are highly competitive and require substantial technical expertise and capital resources. These industries are characterized by an abundance of manufacturers focusing on the technician, equipment and other after-market performance enhancements. The Company believes that competition in the automotive service and after-market products industries is based primarily on product performance, ease of operation, price, product selection, product availability and service. The Company's products compete with a variety of products designed to clean engine fuel systems and reduce emissions while improving performance, including gasoline fuel additives, chemical formulations that are mixed with fuel in the fuel tank, and chemical formulations that are introduced directly into the fuel system either with or without the aid of a mechanical delivery system. Most of the Company's competitors in each of these product categories have significantly greater financial, manufacturing, marketing, distribution and other resources than the Company.

With respect to direct competition with the Company's integrated fuel system cleaning and detergent delivery system, the Company is aware of a few small manufacturers and a number of distributors, including Bilstein, that produce products capable of performing some functions similar to those performed by the Company's products. In addition, a large number of companies, such as Wynn's International, Inc., First Brands Corporation (which markets and sells STP) and Pennzoil Company (which markets and sells GUMOUT), offer fuel additives that are marketed as fuel system cleaners with claims that they improve performance, reduce exhaust emissions and improve fuel economy. Moreover, many national brands of gasoline, including Chevron with Techron and Mobil, advertise that their gasoline additives clean fuel injectors and other parts of the fuel system.

With respect to direct competition with the Company's transmission service system, the Company is aware of several manufacturers that produce products capable of performing functions similar to those performed by the Company's products. One competitor is Wynn's International, which markets the TransServe systems and also competes with the Company in the fuel system service equipment market. Other competitors include Norco Industries (which markets the Flo-Dynamics line of machines) and Burman Products (which markets the T-Tech machines).

Dependence Upon Trademarks, Patents and Proprietary Rights

The Company's success is, in part, dependent upon the protection afforded by the patented technology incorporated in some of the fuel system cleaning machines manufactured by the Company, the Company's rights to its trademarks "MotorVac" and "CarbonClean" and the goodwill associated therewith. In the event of a legal challenge, the Company would be required to defend its patents and trademarks and there can be no assurance that the Company would prevail in such a proceeding. Additionally, the Company must identify and prosecute infringement by others in order to protect its patents and trademarks. Trademark and patent litigation entails substantial legal and other costs. There can be no assurance that the Company will have the necessary financial resources to defend or prosecute its rights in connection with any such litigation. Responding to, defending or bringing claims related to the Company's rights to its intellectual property may require the Company's management to redirect its resources to address such claims, which could have a material adverse effect on the Company's business, financial condition and results of operations. Moreover, if any significant suppliers of the Company are subjected to claims challenging their proprietary rights, the Company could be materially adversely affected if such suppliers' operations are significantly interrupted or if they are





unable to defend their respective proprietary rights against such a challenge. See "Risk Factors--Dependence Upon Single Sources of Supply; Lack of Long Term Supply Contracts for Machine Components" and "Business--Intellectual Property."

## Variability in Operating Results

The Company may experience significant fluctuations in future operating results due to a number of factors including, among other things, the size and timing of customer orders, new or increased competition, delays in new product enhancements and new product introductions, quality control difficulties, changes in market demand, market acceptance of new products, product returns, seasonality in product purchases by distributors and end users and pricing trends in the automotive after-market industry in general, and in the specific markets in which the Company is active. Any of these factors could cause operating results to vary significantly from prior periods. Significant variability in orders during any period may have a material adverse impact on the Company's cash flow or work flow, and any significant decrease in orders could have a material adverse impact on the Company's results of operations and financial condition. As a result, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance. Fluctuations in the Company's operating results could cause the price of the Company's Common Stock to fluctuate substantially. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## Dependence on International Sales

A significant element of the Company's business strategy is to continue to expand in selected international markets. In the Company's fiscal year ended December 31, 1998 and December 31, 1997, respectively, the Company derived approximately 18% and 26%, respectively, of total sales from international markets. The Company's international sales efforts are subject to the customary risks of doing business abroad, including exposure to regulatory requirements, political and economic instability, barriers to trade, trade restrictions (including import quotas), tariff regulations, foreign taxes, restrictions on transfer of funds, difficulty in obtaining distribution and support and export licensing requirements, any of which could have a material adverse effect on the Company's results of operations and financial condition. The Company sells its products in United States dollar denominations only. Consequently, a weakening in the value of foreign currencies relative to the U.S. dollar and potential fluctuations in foreign currency exchange rates could have an adverse impact on the Company's sales and could cause the Company to reduce its selling prices, which could have a negative impact on gross margins on international sales. See "Business--Product Distribution."

## Risk of Product Liability

The nature of the Company's business exposes it to risk from product liability claims. The Company currently maintains product liability insurance for its products worldwide, with limits of $10,000,000 per occurrence and $11,000,000 in the aggregate, per annum. There can be no assurance that the Company's insurance will be adequate to cover future product liability claims, or that the Company will be successful in maintaining adequate product liability insurance at commercially reasonable rates. Any losses that the Company may suffer from future liability claims, including the successful assertion against the Company of one or a series of large uninsured claims in excess of the Company's coverage, may have a material adverse effect on the Company's business, financial condition and results of operation. Even if the Company is

successful in the defense of product liability claims, the defense of product liability claims generally requires substantial expenditures of funds and management time which could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, any product liability litigation may have a material adverse effect on the reputation and marketability of the Company's products.
See "Business--Product Warranties."





Governmental Regulation

The Company's products are marketed in part based on their ability to reduce air pollution and other harmful emissions from diesel and gasoline combustion engines as required by foreign, federal and state governmental regulations, as well as their ability to fix some driveability problems and increase fuel economy. Significant changes in such laws that reduce clean air requirements or the failure of the Company's products to enhance compliance with such laws in the future could have a material adverse effect on the Company's results of operations. Additionally, there may be changes in governmental regulations related to environmental, health, safety or labor matters with which the Company will have to comply. There can be no assurance that the Company will be able, for financial or other reasons, to comply with the requirements of any future changes in governmental regulations. Failure to comply with future governmental regulations could subject the Company to fines and injunctions, which could result in a material adverse effect on the Company's results of operations and financial condition. Although the Company is not aware of any claim involving violation of environmental, health, safety or labor laws or regulations, there can be no assurance that such a claim may not arise in the future, which may have a material adverse effect on the Company. See "Business--Governmental Regulation."

Control by Existing Stockholders

At March 10, 1999, EMIIC, the principal stockholder of the Company, and the Company's directors and officers collectively, beneficially owned approximately 65.7 % of the Company's Common Stock (EMIIC, 62.1 %; the Company's directors and officers, 3.6 %). Consequently, these persons will have the ability to control the election of all the Company's directors, to determine the outcome of most corporate actions submitted to the vote of the Company's stockholders and to generally control the affairs and management of the Company. See "Security Ownership of Certain Beneficial Owners and Management." In addition, such concentration of ownership and control may have the effect of delaying, deferring or preventing a change of control in the Company.

Dependence on Key Personnel

The Company's success is dependent, in part, upon the continued services of certain key executive officers, including Lee W. Melody, the Company's President and Chief Executive Officer. The loss of any one of its key executive officers could have a material adverse effect on the Company's results of operations and financial condition. The continued success of the Company may also be dependent upon its ability to attract and retain highly qualified marketing, sales and other personnel. There can be no assurance that the Company will be able to recruit and retain such personnel. See "Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act."

Possible Issuance of Preferred Stock; Anti-takeover Effect of Delaware Law

The Company is authorized to issue up to 500,000 shares of preferred stock, par value $.01 per share (the "Preferred Stock"). The Preferred Stock may be issued in one or more series, the terms of which may be determined at the time of issuance by the Board of Directors, without further action by the Company's stockholders, and may include voting rights, preferences as to dividends and liquidation, conversion and redemption rights, and sinking fund provisions as determined by the Board of Directors. Although the Company has no present plans to issue any shares of Preferred Stock, the issuance of any additional shares of Preferred Stock in the future could affect the rights of the holders of Common Stock and thereby reduce the value of the Common Stock. In particular, specific rights granted to future holders of Preferred Stock could be used to restrict the Company's ability to merge with or sell its assets to a third party, thereby preserving control of the Company by its present owners. These provisions, together with certain provisions of Delaware law, may also have the effect of delaying or preventing changes in control or management of the Company which could adversely affect the market price of the Company's Common Stock.





ITEM 2. DESCRIPTION OF PROPERTY

The Company's executive offices, research and product development, assembly, warehousing and distribution facilities are currently housed in two adjacent leased industrial buildings; comprised of approximately 34,500 square feet located in a state-designated enterprise zone in Santa Ana, California. Under the terms of the lease, the Company presently pays rent of approximately $15,100 per month plus the Company's pro rata share of common area maintenance and operating expenses. The lease expires in January of 2003.

ITEM 3. LEGAL PROCEEDINGS.

The Company, from time to time, is involved in routine litigation incidental to the conduct of its business. There are currently no material pending legal proceedings to which the Company is a party to or to which any of its property is subject.

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

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

(a) The Company's Common Stock trades on the Nasdaq SmallCap Market under the symbol "MVAC." The following table sets forth, for the periods indicated, the high and low sales prices of the Company's Common Stock as furnished by Nasdaq. Prices reflect inter-dealer prices without retail mark-up, mark-down or commissions, and may not necessarily reflect actual transactions.

| | HIGH | LOW |
|---|---|---|
| YEAR ENDED DECEMBER 31, 1997 | | |
| First Quarter | 5 7/8 | 3 |
| Second Quarter | 4 5/8 | 2 3/4 |
| Third Quarter | 3 3/4 | 2 3/8 |
| Fourth Quarter | 3 | 1 1/8 |

| | HIGH | LOW |
|---|---|---|
| YEAR ENDED DECEMBER 31, 1998 | | |
| First Quarter | 2 9/16 | 1 3/4 |
| Second Quarter | 2 1/4 | 1 |
| Third Quarter | 1 3/8 | 11/16 |
| Fourth Quarter | 1 | 1/2 |





There were approximately 102 holders of record of the Company's Common Stock as of February 26, 1999.

No dividends have been declared or paid on the Company's Common Stock.

For the year ended December 31, 1998, the Company issued incentive and nonstatutory stock options to purchase an aggregate of 66,500 shares of Common Stock to directors, officers, employees and consultants. The exercise price for such options ranged between $.75 and $1.88 per share. The Company issued such options in reliance upon the exemption provided by Section 4(2) of the Securities Act.

(b) In accordance with the Securities and Exchange Commission Rule 463 and Item 701 of Regulation S-B, effective September 2, 1997, the Company hereby incorporates the information formerly included in Form SR for the period ended December 31, 1998.

(1) File Number and Effective date of Registration Statement:
- o April 25, 1996

Commission File Number:
- o 333-1866-LA

(2) Date offering commenced:
- o April 25, 1996

(3) If offering terminated before any securities were sold, an explanation for such termination:
- o N/A

(4) If offering did not terminate before any securities were sold, discuss:

<TABLE>
<C> <S> <C>

(i) Whether the offering has terminated and, if so, whether it terminated before the sale of all securities registered: o The offering terminated after the sale of all securities registered.

(ii) The name(s) of the managing underwriter(s), if any:
- o Meridian Capital Group, Inc.

(iii) The title of each class of securities registered:
- o Common Stock, $.01 par value

(iv) On account of the issuer:

Amount registered:
- o 1,210,000 shares

Aggregate price of offering amount registered:
- o $6,503,750

Amount sold:
- o 1,210,000 shares

Aggregate offering price of amount sold to date:
- o $6,503,750

On account of any Selling Security Holder(s):

Amount registered:
- o 32,850 shares

Aggregate offering price of amount registered:
- o $176,569

Amount sold:
- o 32,850 shares

Aggregate offering price of amount sold:
- o $176,569

| | | |
|---|---|---|
| (v) | Direct or indirect payments to directors, officers, general partners of the issuer or their associates; to persons owning 10% or more of any class of equity securities of the issuer and to affiliates of the issuer. (X if estimate) | Direct or indirect payments to others (X if estimate) |

</TABLE>





<TABLE>

| <S> | <C> |
|---|---|
| Underwriters discounts and commissions | 650,375 |
| Finders' Fees | |
| Expenses paid to or for the Underwriters | 195,113 |
| Other Expenses | 504,788 |
| Total Expenses | 1,350,276 |

</TABLE>

(vi) Net offering proceeds to issuer after deducting the total expenses described in Subsection (v) above:

o $5,153,474

(vii) Use of Proceeds:

<TABLE>
<CAPTION>

| | Direct or indirect payments to directors, officers, general partners of the issuer or their associates; to persons owning 10% or more of any class of equity securities of the issuer and to affiliates of the issuer. (X if estimate) | Direct or indirect payments to others (X if estimate) | Total |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Repayment of Indebtedness | 123,572 | 1,500,000 | 1,623,572 |
| Working Capital | | 1,061,269 | 1,060,869 |
| Repayment of Interest on Indebtedness | 836,428 | | 836,428 |
| Investments: | | | |
| Short Term CD's | | 1,500,000 | 1,500,000 |
| Other Cash and Cash Equivalents | | 132,605 | 132,605 |
| | | | 5,153,474 |

</TABLE>

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read together with the financial statements and notes thereto included elsewhere in this Annual Report on Form 10-KSB.

OVERVIEW

The Company designs, develops, assembles, markets and sells machines for the diagnosis, maintenance and repair of internal combustion engine fuel and transmission systems primarily for the automotive after-market repair and service industry. The Company markets and sells its fuel system cleaning and transmission machines and detergents through various distribution channels, both in the United States and Canada ("Domestic"), primarily under the trade name MotorVac, and outside the United States and Canada ("International") under the trade name CarbonClean.

The Company elected to change its fiscal year end to December 31 from March 31, effective with the fiscal year ended December 31, 1995. The following discussion and analysis addresses the results of the Company's operations for the twelve months ended December 31, 1998, as compared to the Company's results of operations for the twelve months ended December 31, 1997, except as otherwise noted. On May 1, 1996, the Company consummated an initial public offering (the "IPO") of 1,100,000 shares of its common stock, resulting in gross proceeds of approximately $5,912,500. On June 13, 1996, the Company completed the sale of an additional 110,000 shares of its Common Stock





upon exercise of the underwriter's overallotment option (the "Overallotment"), resulting in gross proceeds to the Company of approximately $591,250.

This Annual Report on Form 10-KSB contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), and the Company intends that such forward-looking statements be subject to the safe harbors created thereby. The Company may experience significant fluctuations in future operating results due to a number of factors, including, among other things, the size and timing of customer orders, new or increased competition, new product introductions, delays in new product enhancements, quality control difficulties, changes in market demand, market acceptance of new products, product returns, seasonality in product purchases by distributors and end users, changes in inventory levels, and pricing trends in the automotive after-market industry in general, and in the specific markets in which the Company is active. Any of these factors could cause operating results to vary significantly from prior periods. Significant variability in orders during any period may have a material adverse impact on the Company's cash flow or work flow, and any significant decrease in orders could have a material adverse impact on the Company's results of operations and financial condition. As a result, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance. Fluctuations in the Company's operating results could cause the price of the Company's Common Stock to fluctuate substantially.

Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions, all of which are difficult or impossible to predict accurately, and many of which are beyond the control of the Company. In addition, the business and operations of the Company are subject to substantial risks which increase the uncertainty inherent in the forward-looking statements, including, but not limited to, those set forth under "Risk Factors" contained in this Annual Report on Form 10-KSB and the Company's other periodic filings with the Commission. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved.

RESULTS OF OPERATIONS

The results of operations for the years ended December 31, 1998 and 1997 were as follows:

| | Year Ended 12/31/98 | Year Ended 12/31/97 |
|---|---|---|
| NET SALES | $ 10,017,020 | $ 9,875,739 |
| COST OF SALES | 5,548,288 | 5,618,286 |
| GROSS PROFIT | 4,468,732 | 4,257,453 |
| OPERATING EXPENSES | 4,905,145 | 3,983,205 |
| (LOSS) INCOME FROM OPERATIONS | (436,413) | 274,248 |
| INTEREST INCOME, NET | (56,504) | (41,696) |
| (LOSS) INCOME BEFORE PROVISION FOR INCOME TAXES | (379,909) | 315,944 |
| PROVISION FOR INCOME TAXES | 5,558 | 4,136 |
| NET (LOSS) INCOME | $ (385,467) | $ 311,808 |

COMPARISON OF TWELVE MONTHS ENDED DECEMBER 31, 1998 TO THE TWELVE MONTHS ENDED DECEMBER 31, 1997

Net Sales. Net sales for the year ended December 31, 1998 of $10,017,020 increased $141,281(approximately 1%) from $9,875,739 for the year ended December 31, 1997. The primary reason for the sales increase was TRANSTECH(R) machines and detergents; these increases were partially offset by declines in gas and diesel machine sales.





Cost of Sales. Cost of sales for the year ended December 31, 1998 decreased by $69,998 (approximately 1%) to $5,548,288 from $5,618,286 for the year ended December 31, 1997. Cost of sales as a percent of net sales, for the year ended December 31, 1998, was 55% versus 57% of net sales for the year ended December 31, 1997. The primary reason for the slight cost of sales decrease as a percent of sales was that detergent sales, which have a lower cost as a percentage of net sales, made up a higher proportion of total net sales in 1998 compared to 1997.

Operating Expenses. Operating expenses for the year ended December 31, 1998 of $4,905,145 increased $921,940 (approximately 23%) from $3,983,205 for the year ended December 31, 1997. The major reasons for the increase were a litigation settlement of approximately $344,000, offsetting 1997 expenses, selling expenses of approximately $213,000 for the new Automotive Solutions division initiated in 1998, and approximately $184,000 in advertising cost increases including approximately $84,000 for independent testing to validate the successful performance of the Company's diesel machine.

(Loss) Income from Operations. As a result of the above, the loss from operations for the year ended December 31, 1998 of $436,413 decreased by $710,661 from operating income of $274,248 for the year ended December 31, 1997.

LIQUIDITY AND CAPITAL RESOURCES

For the Twelve Months Ended December 31, 1998

Cash at December 31, 1998 was $1,632,605. Cash of $421,284 was generated by operating activities for the year ended December 31, 1998. Cash flow used in financing activities for the year was $349,646, and cash used for investing activities was $104,153. The net result was a decrease in cash of $32,515 from the year earlier. Working capital, at $3,486,973, decreased by $177,760 from 1997, and the current ratio increased to 4.7:1 from 3.7:1 in 1997.

The Company maintains a $1,500,000 revolving line of credit expiring March 31, 1999 at the bank's prime rate. The line is secured by a certificate of deposit of $1,500,000 expiring the same date. At December 31, 1998, there were no borrowings under the line. There are no financial covenants in the line of credit.

INFORMATION SYSTEMS AND THE YEAR 2000

The Company has made an assessment of the ability of its primary information systems to properly utilize dates beyond year 1999. The results of this review indicate these systems are Year 2000 Compliant, and that no material system design or correction effort will be required.

The developer of the primary accounting and business software the Company uses has stated that the subject system and software are Year 2000 Compliant. Notwithstanding this representation, the Company plans, by the end of the Second Quarter of 1999, to run appropriate live-system testing to confirm compliance. Diagnostic tests have already been performed on the key system modules; the primary modules tested positive. Certain secondary modules that were deficient can be remedied with standard software additions at modest cost. The Company has also tested its desktop computer environment and related network structure. These tests have identified certain routine upgrades which will achieve compliance, and the Company is proceeding to implement the upgrades. Because the accounting software system is so widely used, the Company, at this time, does not anticipate any significant problems in being compliant with respect to its systems, nor will it require significant expenditures to effect compliance.

The Company has contacted its major vendors and customers to assure that their systems are Year 2000 compliant. These parties have responded that they all intend to be Year 2000 Compliant. There is no assurance that any of these parties will not have compliance problems. The Company has one customer that represents 73% of its sales for 1998 and has several key vendors whose source and supply may not be easily replaced. A Year 2000 Compliance problem incurred by this customer or key vendors could have a materially adverse effect on the Company's business.





The Company is using several software/systems third-party advisors who are experienced in Y2K compliance issues. To perform remaining tests and add hardware where necessary, the Company estimates expenditures will not exceed $25,000.

STOCK REPURCHASE PROGRAM

On September 24, 1998, the Board of Directors announced approval of the repurchase and cancellation of up to 451,492 shares of its Common Stock, which, at that time, constituted approximately 10% of the Company's outstanding shares. New shares of Common Stock will be reserved for issuance under a stock compensation plan pursuant to which participating directors may elect to receive shares of Common Stock of the Company in lieu of such directors' annual retainer and meeting attendance fees, and for an employee stock purchase plan for participating employees and officers of the Company. Stock purchases under the repurchase program commenced October 2, 1998, and through December 31, 1998, an aggregate of 61,000 shares of Common Stock have been repurchased for aggregate consideration of $56,375.

ITEM 7. FINANCIAL STATEMENTS.

The information required by this item is included in Pages F-1 through F-13 attached hereto and incorporated herein by reference.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES.

None.

PART III

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

The information required by this item is incorporated herein by reference from Issuer's Definitive Proxy Statement to be filed with the Commission pursuant to Regulation 14A in connection with the Issuer's 1999 Annual Meeting of Stockholders (the "Proxy Statement") under the headings "Proposal 1--Election of Directors," "Section 16(A), Beneficial Ownership Reporting Compliance" and "Additional Information--Management."

ITEM 10. EXECUTIVE COMPENSATION.

The information required by this item is incorporated herein by reference from Issuer's Proxy Statement under the heading "Executive Compensation."

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this item is incorporated herein by reference from Issuer's Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management."





ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this item is incorporated herein by reference from Issuer's Proxy Statement under the heading "Certain Transactions."

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

(a) See Exhibit Index below.

(b) The Company did not file any reports on Form 8-K during the quarter ended December 31, 1998.





MOTORVAC TECHNOLOGIES, INC.

EXHIBIT INDEX TO FORM 10-KSB

FOR THE YEAR ENDED DECEMBER 31, 1998

<TABLE>
<CAPTION>

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 3.1 (1) | Amended and Restated Certificate of Incorporation. |
| 3.2 (1) | Third Amended and Restated Bylaws, as amended. |
| 4.1 | Reference is made to Exhibits 3.1 and 3.2. |
| 4.2 (1) | Specimen Stock Certificate. |
| 10.1 (1) | Letter Agreement dated February 12, 1996, by and among the Registrant, Enviromotive, Inc. and International Turbo Center, Inc. |
| 10.2 (1)+ | 1996 Stock Incentive Award Plan of Registrant. |
| 10.3 (1)+ | Form of 1996 Director Nonqualified Stock Option Agreement. |
| 10.4 (1)+ | Form of 1996 Employee Nonqualified Stock Option Agreement. |
| 10.5 (1)+ | 1996 Director Stock Plan of Registrant. |
| 10.6 (1)+ | Amended and Restated Employment Agreement dated March 21, 1996, between the Registrant and Allan T. Maguire. |
| 10.7 (1) | Form of Consent to Amendment of Registration Rights Agreement and Stock Purchase Warrant and Waiver of Notice entered into between the Registrant and each of the holders of Stock Purchase Warrants to purchase Series B Preferred Stock. |
| 10.8 (2) | Products Distribution Agreement dated May 1, 1996, by and between the Registrant and Sun Electric De Mexico, S.A. De C.V. |
| 10.9 (1) | Transfer Agreement dated October 23, 1995, by and between CarbonClean International Ltd. and the Registrant. |
| 10.10 (1) | Transfer Agreement dated October 23, 1995, by and between MIML and the Registrant. |
| 10.11 | (1) Amended and Restated Secured Subordinated Promissory Note dated December 31, 1995 in the original principal amount of $1,040,000 payable by the Registrant in favor of The WH & NC Eighteen Corporation. |
| 10.12 (1) | Security Agreement dated August 3, 1995, by and between the Registrant and The WH & NC Eighteen Corporation. |
| 10.13 (3) | First Amendment to Purchase Agreement dated September 30, 1996, by and among the Registrant, International Turbo Center, Inc., and Enviromotive, Inc. |
| 10.14 (5) | Products Distribution Agreement dated December 1, 1996, by and between the Registrant and Snap-on Tools Japan K.K. |

</TABLE>





<TABLE>

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|---|---|
| 10.15 (5) | Products Distribution Agreement dated January 6, 1997, by and between the Registrant and China Motor-Vehicle Safety Appraisal and Inspection Center. |
| 10.16 (1) | Products Distribution Agreement dated January 27, 1995, by and between the Registrant and DeCarbon Pty. Ltd. |
| 10.17 (1) | Supplier Purchase Agreement dated April 10, 1995, by and between the Registrant and Snap-on Incorporated. |
| 10.18 (1) | Exclusive Distribution Agreement dated April 10, 1995, by and between the Registrant and Snap-on Incorporated. |
| 10.19 (1) | Products Distribution Agreement dated November 16, 1995, by and between the Registrant and Automotive Diagnostics. |
| 10.20 (1) | Letter Agreement dated February 12, 1996, by and among the Registrant, Enviromotive, Inc., and International Turbo Center, Inc. |
| 10.21 (1) | Standard Industrial Lease--Multi-Tenant dated November 29, 1995, by and between Northern McFadden |

| | |
|---|---|
| | Limited Partnership, an Illinois limited partnership, and the Registrant. |
| 10.22 (4) | Products Distribution Agreement dated March 28, 1996, by and between the Registrant and Cameo (QLD) Pty. Ltd. |
| 10.23 (1)+ | Employment Agreement dated October 24, 1994, by and between the Registrant and Lee William Melody, as amended as of November 3, 1995. |
| 10.24 (1) | Employment Agreement dated as of November 20, 1995 by and between the Registrant and Michael G. Arkell. |
| 10.25 (1) | Offer Letter to Michael G. Hosch dated December 16, 1992, from the Registrant, as amended by Memorandum dated March 21, 1995. |
| 10.26 (1) | Form of Indemnity Agreement entered into with each of the Registrant's officers and directors. |
| 10.27 (1) | Amendment to Stockholders Voting Agreement dated March 8, 1996, by and among the Registrant, Erin Mills International Investment Corporation, George H. David and Robert G. Reese. |
| 10.28 (1) | Purchase Agreement dated February 22, 1996, but made effective as of December 31, 1995, by and among the Registrant, International Turbo Center, Inc. and Enviromotive, Inc. |
| 10.29 (1) | MotorVac Technologies, Inc. Cash Bonus Plan. |
| 10.30 (1) | Letter Agreement dated April 5, 1996, between the Registrant and Shrader Packaging Co., Inc. amending the Exclusive Supply Agreement and granting a right of first refusal to the Registrant. |
| 10.31 (5) | Settlement Agreement and Mutual Release dated January 6, 1997, by and between the Registrant, DeCarbon Australia Pty. Ltd., Carbon Clean Corporation Pty. Ltd., Carbon Tune Pty. Ltd., Chris Somas, Roydn Sweet and Jim Litis (collectively "DeCarbon"). |
| 10.32 (5) | First Amendment and Modification to Settlement Agreement and Mutual Release, by and between the Registrant and DeCarbon, dated January 4, 1997. |
| 10.33 (5) | Second Amendment and Modification to Settlement Agreement and Mutual Release, by and between the Registrant and DeCarbon, dated January 7, 1997. |

</TABLE>





<TABLE>

| <C> | <S> |
|---|---|
| 10.34 (5) | Letter Agreement confirming settlement between the Registrant and Lee W. Melody on the one hand, and Robert L. Fisher and ETCO on the other hand, dated March 14, 1997. |
| 10.35 (3) | Letter Agreement dated September 15, 1996, by and between the Registrant and Automotive Diagnostics canceling the Products Distribution Agreement dated November 16, 1995, along with the Product Labeling Agreement. |
| 10.36 (3) | Products Distribution Agreement dated September 15, 1996, by and between the Registrant and Cartek International, Inc. |
| 10.37 (1) | Letter Agreement dated as of December 31, 1995, between the Registrant and EMIIC amending certain promissory notes and waiving certain defaults thereunder. |
| 10.38 (5) | Settlement Agreement and Mutual Release dated March 27, 1997, by and between Lee W. Melody and the Registrant on the one side, and Robert L. Fisher and ETCO on the other. |
| 10.39 (6) | Employment Agreement dated as of November 13, 1997, by and between the Registrant and David P. Nelson. |
| 10.40 (6) | Termination Agreement dated as of September 26, 1997, by and between the Registrant and Allan T. Maguire. |
| 10.41 (7)+ | First Amendment to 1996 Stock Incentive Award Plan of Registrant. |
| 10.42 (7)+ | First Amendment to Form of 1996 Director Non-Qualified Stock Option Agreement. |
| 10.43 (7)+ | First Amendment to Form of 1996 Employee Non-Qualified Stock Option Agreement. |
| 10.44 (7)+ | 1998 Employee Stock Purchase Plan and related offering document. |
| 10.45 (7)+ | 1998 Stock Compensation Plan. |
| 11.1 | Statement of Calculation of Net Loss Per Share and Supplementary Net Loss Per Share. |
| 24.1 | Power of Attorney. Reference is made to page 25. |

| | |
|---|---|
| 27.1 | Financial Data Schedule in accordance with Article 5 of Regulation S-X. |
| 27.2 (6) | Financial Data Schedule in accordance with Article 5 of Regulation S-X, restated for year-end 1996 and quarters ended June 30, 1996 and September 30, 1996. |
| 27.3 (6) | Financial Data Schedule in accordance with Article 5 of Regulation S-X, restated for quarters ended March 31, 1997, June 30, 1997 and September 30, 1997. |

</TABLE>

------------

(1) Previously filed as an exhibit to the Registration Statement on Form SB-2, as amended (No. 333-1866-LA), and incorporated herein by reference.

(2) Previously filed as an exhibit to the Form 10-QSB for the period ended March 31, 1996, and incorporated herein by reference.

(3) Previously filed as an exhibit to the Form 10-QSB for the period ended September 30, 1996, and incorporated herein by reference.





(4) Previously filed as an exhibit to the Form 10-QSB for the period ended June 30, 1996, and incorporated herein by reference.

(5) Previously filed as an exhibit to Form 10-KSB for the year ended December 31, 1996, and incorporated herein by reference.

(6) Previously filed as an exhibit to Form 10-KSB for the year ended December 31, 1997, and incorporated herein by reference.

(7) Previously filed as an exhibit to Form S-8 dated December 28, 1998, and incorporated herein by reference.

\+ Indicates a management contract or compensatory plan or arrangement.

## SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MotorVac Technologies, Inc.

Date: March 26, 1999 By: /s/ Lee W. Melody

Lee W. Melody
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 26, 1999 By: /s/ David P. Nelson

David P. Nelson
Vice President of Finance, Chief Financial Officer, Treasurer and Secretary
(Principal Accounting Officer)

## POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Lee W. Melody his attorney-in-fact, with the power of substitution, for him, in any and all capacities, to sign any amendments to this report, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and conforming all that the attorney-in-fact, or his substitute, may do or cause to be done by virtue hereof.

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| Signature | Title | Date |
|---|---|---|
| /s/ Ronald J. Monark<br>Ronald J. Monark | Chairman of the Board, Director | March 26, 1999 |
| /s/ Lee W. Melody<br>Lee W. Melody | President and Chief Executive Officer, Director | March 26, 1999 |
| /s/ David P. Nelson<br>David P. Nelson | Vice President of Finance, Chief Financial Officer, Treasurer and Secretary | March 26, 1999 |
| /s/ Stephen L. Greaves<br>Stephen L. Greaves | Director | March 26, 1999 |
| /s/ Grant Ferrier<br>Grant Ferrier | Director | March 26, 1999 |
| /s/ Gerald C. Quinn<br>Gerald C. Quinn | Director | March 26, 1999 |
| /s/ Daniel P. Whelan<br>Daniel P. Whelan | Director | March 26, 1999 |





INDEX TO FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
MotorVac Technologies, Inc.:

We have audited the accompanying balance sheets of MotorVac Technologies, Inc. (the "Company") as of December 31, 1998 and 1997, and the related statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of MotorVac Technologies, Inc. as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Costa Mesa, California
March 2, 1999





MOTORVAC TECHNOLOGIES, INC.

BALANCE SHEETS

<TABLE>
<CAPTION>

| <S> | DECEMBER 31, 1998 <C> | DECEMBER 31, 1997 <C> |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents (Note 6) | $ 1,632,605 | $ 1,665,120 |
| Accounts Receivable, net of allowance for doubtful accounts of $84,662 (1998) and $43,542 (1997) | 866,357 | 1,763,212 |
| Inventories, net of reserve of $63,099 (1998) and $69,610 (1997) (Note 3) | 1,667,333 | 1,197,544 |
| Other Current Assets - including deposits with vendors of $196,030 (1998), and $133,565 (1997) | 275,245 | 394,100 |
| Total Current Assets | 4,441,540 | 5,019,976 |
| PROPERTY AND EQUIPMENT, net (Note 4) | 242,666 | 231,928 |
| INTANGIBLE ASSETS, net of accumulated amortization of $1,185,155 (1998) and $867,064 (1997) (Note 2) | 639,288 | 957,379 |
| OTHER ASSETS | 17,227 | 17,227 |
| | $ 5,340,721 | $ 6,226,510 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts Payable and Other Current Liabilities (Note 5) | $ 954,567 | $ 1,105,243 |
| Short-term note payable to bank (Note 6) | | 250,000 |
| Total Current Liabilities | 954,567 | 1,355,243 |
| COMMITMENTS AND CONTINGENCIES (Note 7) | | |
| STOCKHOLDERS' EQUITY (Notes 1, 10 and 11): | | |
| Common Stock, $.01 par value; 10,000,000 shares authorized; 4,453,918 issued and outstanding | 44,539 | 45,149 |
| Additional paid-in capital | 16,467,788 | 16,523,553 |
| Employee Stock Loans | (78,432) | (35,161) |
| Accumulated Deficit | (12,047,741) | (11,662,274) |
| Total Stockholders' Equity | 4,386,154 | 4,871,267 |
| | $ 5,340,721 | $ 6,226,510 |

</TABLE>

(See Accompanying Notes to Financial Statements)



MOTORVAC TECHNOLOGIES, INC.

Statements of Operations

<TABLE>
<CAPTION>

| <S> | YEAR ENDED DECEMBER 31, 1998 <C> | YEAR ENDED DECEMBER 31, 1997 <C> |
|---|---|---|
| NET SALES (Note 12) | $ 10,017,020 | $ 9,875,739 |
| COST OF SALES | 5,548,288 | 5,618,286 |
| GROSS PROFIT | 4,468,732 | 4,257,453 |
| OPERATING EXPENSES (Note 7) | 4,905,145 | 3,983,205 |
| (LOSS) INCOME FROM OPERATIONS | (436,413) | 274,248 |
| INTEREST INCOME, NET | (56,504) | (41,696) |
| (LOSS) INCOME BEFORE PROVISION FOR INCOME TAXES | (379,909) | 315,944 |
| PROVISION FOR INCOME TAXES (Note 8) | 5,558 | 4,136 |
| NET (LOSS) INCOME | $ (385,467) | $ 311,808 |
| BASIC (LOSS) EARNINGS PER SHARE | $ (0.09) | $ 0.07 |
| WEIGHTED AVERAGE SHARES USED TO CALCULATE BASIC (LOSS) EARNINGS PER SHARE | 4,503,285 | 4,514,918 |
| DILUTED (LOSS) EARNINGS PER SHARE | $ (0.09) | $ 0.07 |
| WEIGHTED AVERAGE SHARES USED TO CALCULATE DILUTED (LOSS) EARNINGS PER SHARE | 4,503,285 | 4,514,918 |

</TABLE>

(See Accompanying Notes to Financial Statements)



MOTORVAC TECHNOLOGIES, INC.

Statements of Stockholders' Equity

<TABLE>

<CAPTION>

| | COMMON STOCK | | ADDITIONAL | EMPLOYEE | | |
|---|---|---|---|---|---|---|
| | SHARES | AMOUNT | PAID-IN CAPITAL | STOCK LOANS | ACCUMULATED DEFICIT | TOTAL |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| BALANCE, January 1, 1997 | 4,514,918 | $45,149 | $16,523,553 | $ | $(11,974,082) | $4,594,620 |
| Net Income | | | | | 311,808 | 311,808 |
| Employee Stock Loans | | | | (35,161) | | (35,161) |
| BALANCE, December 31, 1997 | 4,514,918 | 45,149 | 16,523,553 | (35,161) | (11,662,274) | 4,871,267 |
| Net Loss | | | | | (385,467) | (385,467) |
| Employee Stock Loans | | | | (43,271) | | (43,271) |
| Shares Repurchased under Plan | (61,000) | (610) | (55,765) | | | (56,375) |
| BALANCE, December 31, 1998 | 4,453,918 | $44,539 | $16,467,788 | $ (78,432) | $(12,047,741) | $4,386,154 |

</TABLE>

(See Accompanying Notes to Financial Statements)





MOTORVAC TECHNOLOGIES, INC.

Statements of Cash Flows

<TABLE>
<CAPTION>

| | YEAR ENDED DECEMBER 31, 1998 | YEAR ENDED DECEMBER 31, 1997 |
|---|---|---|
| <S> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (Loss)Income | $ (385,467) | $ 311,808 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation and amortization | 411,506 | 463,776 |
| Net change in operating assets and liabilities: | | |
| Accounts receivable | 896,855 | (543,183) |
| Inventories | (469,789) | (32,133) |
| Other Current Assets | 118,855 | 65,365 |
| Accounts payable and other current liabilities | (150,676) | 210,631 |
| Net cash provided by operating activities | 421,284 | 476,264 |
| CASH FLOWS FROM INVESTING ACTIVITY - | | |
| Purchase of property and equipment | (104,153) | (85,972) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repurchase of Common Stock | (56,375) | |
| Advances to key employees for stock purchases | (43,271) | (35,161) |
| Repayment of notes payable to bank | (250,000) | (1,250,000) |
| Net cash used in financing activities | (349,646) | (1,285,161) |
| NET DECREASE IN CASH | (32,515) | (894,869) |
| CASH AND CASH EQUIVALENTS, beginning of year | 1,665,120 | 2,559,989 |
| CASH AND CASH EQUIVALENTS, end of year | $ 1,632,605 | $ 1,665,120 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Interest paid | $ 20,897 | $ 62,338 |
| Income taxes paid | $ 5,132 | $ 1,309 |

</TABLE>

(See Accompanying Notes to Financial Statements)

MOTORVAC TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997
(Continued)

1. GENERAL

Incorporation - MotorVac Technologies, Inc. (the "Company") was incorporated under the general corporation law of the State of Delaware on June 19, 1992 as CarbonClean Corporation ("CCC"). On March 12, 1993, CCC changed the name of the corporation to MotorVac Technologies, Inc.

Line of Business - The Company designs, develops, assembles, markets and sells the MotorVac CarbonClean System, the TransTech System and proprietary detergent primarily to the automotive after-market industry through various distribution channels both in the U.S. and Canada under the trade name MotorVac, and outside the U.S. and Canada under the trade name CarbonClean.

Fiscal Year - The Company's year-end for financial reporting and income tax purposes is December 31.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition - The Company recognizes revenue when products are shipped.

Concentration of Credit Risk - The Company's revenues are generated primarily from credit sales. The Company performs ongoing credit evaluations of its customers and maintains reserves for potential credit losses. The Company does not require collateral for its receivables.

Significant Supplier - The Company currently relies on a supplier as a sole source of the Company's gasoline and diesel engine detergents under the terms of an exclusive supply contract. The Company considers its detergents to be a critical proprietary asset. The loss of the supplier of the proprietary product or an inability to obtain detergent from the supplier for any significant period of time could have a material adverse effect on results of operations.

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

Inventories - Inventories are stated at the lower of cost, determined by the first-in, first-out (FIFO) method, or market.

Basic and Diluted (Loss) Earnings Per Common Share - The Company adopted Statement of Financial Accounting Standard (SFAS) No. 128, "Earnings per Share," for the year ended 1997. Basic (loss) earnings per common share is computed as net (loss) income divided by the weighted average number of common shares outstanding during the period. Diluted net (loss) earnings per common share is computed as net income divided by the weighted average number of common shares and potential common shares, using the treasury stock method, outstanding during the period. Common stock equivalents are excluded from the (loss) earnings per share calculation when the effect would be anti-dilutive.

Depreciation and Amortization - Depreciation and amortization are provided using the straight-line method over the following estimated useful lives:

<TABLE>

| | |
|---|---|
| Computer equipment and software | 5 years |
| Machinery and equipment | 5 years |
| Furniture and fixtures | 5 years |
| Leasehold improvements | Lesser of life of lease or 5 years |





Intangible Assets - Intangible assets, consisting of organization costs and a covenant not-to-compete, are stated at cost and amortized using the straight-line method over the lesser of five years or the useful life of the asset. The Company has certain patents, trademarks and other rights that are amortized using the straight-line method over five years or 3% of net sales, if greater in any year. The recoverability of intangibles is measured based on gross profit margin on the sale of related products and is evaluated annually.

Income Taxes - The Company provides for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 is an asset and liability approach that requires the recognition of deferred tax assets (if realizable) and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of changes in the tax law or rates. In the event the future consequences of differences between financial reporting bases and the tax bases of the Company's assets and liabilities result in a deferred tax asset, SFAS No. 109 requires an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

3. INVENTORIES

Inventories, which include materials, supplies, labor and manufacturing overhead, are summarized as follows:

| | 1998 | 1997 |
|---|---|---|
| Materials and supplies | $ 878,548 | $ 755,079 |
| Work in process | 45,731 | 17,069 |
| Finished product | 806,153 | 495,006 |
| Reserve | (63,099) | (69,610) |
| | $ 1,667,333 | $ 1,197,544 |

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | 1998 | 1997 |
|---|---|---|
| Computer equipment and software | $ 260,171 | $ 241,232 |
| Machinery and equipment | 304,042 | 226,826 |
| Furniture and fixtures | 172,879 | 164,881 |

| | | |
|---|---|---|
| Leasehold improvements | 2,434 | 2,434 |
| | 739,526 | 635,373 |
| Less accumulated depreciation and amortization | (496,860) | (403,445) |
| | $ 242,666 | $ 231,928 |

</TABLE>





MOTORVAC TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997
(Continued)

5. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

Accounts payable and other current liabilities consist of the following:

<TABLE>
<CAPTION>

| <S> | 1998 <C> | 1997 <C> |
|---|---|---|
| Accounts payable | $ 643,365 | $ 818,955 |
| Other current liabilities | 311,202 | 286,288 |
| | $ 954,567 | $1,105,243 |

</TABLE>

6. SHORT-TERM NOTE PAYABLE TO BANK

Short-term note payable consists of a note payable to Imperial Bank. The note is collateralized by a $1,500,000 certificate of deposit on deposit with the bank. Interest is payable monthly at prime (7.75% at December 31, 1998). Principal is due March 31, 1999. No borrowings were outstanding as of December 31, 1998.

7. COMMITMENTS AND CONTINGENCIES

Leases - The Company leases an office and manufacturing facility under an operating lease.

Future minimum annual payments on the noncancelable facility lease are as follows:

<TABLE>

| <S> | <C> |
|---|---|
| Year ending December 31: | |
| 1999 | $ 175,131 |
| 2000 | 187,986 |
| 2001 | 195,277 |
| 2002 | 199,932 |
| 2003 | 16,690 |
| | $ 775,016 |

</TABLE>

Under the lease agreement, the Company is required to pay various expenses including maintenance, insurance, utility costs and property taxes. Rental expense amounted to $177,686 and $136,326 for the years ended December 31, 1998 and 1997, respectively.

Employment Contracts - The Company has entered into employment contracts with four officers of the Company. Such contracts provide for minimum annual salaries aggregating $495,000 at December 31, 1998. The contracts have one-year or multiple-year automatic renewals based on the Company's failing to give "Notice of Non-Renewal" sixty (60) days before the expiration of such contracts. In the event of termination of a contract by the Company without cause, the Company would be required to pay continuing salary payments for specified periods in accordance with the contracts.

Litigation Recovery - During the year ended December 31, 1997, the Company received a litigation settlement and insurance reimbursements totaling $344,000 relating to a lawsuit between itself and DeCarbon Australia Pty. Ltd., et al., that was settled in the Company's favor. These amounts are recorded as an offset to operating expenses in the accompanying financial statements.





8. INCOME TAXES

The components of the provision for income tax expense are as follows:

<TABLE>
<CAPTION>

| <S> | 1998 <C> | 1997 <C> |
|---|---|---|
| Current: | | |
| Federal | $ -- | $2,571 |
| State | 5,558 | 1,565 |
| | 5,558 | 4,136 |
| Deferred: | | |
| Federal | -- | -- |
| State | -- | -- |
| Total | $5,558 | $4,136 |

</TABLE>

Taxes on income vary from the statutory Federal income rate applied to earnings before taxes on income taxes as follows:

<TABLE>
<CAPTION>

| <S> | 1998 <C> | 1997 <C> |
|---|---|---|
| Statutory federal income tax rate (35%) applied to earnings before income taxes | $(132,968) | $ 110,581 |
| State income taxes, net of federal benefits | 1,079 | 16,682 |
| Change in valuation allowances | 119,970 | (124,614) |
| Effects of lower federal income tax rate | 3,799 | (3,159) |
| Miscellaneous permanent items | 9,758 | 21,413 |
| Other | 3,920 | (16,767) |
| | $ 5,558 | $ 4,136 |

</TABLE>

Deferred income tax assets and liabilities arising from differences between accounting for financial statement purposes and tax purposes, less valuation reserves are as follows:

<TABLE>
<CAPTION>

| <S> | 1998 <C> | 1997 <C> |
|---|---|---|
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ 3,251,709 | $ 3,214,019 |

| | | |
|---|---|---|
| Capitalized costs | 421,600 | 419,122 |
| Accruals and reserves | 162,267 | 103,747 |
| Property and equipment | 39,365 | 42,399 |
| Other | 556 | 4,613 |
| Total deferred tax assets | 3,875,497 | 3,783,900 |
| Less valuation allowance | (3,870,125) | (3,750,155) |
| Deferred tax assets, net | 5,372 | 33,745 |
| Deferred tax liabilities | (5,372) | (33,745) |
| Net deferred tax asset (liability) | $ -- | $ -- |

</TABLE>





The Company has fully reserved for net deferred tax assets whose realization depends on future taxable income. The valuation allowance increased by $119,970 during 1998 and decreased by $124,614 during 1997.

As of December 31, 1998, the Company has tax net operating loss carryforwards available to offset taxable income of approximately $9,207,380 and $3,322,166 for federal and state purposes, respectively. The federal and state net operating loss carryforwards begin expiring in 2007 and 1999, respectively. The Company also has federal and California research and development credit carryovers of approximately $41,000 and $18,000, respectively, which begin expiring in 2007.

Pursuant to Section 382 of the Internal Revenue Code, use of the Company's net operating loss and credit carryforwards may be limited if the Company experiences a cumulative change in ownership of greater than 50% in a moving three-year period. Ownership changes could impact the Company's ability to utilize net operating losses and credit carryforwards remaining at the ownership change date. The limitation will generally be determined by the fair market value of common stock outstanding prior to the ownership change, multiplied by the applicable federal rate.

9. NOTES RECEIVABLE FROM COMPANY EXECUTIVES

In 1997 and 1998, the Company executed notes receivable from five of its top executives in the principal amount of $78,432. The proceeds were used by the executives to purchase shares of Company common stock on the open market. The notes, which carry an interest rate of 5.69%, are due the earlier of three years from date of advance or the date the executive terminates for any reason. The notes are collateralized by the shares purchased. The notes receivable are treated as a contra-equity account in the accompanying balance sheet.

10. STOCK PURCHASE PLAN

On September 24, 1998, the Board of Directors announced approval of the repurchase and cancellation of up to 451,492 shares of its Common Stock, which, at that time, constituted approximately 10% of the Company's outstanding shares. New shares of Common Stock will be reserved for issuance under a stock compensation plan pursuant to which participating directors may elect to receive shares of Common Stock of the Company in lieu of such directors' annual retainer and meeting attendance fees, and for an employee stock purchase plan for participating employees and officers of the Company. Stock purchases under the repurchase program commenced October 2, 1998, and through December 31, 1998, an aggregate of 61,000 shares of Common Stock have been repurchased for aggregate consideration of $56,375.

11. STOCK INCENTIVE AWARD PLAN

In 1994, the Company adopted the 1994 Stock Incentive Award Plan (the "1994 Plan"). The Company has reserved an aggregate of 126,400 shares of common stock for issuance under the 1994 Plan. All options were granted at fair market value at the date of grant. On February 9, 1996, the Company's Board of Directors approved the 1996 Stock Incentive Award Plan (the "Incentive Plan") and the 1996 Director Stock Plan (the "Director Plan"). These plans provide for the Company to issue options to purchase up to 325,000 and 50,000 shares, respectively, of the Company's Common Stock at fair market value on the date of grant. All options granted have been granted in accordance with the provisions of the 1994 Plan and the Incentive Plan. Provisions of the plans call for options to be granted at the estimated fair market value which is generally the average of the bid and ask price on the date of the grant. As of December 31, 1998, options representing 203,498 shares were exercisable.





Stock option activity for the years ended December 31, 1998 and 1997 is as follows:

<TABLE>
<CAPTION>

| <S> | NUMBER OF SHARES <C> | PRICE PER SHARE <C> |
|---|---|---|
| BALANCE, January 1, 1997 | 396,440 | \$5.10 to \$6.13 |
| Granted | 28,176 | \$2.81 to \$4.69 |
| Options lapsed | (67,046) | \$5.10 to \$5.38 |
| BALANCE, December 31, 1997 | 357,570 | \$2.81 to \$6.13 |
| Granted | 66,500 | \$0.75 to \$1.88 |
| Options lapsed | (11,061) | \$5.10 to \$5.38 |
| BALANCE, December 31, 1998 | 413,009 | \$0.75 to \$6.13 |

</TABLE>

The Company continues to account for its stock-based awards using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and its related interpretations. No compensation expense has been recognized in the financial statements for employee stock arrangements.

SFAS No. 123, Accounting for Stock-Based Compensation, requires the disclosure of pro forma net income and earnings per share had the Company adopted the fair value method as of the beginning of fiscal 1995. Under SFAS No. 123, the fair value of stock-based awards to employees is calculated through the use of option-pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The Company's calculations were made using the Black-Scholes option-pricing model with the following weighted average assumptions: expected life, 120 months following grant (except for approximately 44 months on 13,930 shares); stock volatility, 77% in 1998, 47% to 69% in 1997; risk-free interest rate 5.5% to 5.6% in 1998, 6.2% to 6.7% in 1997; and no dividends during the expected term. Forfeitures are recognized as they occur. If the computed fair values of the 1998, 1997 and 1996 awards had been amortized to expense over the vesting period of the awards, pro forma net loss would have been $512,316 ($.11 per share) in 1998, and net income would have been $208,516 ($0.05 net income per share) in 1997. However, the impact of outstanding stock options granted prior to 1995 has been excluded from the pro forma calculation; accordingly, the 1997 and 1998 pro forma adjustments are not indicative of future period pro forma adjustments, when the calculation will apply to all applicable stock options.

The weighted average remaining contractual life and weighted average exercise price are 6.7 years and $4.71, respectively. The weighted average fair value of options granted during the years ended December 31, 1998 and December 31, 1997 was $1.63 and $2.76, respectively.





MOTORVAC TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997
(Continued)

12. CONCENTRATION OF NET SALES

Approximately 73% and 72% of the Company's net sales were made to one customer during the years ended December 31, 1998 and 1997, respectively. A decision by this customer to decrease the amount purchased from the Company or to cease distributing the Company's products could have a material adverse effect on the Company's financial conditions and results of operations.

The Company sells its products through distributors in the domestic (defined as U.S. and Canada) and the international marketplace. The Company sells three types of products (% of sales for 1998 and 1997 indicated): vehicle engine decarbonizing machines (44% and 72%), detergent for use in the decarbonizing machines (21% and 17%), and vehicle transmission flush machines (29% and 3%); an additional 6% and 8% of sales is for machine parts. The sales process is structured geographically between domestic and international. All machine products are produced at, or distributed from, the same plant. The Company's major customers typically purchase all three product types. The Company uses information based on products and geographic location; however, the business activities are managed as a single segment. For the years ended December 31, 1998 and 1997, net sales by region were as follows:

<TABLE>
<CAPTION>

| <S> | YEAR ENDED DECEMBER 31, 1998 <C> | YEAR ENDED DECEMBER 31, 1997 <C> |
|---|---|---|
| North America | $ 8,210,703 | $ 7,293,614 |
| South and Central America | 132,850 | 505,193 |
| Europe | 338,170 | 272,796 |
| Middle East and Africa | 348,273 | 24,008 |
| Asia | 987,024 | 1,780,128 |
| | $10,017,020 | $ 9,875,739 |

</TABLE>





EXHIBIT INDEX

<TABLE>
<CAPTION>
EXHIBIT

| NUMBER | DESCRIPTION |
|---|---|
| <C> | <S> |
| 3.1 (1) | Amended and Restated Certificate of Incorporation. |
| 3.2 (1) | Third Amended and Restated Bylaws, as amended. |
| 4.1 | Reference is made to Exhibits 3.1 and 3.2. |
| 4.2 (1) | Specimen Stock Certificate. |
| 10.1 (1) | Letter Agreement dated February 12, 1996, by and among the Registrant, Enviromotive, Inc. and International Turbo Center, Inc. |
| 10.2 (1)+ | 1996 Stock Incentive Award Plan of Registrant. |
| 10.3 (1)+ | Form of 1996 Director Nonqualified Stock Option Agreement. |
| 10.4 (1)+ | Form of 1996 Employee Nonqualified Stock Option Agreement. |
| 10.5 (1)+ | 1996 Director Stock Plan of Registrant. |
| 10.6 (1)+ | Amended and Restated Employment Agreement dated March 21, 1996, between the Registrant and Allan T. Maguire. |
| 10.7 (1) | Form of Consent to Amendment of Registration Rights Agreement and Stock Purchase Warrant and Waiver of Notice entered into between the Registrant and each of the holders of Stock Purchase Warrants to purchase Series B Preferred Stock. |
| 10.8 (2) | Products Distribution Agreement dated May 1, 1996, by and between the Registrant and Sun Electric De Mexico, S.A. De C.V. |
| 10.9 (1) | Transfer Agreement dated October 23, 1995, by and between CarbonClean International Ltd. and the Registrant. |
| 10.10 (1) | Transfer Agreement dated October 23, 1995, by and between MIML and the Registrant. |
| 10.11 | (1) Amended and Restated Secured Subordinated Promissory Note dated December 31, 1995 in the original principal amount of $1,040,000 payable by the Registrant in favor of The WH & NC Eighteen Corporation. |
| 10.12 (1) | Security Agreement dated August 3, 1995, by and between the Registrant and The WH & NC Eighteen Corporation. |
| 10.13 (3) | First Amendment to Purchase Agreement dated September 30, 1996, by and among the Registrant, International Turbo Center, Inc., and Enviromotive, Inc. |
| 10.14 (5) | Products Distribution Agreement dated December 1, 1996, by and between the Registrant and Snap-on Tools Japan K.K. |

</TABLE>





<TABLE>

| | |
|---|---|
| <C> | <S> |
| 10.15 (5) | Products Distribution Agreement dated January 6, 1997, by and between the Registrant and China Motor-Vehicle Safety Appraisal and Inspection Center. |
| 10.16 (1) | Products Distribution Agreement dated January 27, 1995, by and between the Registrant and DeCarbon Pty. Ltd. |
| 10.17 (1) | Supplier Purchase Agreement dated April 10, 1995, by and between the Registrant and Snap-on Incorporated. |
| 10.18 (1) | Exclusive Distribution Agreement dated April 10, 1995, by and between the Registrant and Snap-on Incorporated. |
| 10.19 (1) | Products Distribution Agreement dated November 16, 1995, by and between the Registrant and Automotive Diagnostics. |
| 10.20 (1) | Letter Agreement dated February 12, 1996, by and among the Registrant, Enviromotive, Inc., and International Turbo Center, Inc. |
| 10.21 (1) | Standard Industrial Lease--Multi-Tenant dated November 29, 1995, by and between Northern McFadden Limited Partnership, an Illinois limited partnership, and the Registrant. |
| 10.22 (4) | Products Distribution Agreement dated March 28, 1996, by and between the Registrant and Cameo (QLD) Pty. Ltd. |

| | |
|---|---|
| 10.23 (1)+ | Employment Agreement dated October 24, 1994, by and between the Registrant and Lee William Melody, as amended as of November 3, 1995. |
| 10.24 (1) | Employment Agreement dated as of November 20, 1995 by and between the Registrant and Michael G. Arkell. |
| 10.25 (1) | Offer Letter to Michael G. Hosch dated December 16, 1992, from the Registrant, as amended by Memorandum dated March 21, 1995. |
| 10.26 (1) | Form of Indemnity Agreement entered into with each of the Registrant's officers and directors. |
| 10.27 (1) | Amendment to Stockholders Voting Agreement dated March 8, 1996, by and among the Registrant, Erin Mills International Investment Corporation, George H. David and Robert G. Reese. |
| 10.28 (1) | Purchase Agreement dated February 22, 1996, but made effective as of December 31, 1995, by and among the Registrant, International Turbo Center, Inc. and Enviromotive, Inc. |
| 10.29 (1) | MotorVac Technologies, Inc. Cash Bonus Plan. |
| 10.30 (1) | Letter Agreement dated April 5, 1996, between the Registrant and Shrader Packaging Co., Inc. amending the Exclusive Supply Agreement and granting a right of first refusal to the Registrant. |
| 10.31 (5) | Settlement Agreement and Mutual Release dated January 6, 1997, by and between the Registrant, DeCarbon Australia Pty. Ltd., Carbon Clean Corporation Pty. Ltd., Carbon Tune Pty. Ltd., Chris Somas, Roydn Sweet and Jim Litis (collectively "DeCarbon"). |
| 10.32 (5) | First Amendment and Modification to Settlement Agreement and Mutual Release, by and between the Registrant and DeCarbon, dated January 4, 1997. |
| 10.33 (5) | Second Amendment and Modification to Settlement Agreement and Mutual Release, by and between the Registrant and DeCarbon, dated January 7, 1997. |

</TABLE>



<TABLE>

| <C> | <S> |
|---|---|
| 10.34 (5) | Letter Agreement confirming settlement between the Registrant and Lee W. Melody on the one hand, and Robert L. Fisher and ETCO on the other hand, dated March 14, 1997. |
| 10.35 (3) | Letter Agreement dated September 15, 1996, by and between the Registrant and Automotive Diagnostics canceling the Products Distribution Agreement dated November 16, 1995, along with the Product Labeling Agreement. |
| 10.36 (3) | Products Distribution Agreement dated September 15, 1996, by and between the Registrant and Cartek International, Inc. |
| 10.37 (1) | Letter Agreement dated as of December 31, 1995, between the Registrant and EMIIC amending certain promissory notes and waiving certain defaults thereunder. |
| 10.38 (5) | Settlement Agreement and Mutual Release dated March 27, 1997, by and between Lee W. Melody and the Registrant on the one side, and Robert L. Fisher and ETCO on the other. |
| 10.39 (6) | Employment Agreement dated as of November 13, 1997, by and between the Registrant and David P. Nelson. |
| 10.40 (6) | Termination Agreement dated as of September 26, 1997, by and between the Registrant and Allan T. Maguire. |
| 10.41 (7)+ | First Amendment to 1996 Stock Incentive Award Plan of Registrant. |
| 10.42 (7)+ | First Amendment to Form of 1996 Director Non-Qualified Stock Option Agreement. |
| 10.43 (7)+ | First Amendment to Form of 1996 Employee Non-Qualified Stock Option Agreement. |
| 10.44 (7)+ | 1998 Employee Stock Purchase Plan and related offering document. |
| 10.45 (7)+ | 1998 Stock Compensation Plan. |
| 11.1 | Statement of Calculation of Net Loss Per Share and Supplementary Net Loss Per Share. |
| 24.1 | Power of Attorney. Reference is made to page 25. |
| 27.1 | Financial Data Schedule in accordance with Article 5 of Regulation S-X. |
| 27.2 (6) | Financial Data Schedule in accordance with Article 5 of Regulation S-X, restated for year-end 1996 and quarters ended June 30, 1996 and September 30, 1996. |
| 27.3 (6) | Financial Data Schedule in accordance with Article 5 of Regulation S-X, restated for quarters ended March |

31, 1997, June 30, 1997 and September 30, 1997.

</TABLE>

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(1) Previously filed as an exhibit to the Registration Statement on Form SB-2, as amended (No. 333-1866-LA), and incorporated herein by reference.

(2) Previously filed as an exhibit to the Form 10-QSB for the period ended March 31, 1996, and incorporated herein by reference.

(3) Previously filed as an exhibit to the Form 10-QSB for the period ended September 30, 1996, and incorporated herein by reference.

(4) Previously filed as an exhibit to the Form 10-QSB for the period ended June 30, 1996, and incorporated herein by reference.

(5) Previously filed as an exhibit to Form 10-KSB for the year ended December 31, 1996, and incorporated herein by reference.

(6) Previously filed as an exhibit to Form 10-KSB for the year ended December 31, 1997, and incorporated herein by reference.

(7) Previously filed as an exhibit to Form S-8 dated December 28, 1998, and incorporated herein by reference.

\+ Indicates a management contract or compensatory plan or arrangement.

EXHIBIT 11.1

MOTORVAC TECHNOLOGIES, INC.

Calculation of Net Income (Loss) Per Share
For the Years Ended
Dec. 31, 1998 and 1997

| | Year Ended December 31, 1998 | Year Ended December 31, 1997 |
|---|---|---|
| Net (Loss) Income | $ (385,467) | $ 311,808 |
| Basic Net (Loss) Income Per Share: | | |
| Weighted Average Outstanding Common Shares | 4,503,285 | 4,514,918 |
| Basic Net (Loss) Income Per Share: | $ (0.09) | $ 0.07 |
| Diluted Net (Loss) Income Per Share: | | |
| Weighted Average Outstanding Common Shares | 4,503,285 | 4,514,918 |
| Incremental shares, assuming exercise of option grants outstanding at December 31, 1998 and December 31, 1997 (eliminated of dilutive to EPS) | -- | -- |
| Weighted Average Outstanding Common and Common | | |
| Equivalent Shares | 4,503,285 | 4,514,918 |
| Diluted Net (Loss) Income Per Share | $ (0.09) | $ 0.07 |

<TABLE> <S> <C>

<ARTICLE> 5
<LEGEND>
THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF MOTORVAC TECHNOLOGIES, INC. FOR THE YEAR ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
</LEGEND>

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| <PERIOD-END> | DEC-31-1998 |
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| <CGS> | 5,548,288 |
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| <EXTRAORDINARY> | 0 |
| <CHANGES> | 0 |
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| <EPS-DILUTED> | (0.09) |

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