Ethos Environmental, Inc.
Form 10QSB/A
November 19, 2007

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

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**FORM 10 – QSB/A**
**Amendment No. 1**

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[mark one]

x QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the quarterly period ended: March 31, 2007**

o TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

**Commission File Number 000-30237**

_____

**Ethos Environmental, Inc.**
(Exact name of registrant as specified in its charter)

| Nevada | 88-0467241 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification Number) |

**6800 Gateway Park**
**San Diego, CA 92154**
*(Address of principal executive offices including zip code)*

**(619) 575-6800**
(*Registrant's telephone number, including area code)*

Paracorp Incorporated
318 N. Carson Street, Suite 208, Carson City, NV 89701
(Name and address of agent for service)

888-972-7273
(Telephone Number, including area code, of agent for service)

with a copy to:
SteadyLaw Group, LLP
501 W. Broadway, Suite 800
San Diego, CA 92101
Telephone (619) 399-3090
Telecopier (619) 330-1888

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

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

Number of shares outstanding of the issuer's common stock as of the latest practicable date: 23,809,187 shares of common stock, $.001 par value per share, as of May 10, 2007.

Transitional Small Business Disclosure Format (check one): Yes o No x

**EXPLANATORY NOTE:**

This Form 10-QSB/A is being filed to restate the Registrant's Financial Statements in accordance with the Form 8-K filed on November 8, 2007. Additional changes include a more thorough discussion regarding the Registrant's business description and the Management Discussion & Analysis.

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**Quarterly Report on FORM 10-QSB For The Period Ended**

**March 31, 2007**

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**Ethos Environmental, Inc.**

**PART I. FINANCIAL INFORMATION**



**PART II. OTHER INFORMATION**

**PART I.**
**Item 1. FINANCIAL STATEMENTS**

**ETHOS ENVIRONMENTAL, INC.**
**BALANCE SHEET**
**(Unaudited)**

| | March 31, 2007 (Restated) |
|---|---|
| **ASSETS** | |
| **CURRENT ASSETS:** | |
| **Cash** | $ 47,719 |
| **Restricted Cash** | 300,000 |
| **Accounts Receivable (Net of allowance for doubtful accounts )** | 2,687,809 |
| **Inventory** | 445,735 |
| **Other Current Assets** | 40,000 |
| **Total Current Assets** | 3,521,263 |
| **Property and Equipment, Net** | 5,864,116 |
| **Other Assets** | 270,475 |
| **Total Assets** | $ 9,655,854 |

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES:

| | |
|---|---|
| **CURRENT LIABILITIES:** | |
| **Accounts Payable** | $ 1,289,150 |
| **Accrued Expenses** | 143,258 |
| **Notes Payable** | 5,250,000 |
| **Note Payable Related Party** | 30,124 |
| **Total Current Liabilities** | 6,712,532 |
| **SHAREHOLDERS' EQUITY:** | |
| **Common Stock, $.0001 par value; 100,000,000 shares authorized; 23,575,687 issued and outstanding** | 2,358 |
| **Additional Paid-in Capital** | 13,731,948 |
| **Accumulated Deficit** | (10,790,984) |
| **Total Shareholders' Equity** | 2,943,322 |
| **Total Liabilities and Shareholders' Equity** | $ 9,655,854 |

See notes to financial statements.

**ETHOS ENVIRONMENTAL, INC.**
**STATEMENTS OF OPERATIONS**
**(Unaudited)**
**For the Three Months Ended March 31, 2007 and 2006**

| | 2007 (Restated) | 2006 |
|---|---|---|
| **Revenue** | $ 2,697,133 | $ 1,318,925 |
| **Cost of Sales** | 924,725 | 231,063 |
| **Gross Profit** | 1,772,408 | 1,087,862 |
| | | |
| **Operating Expenses:** | | |
| **Depreciation (other than in Cost of Sales, above)** | 4,993 | |
| **Selling Expenses** | 131,340 | 125,001 |
| **General & Administrative (See Note 1)** | 2,513,895 | 264,828 |
| **Total Operating Expenses** | 2,650,228 | 389,829 |
| **Operating Income (Loss)** | (877,820) | 698,033 |
| **Other Income (Expense)** | | |
| **Interest Expense** | (177,660) | 0 |
| **Gain on sale of assets** | 131,073 | 0 |
| **Net (Loss) Income** | $ (924,407) | $ 698,033 |
| **Net Income per Common Share (basic)** | $ (0.04) | $ 0.62 |
| **Net Income per Common Share (fully diluted)** | $ (0.04) | $ 0.62 |
| **Weighted average shares used in per share calculation (basic)** | 23,378,487 | 305,382 |
| **Weighted average shares used in per share calculation (fully diluted)** | 25,278,487 | 305,382 |

See notes to financial statements.

**ETHOS ENVIRONMENTAL, INC.**
**STATEMENTS OF STOCKHOLDERS' EQUITY**
**(Unaudited)**
**For the Three Months Ended March 31, 2007**

| | Common Stock | | Additional | | |
|---|---|---|---|---|---|
| | Number of Shares | Amount | Paid-in Capital | Accumulated Deficit | Total |
| **Balance at December 31, 2006** | 23,107,687 | $2,311 | $11,560,535 | ($9,866,577) | $1,696,269 |
| **Common stock issued for services (See Note 1) (restated)** | 368,000 | 37 | 1,671,423 | | 1,671,460 |
| **Common Stock Issued to Employee (See Note 1) (restated)** | 100,000 | 10 | 499,990 | | 500,000 |
| **Net Loss (restated)** | | | | (924,407) | (924,407) |
| **Balance March 31, 2007 (restated)** | 23,575,687 | $ 2,358 | $13,731,948 | ($10,790,984) | $2,943,322 |

See notes to financial statements.

**ETHOS ENVIRONMENTAL, INC.**
**STATEMENTS OF CASH FLOWS**
**(Unaudited)**
**For the Three Months Ended March 31, 2007 and 2006**

| | 2007 (Restated) | 2006 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| **Net (Loss) Income** | $ (924,407) | $ 698,033 |
| **Adjustments to reconcile Net (Loss) Income to Net Cash provided by (used by) operating activities:** | | |
| **Gain on sale of assets** | (131,073) | 0 |
| **Depreciation** | 64,411 | 20,300 |
| **Common Stock Issued for Services (See Note 1)** | 2,171,460 | 0 |
| **Changes in operating assets and liabilities** | | |
| **Assets:** | | |
| **Accounts Receivable** | (2,360,485) | (605,963) |
| **Inventory** | (34,820) | 204,835 |
| **Other Assets** | (20,100) | (2,000) |
| **Liabilities:** | | |
| **Accounts Payable & Accrued Expenses** | 802,693 | 33,554 |
| **Net cash (used by) provided by Operating Activities** | (432,321) | 348,759 |
| **INVESTING ACTIVITIES** | | |
| **Purchase of Property & Equipment** | (33,543) | (5,198,691) |
| Net cash (used) by Investing Activities | (33,543) | (5,198,691) |
| **FINANCING ACTIVITIES** | | |
| **Proceeds from sale and leaseback** | 386,411 | 0 |
| **Proceeds from Note Payable** | 82,181 | 4,750,000 |
| **Payments on ~~to~~ Note Payable, Related Party** | (19,876) | 0 |
| **Net cash provided by Financing Activities** | 448,716 | 4,750,000 |
| **Net cash (decrease) increase for period** | (17,148) | (99,932) |
| **Cash at beginning of period** | 64,867 | 498,498 |
| **Cash at end of period** | **$47,719** | **$398,566** |
| **SUPPLEMENTAL NON CASH INVESTING AND FINANCING ACTIVITIES:** | | |
| **Value of equipment sold then leased back** | | 602,472 |

See notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS**
**Three months ended March 31, 2007**

**Note 1. Organization and Significant Accounting Policies**

**Organization**

Ethos Environmental, Inc. ("the Company") manufactures and distributes fuel reformulating products that increase fuel mileage, reduce emissions, and maintain lower fuel costs. The Company is based in Southern California and sells its product, primarily in the United States, Latin America, Europe, Africa, Australia and Asia.

**Acquisition**

On April 20, 2006, Victor Industries, Inc., with the approval of its Board of Directors, executed an Agreement and Plan of Merger with San Diego, CA based Ethos Environmental, Inc., a Nevada corporation.

At a meeting of shareholders of the Company held on October 30, 2006, a majority of shareholders voted in favor of the merger. On November 2, 2006, the merger was consummated. As part of the merger, the Company re-domiciled to Nevada, and changed its name to Ethos Environmental, Inc. In addition thereto, and as part of the merger, the Company set a record date of November 16, 2006 for a reverse stock split of 1 for 1,200. All of the per share data in these financial statements are presented on a post-split basis.

The merger provided for a business combination transaction by means of a merger of Ethos with and into the Company, with the Company as the corporation surviving the merger. Accordingly, the comparative information presented is that of Ethos Environmental, Inc.

The statements presented at December 31, 2006 were consolidated. Effective January, 2007, the wholly-owned subsidiary was distributed to a third party for no value, and so there remains no subsidiary of the Company. The statements for 2007 and forward are therefore not presented on a consolidated basis.

**Going Concern**

The Company has incurred significant losses from operations in the last two years. The Company's ability to continue as a going concern is in doubt and is dependent upon obtaining additional financing and/or achieving a sustainable profitable level of operations. The net loss incurred at December 31, 2006 and at March 31, 2007 is mainly due to non-cash transactions for issuance of stock for services. For the year ended December 31, 2006, the non-cash transactions totaled $7,580,990 against a total reported loss of $6,490,113. For the quarter ended March 31, 2007, the non-cash transactions totaled $2,171,460 against a reported loss of $924,407.

Management of the Company has undertaken steps as part of a plan with the goal of sustaining the Company operations for the next twelve months and beyond. These steps include: (a) attempting to raise additional capital and/or other forms of financing; (b) controlling overhead and operating expenses; and (c) continuing to increase the sales of its fuel reformulating product. There can be no assurance that any of these efforts will be successful.

**Interim Disclosure**

The interim period financial statements have been prepared by the Company pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such SEC rules and regulations. The interim period financial

statements should be read together with the audited consolidated financial statements and accompanying notes for the years ended December 31, 2006 and 2005, included in the Company's annual reports on Form 10-KSB. In the opinion of the Company, the unaudited financial statements contained herein contain all adjustments necessary (consisting of a normal recurring nature) to present a fair statement of the results of the interim periods presented.

The results of operations for the three months ended March 31, 2007, are not necessarily indicative of the results to be expected for the entire year ending December 31, 2007.

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**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

**Revenue Recognition**

Revenue from the sale of fuel reformulating products is recorded when the product is shipped, the price is fixed and determinable, collection is reasonably assured, and no further obligations of the Company remain.

Two customers accounted for 96% of accounts receivables at March 31, 2007, and 96% of revenue for the quarter ended March 31, 2007.

**Stock Based Compensation**

The Company accounts for stock based awards in accordance with SFAS No. 123(R) "share-based payment", which requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. The fair value of stock options is determined using the Black-Scholes valuation model, which is consistent with the Company's valuation techniques previously utilized for options in footnote disclosures required under SFAS No. 123, "Accounting for Stock Based Compensation", as amended by SFAS No. 148, "Accounting for Stock Based Compensation Transition and Disclosure".

During the three months ended March 31, 2007, the company issued 468,000 shares of common stock. Of this total, 368,000 shares of common stock were issued for services, and 100,000 shares were issued in compliance with the Employment Agreement of Thomas W. Maher, Chief Financial Officer. The Employment Agreement, was filed along with ~~on~~ Form 8-K submitted to the SEC on December 8, 2006. These shares of stock were valued at the fair value at date of issuance for $4.54 and $5.00, respectively, and are included in general and administrative expenses.

**Earnings Per Share**

Basic earnings per share is computed by dividing the net income available to common shareholders by the weighted average number of common shares outstanding in the period. Diluted earnings per share takes into consideration common shares outstanding (computed under basic earnings per share), as well as, any potentially dilutive common shares. There were 1,900,000 dilutive securities outstanding at March 31, 2007 and none in 2006. The convertible feature of the Notes Payable is not included in the calculation of diluted earnings per share since it would not have an appreciable effect on the earnings per share.

**Note 2. Restatement of Previously Issued Financial Statements**

The Company has restated its balance sheet as of March 31, 2007, and the related statements of operations, stockholders' equity, and cash flows for the three months ended March 31, 2007. The Company has reassessed certain accounting policies and concluded certain items had been accounted for incorrectly in the past and has restated them accordingly.

The restated items are as follows:

- The Company corrected the accounting for the reverse acquisition of Victor Industries, Inc. (former name of Registrant). Since Victor Industries, Inc. was determined to meet the definition of a public shell, the transaction should be accounted for as a recapitalization. Accordingly, no goodwill or other intangible assets are recognized in conjunction with this transaction. Therefore, there was a reduction of goodwill, customer list, accumulated amortization and additional paid in capital resulting from this correction. The net effect on the statement of operations resulted in an increase to the net income for the amortization which had previously been recorded on the intangibles.
- The Company corrected the valuation of stock compensation by $2,121,460; which changed the net income to a net loss
- The Company corrected the accounting for a sale and leaseback transaction which resulted in a net increase to income of $78,357 with changes to depreciation, lease expense, and gain on sale of assets

The following table presents the effects of the restatement adjustments on net loss for the period ended March 31, 2007:

| | |
|---|---|
| Net income, as previously reported | $1,018,660 |
| Restatement adjustments: | |
| Amortization of intangibles | 100,036 |
| Stock compensation | (2,121,460) |
| Sale and leaseback transaction | 78,357 |
| Net loss, as restated | $(924,407) |

The following table presents the effects of the restatements adjustments on the Company's previously reported financial position and results of operations as of and for the three (3) months ended March 31, 2007:

| | As Previously Reported | As Restated |
|---|---|---|
| Revenue | $ 2,697,133 | $ 2,697,133 |
| Cost of sales | 865,307 | 924,725 |
| Operating expenses | 635,506 | 2,650,228 |
| Other income/expense | (177,660) | (46,587) |
| Net Income (Loss) | $ 1,018,660 | $ (924,407) |
| Net Income (Loss) per Common Share | $ 0.04 | $ (0.04) |
| Total current assets | $ 3,521,263 | $ 3,521,263 |
| Property and intangibles, net | 9,993,068 | 5,864,116 |

| | | |
|---|---|---|
| Other assets | 270,475 | 270,475 |
| Total assets | $ 13,784,806 | $ 9,655,854 |
| Total current liabilities | $ 6,685,898 | $ 6,712,532 |
| Stockholders' equity | 7,098,908 | 2,943,322 |
| Total liabilities and stockholders' equity | $ 13,784,806 | $ 9,655,854 |

**Note 3. New Accounting Pronouncements**

There were no new accounting pronouncements effective March 31, 2007 that have been issued, or would be expected to have a material impact on the Company's financial statements.

**Note 4. Subsequent Events**

**Stock Issuances**

There were 483,500 shares issued for services subsequent to the quarter ended March 31, 2007, and 250,000 shares cancelled.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS AND PLAN OF OPERATION**

*This discussion and analysis should be read in conjunction with the accompanying Financial Statements and related notes. Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent liabilities at the financial statement date and reported amounts of revenue and expenses during the reporting period. On an on-going basis we review our estimates and assumptions. Our estimates are based on our historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results are likely to differ from those estimates under different assumptions or conditions, but we do not believe such differences will materially affect our financial position or results of operations. Our critical accounting policies, the policies we believe are most important to the presentation of our financial statements and require the most difficult, subjective and complex judgments, are outlined below in ''Critical Accounting Policies,'' and have not changed significantly.*

*In addition, certain statements made in this report may constitute "forward-looking statements". These forward-looking statements involve known or unknown risks, uncertainties and other factors that may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Specifically, 1) our ability to obtain necessary regulatory approvals for our products; and 2) our ability to increase revenues and operating income, is dependent upon our ability to develop and sell our products, general economic conditions, and other factors. You can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continues" or the negative of these terms or other comparable terminology. Although we believe that the expectations reflected-in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.*

**The Company and Our Business**

Ethos Environmental, Inc. ("*Ethos"* or the *"Company")* manufactures and distributes fuel reformulating products designed to enable fuels to burn cleaner. The products developed by the Company are proprietary and, as such, protected by the Uniform Trade Secrets Act. Our products, distributed using our registered trademark, *Ethos FR®,* are comprised of a unique line of fuel reformulators that consist of a blend of high quality, non-toxic, non-petroleum based esters.

Ethos products are non-toxic, non-hazardous and work with any fuel and in both internal and external combustion engines, which includes cars, trucks, buses, RV's, ships, trains and generators. Ethos products reduce fuel costs by producing a net gain in mileage above cost. Our products contain two families of esters, a group of cleaning esters and a group of lubricating esters, both of which are combined with a mineral oil base. Our products serve to clean and lubricate the internal parts of an engine without the use of petroleum-derived products commonly found in fuel additives. The main objective is to make fuels self-cleaning and self-lubricating without increasing toxic emissions. Importantly, since moving parts function more smoothly with reduced heat and friction, less engine maintenance is required and horsepower returns closer to the manufacturer specifications. Ethos products remove carbon deposits, one of the culprits that cause fuel to combust incompletely, resulting in wasted fuel that creates toxic emissions. The combination of cleaning and lubricating esters in Ethos products serve to stabilize fuel without changing its formula or specifications.

Overall, our products make engines combust fuel more completely. When an engine uses each measure of fuel to the maximum degree possible, it has two very important benefits. First, it reduces fuel consumption and reduces non-combusted residues that an engine expels in the form of exhaust emissions, such as hydrocarbons, nitrogen oxides, carbon monoxide, particulate matter and other harmful products of combustion. Next, unused fuel is saved in

the fuel tank, waiting to be used efficiently by the engine, instead of exhausted in the form of toxic emissions. Ethos products reduce emissions without adding any of its own components to the exhaust. EPA Laboratory tests confirm that Ethos FR® is 99.99976% clean upon ignition and ashless upon combustion.

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Ethos seeks both a cleaner environment and economic success. As the name Ethos suggests, we are committed to the highest ethical standards - in the product that we sell, in the relationship with our clients, and in the conduct of our business. The Company's approach is to sales is "one gallon at a time," earning the trust and loyalty of each customer by providing products that perform as promised and make a positive difference in the world.

***Overview***

The mission of Ethos Environmental is to be recognized as the industry standard for high quality, non-toxic cleaning and lubricating products that increase fuel mileage and reduce emissions.

Ethos' customers exist everywhere that budgets are affected by the rising cost of fuel and where solutions are sought for the pervasive ills of air pollution. Our customers are motivated both by cost savings and environmental concerns, and it is our mission to provide products to meet their needs, risk free, and at an economic gain to every client.

The management of Ethos Environmental firmly believes that the market for our product is aggressively expanding. Worldwide fuel consumption is approximately 85 million barrels per day and projected by the Energy Information Administration to continue to grow to 97 million barrels per day by 2015, and 118 million barrels per day by 2030. Much of the dramatic growth over the past decade has been fueled by the dramatic expansion of India, China and Brazil. As additional undeveloped countries begin to expand, so too will fuel consumption and the Company's market base. In addition, consumers are becoming more sensitive to increased fuel economy as oil prices have increased eight times since the late 1990s.

It is our goal to continue to aggressively build on our success in the domestic and international markets, offering the benefits of our products to companies and countries around the world. During 2006, our revenue base increased by 168% over 2005. Since 2004, the company has increased its revenue base by 450%, and by 573% since 2003.

The company's management is directed to continued growth with its attention focused on comparative savings in marketing and production costs. Our attention going forward is to increase market awareness of our name and the benefits provided by our product line.

During 2007, the company will be directing concerted focus to full compliance with Sarbanes-Oxley requirements, as revised in Audit Standard No. 5 for small businesses, in implementing Section 404(a) of the Act.

***Business Summary***

The mission of Ethos Environmental is to be recognized as the industry standard for high quality, non-toxic cleaning and lubricating products that increase fuel mileage and reduce these ecologically damaging emissions from vehicles, and at a price everyone can afford. The goal of the company is to make the world a better place, "one gallon at a time". According to the Environmental Protection Agency (EPA), "The burning of fuels releases carbon dioxide ($CO_2$) into the atmosphere and contributes to climate change [Global Warming], but these emissions can be reduced by improving your car's fuel efficiency." Air pollution caused by cars, trucks and other vehicles burning petroleum-based fuels is one of the most harmful and ubiquitous environmental problems. Furthermore, local accumulation in heavy traffic is the greatest source of community ambient exposure, largely because carbon monoxide is formed by incomplete combustion of carbon containing fuels.

Ethos Environmental manufactures and distributes a unique line of fuel reformulators that contain a blend of low and high molecular weight esters. The product adds cleaning and lubrication qualities to any type of fuel or motor oil. The overall benefits are increased fuel mileage, reduced emissions and reduced maintenance costs as the product allows engines to perform cooler, smoother and with more vigor.

***Esters***

In the simplest terms, esters can be defined as the reaction products of acids and alcohols. Thousands of different kinds of esters are commercially produced for a broad range of applications. Within the realm of synthetic lubrication, a relatively small substantial family of esters have been found to be very useful in severe environment applications.

Esters lubricants have already captured certain niches in the industrial market such as reciprocating air compressors and high temperature industrial oven chain lubricants. When one focuses on high temperature extremes and their telltale signs such as smoking, wear, and deposits, the potential applications for the problem solving ester lubricants are virtually endless.

In many ways esters are very similar to the more commonly known and used synthetic hydrocarbons or PAOs. Like PAOs, esters are synthesized form relatively pure and simple starting materials to produce predetermined molecular structures designed specifically for high performance lubrication. Both types of synthetic base stocks are primarily branched hydrocarbons which are thermally and oxidatively stable, have high viscosity indices, and lack the undesirable and unstable impurities found in conventional petroleum based oils. The primary structural difference between esters and PAOs is the presence of multiple ester linkages (COOR) in esters which impart polarity to the molecules. This polarity affects the way esters behave as lubricants in the following ways:

**Volatility**: The polarity of the ester molecules causes them to be attracted to one another and this intermolecular attraction requires more energy (heat) for the esters to transfer from a liquid to a gaseous state. Therefore, at a given molecular weight or viscosity, the esters will exhibit a lower vapor pressure which translates into a higher flash point and a lower rate of evaporation for the lubricant. Generally speaking, the more ester linkages in a specific ester the higher its flash point and the lower its volatility.

**Lubricity**: Polarity also causes the ester molecules to be attracted to positively charged metal surfaces. As a result, the molecules tend to line up on the metal surface creating a film which requires additional energy (load) to penetrate. The result is a stronger film which translates into higher lubricity and lower energy consumption on lubricant applications.

**Detergency/Dispersency**: The polar nature of esters also makes them good solvents and dispersants. This allows the esters to solubilize or disperse oil degradation by-products which might otherwise be deposited as varnish or sludge, and translates into cleaner operation and improved additive solubility in the final lubricant.

**Biodegradability**: While stable against oxidative and thermal breakdown, the ester linkage provides a vulnerable site for microbes to begin their work of biodegrading the ester molecule. This translates into very high biodegradability rates for ester lubricants and allows more environmentally friendly products to be formulated.

Ethos Environmental manufactures and distributes Ethos FR, a unique combination of high-quality, non-toxic, specially designed esters that uses only the elements of carbon, hydrogen and oxygen. It significantly reduces emissions, fuel consumption, and engine maintenance costs. Ethos FR provides an immediate, cost-effective strategy for fighting air pollution caused by fossil fuels and the internal combustion engine. This combination of low molecular cleaning esters and the high molecular lubricating esters, reformulates any fuel whether it’s gasoline, diesel, methanol, ethanol, LNG, compressed natural gas or bio-diesel. When blended with fuels, Ethos FR reduces the emissions of hydrocarbons (HC), nitrogen oxides (NOx), carbon monoxide (CO), particulate matter (PM) and other harmful products of combustion. Yet, the emission of O2 is significantly increased. An EPA registered laboratory, confirms that Ethos FR is 99.99976% clean upon ignition and ashless upon combustion. Ethos FR is free of carcinogens.

Ethos FR is a light colored, multi-functional fuel reformulator. It is designed for use in all fuels to increase power and mileage, dissolve gums and varnishes, lubricate upper cylinder components and keep the entire fuel system clean and highly lubricated. It is recommended for use at 1 part in 1280, which is equal to 1 fluid ounce of Ethos FR per 10 gallons of fuel.

**Typical Specifications**

| Tests | Results |
|---|---|
| Viscosity @ 37.8º C,CS | 10.39 |
| Viscosity @ 100º F, SSU | 60.2 |
| Specific Gravity @ 15.6/15.6ºC | 0.93 |
| API Gravity, Degrees | 26.6 |
| Flash Point, COC, ºC (ºF) | 149ºC (300ºF) |
| Color and Appearance | Light, bright and clear |
| Sediment | None |

Ethos Environmental offers a cost-effective solution to relieve skyrocketing fuel prices and help lessen environmental regulatory pressures. Ethos products address one problem that has two side effects, wasted fuel and air pollution. Fuel burns inefficiently in an internal combustion engine and that inefficiency leads to wasted fuel transformed into toxic emissions. Ethos products make fuel burn more efficiently so it significantly improves both of the aforementioned adverse effects. Most important, the use of Ethos results in fuel cost savings to the customer.

**Fuel and Maintenance Costs Savings:**

• Increases Miles-Per-Gallon between 7% and 19% Fleet-Wide
• Enhances Engine Performance by Reducing Heat Produced by Friction

**Fines and Downtime are Reduced Due To Air Pollution:**

• Reduces Toxic Emissions By 30% or More
• Free Of Carcinogens
• Non-Toxic & Non-Hazardous
• Not a Petrochemical
• 99.99976% Ashless upon Combustion

**Repairs:**

• Improves Combustion
• Cleans Fuel System
• Lubricates Moving Components
• Extends Engine Life by Reducing Friction

***How Do Ethos Products Work?***

Ethos products reformulate any fuel, resulting in two important benefits. The first benefit is the added lubricity to the engine. The second is adding cleansing properties to the fuel. All of the internal components benefit from the cleansing and lubricating action including the fuel lines, filters, carburetors, spark plugs and injectors. Ethos also conditions the engine seals, keeping them tighter for a longer period of time. A cleaner, more lubricated engine runs smoother, requires less maintenance and reduces engine heat significantly, thereby returning horsepower closer to the manufacturer's specifications. Ethos removes carbon deposits that cause fuel to combust incompletely, resulting in wasted fuel that creates toxic emissions. The combination of cleaning and lubricating esters in our products stabilize

the fuel without changing its specifications.

In Ethos FR®, for example, a group of low molecular weight esters clean the dirty deposits formed by fuels and the combustion process. These deposits lower performance of an engine making it less fuel-efficient. Causing it to exhaust raw fuel, which is the primary contributor to pollution. A group of high molecular weight esters lubricate the engine surfaces as the fuel runs through it. Their molecular structure is small enough to penetrate the metal and form a lubricating layer between surfaces. This process allows the moving components of an engine to operate smoother and with less power-robbing friction and heat.

The primary task for the Company is to distinguish itself as an industry leader in the reduction of fuel costs and emission problems at a profit gain to the commercial user. Part of the challenge before us is to differentiate Ethos products from two types of products in this industry, additives - that are purported to increase fuel mileage and oxygenates - which are mandated to lower emissions. Both additives and oxygenates provide short-term benefits at the price of long-term engine or environmental problems.

Additives contain highly refined petrochemicals or compressed hydrocarbons that promise better fuel mileage and sometimes lower emissions, by “cleaning” the engine. Used mainly by individual consumers, they are expensive and commonly sold at the auto parts and retail stores. More than five thousand EPA-registered fuel additives compete in the retail market and although the EPA requires that such products be registered, that registration constitutes neither endorsement nor validation of the product’s claims.

Oxygenates, such as methyl tertiary butyl ether (MTBE) and Ethanol, are intended to lower emissions by adding oxygen to the fuel. Ethos FR® products actually complement federally mandated oxygenates by lowering emissions, but as mentioned earlier, Ethos FR® is not an oxygenate and cannot be used for the purpose of complying with current language federal legislation.

In contrast, Ethos products have cleaning properties that contribute to the lubrication of the engine instead of destroying it. The ester-based formula dissolves the gums and residues and adds important lubrication that an engine needs. The engine stays clean and lubricated, allowing it to run smoothly and efficiently.

Both E85 and biodiesel, such as B5, are alternative measures currently being considered for use by the federal government. However, these alternative measures rely entirely on agricultural resources such as corn, barley, wheat and vegetable oils. Realistically, the agricultural sector of the economy cannot hope to produce sufficient quantities of these products to cause an appreciable effect on global warming. This is a problem not facing Ethos as the product is readily available and continuously produced at a lower price.

While the debate on emissions reduction solutions continues, Ethos Environmental is making a difference in cleaning the air today while reducing fuel costs to its customers. Extensive road tests with Ethos FR® have proven that commercial fleets, on average, increase fuel mileage between 7% and 19% and reduce emissions by more than 30%. Ethos FR® is non-toxic, non-hazardous and works with any fuel used in cars, trucks, buses, RV’s, ships, trains and generators.

The overall result is that Ethos FR® makes engines combust fuel more efficiently. When an engine uses each measure of fuel to the maximum degree possible, it has two very important benefits. It reduces fuel consumption and reduces non-combusted residues that an engine expels in the form of exhaust emissions such as hydrocarbons, nitrogen oxides, carbon monoxide, particulate matter and other harmful products of combustion. Unused fuel is saved in the fuel tank, waiting to be used efficiently by the engine, instead of exhausted in the form of toxic emissions. Ethos FR® reduces emissions without adding any of its own components to the exhaust since it is 99.99976% ash-less upon combustion, and free of carcinogenic compounds.

Ethos Environmental is also at the forefront in the development of new blending methods and is positioned to become an industry leader with new products currently under development.

***Our Corporate History***

We were originally incorporated under the laws of the State of Idaho on January 19, 1926 under the name of Omo Mining and Leasing Corporation. The Company was renamed Omo Mines Corporation on January 19, 1929. The name was changed again on November 14, 1936 to Kaslo Mines Corporation and finally Victor Industries, Inc. on December 24, 1977.

As Victor Industries, Inc., the Company developed, manufactured, and marketed products related to the use of the mineral known as zeolite. Zeolites have the unique distinction of being nature's only negatively charged mineral. Zeolites are useful for metal and toxic chemical absorbents, water softeners, gas absorbents, radiation absorbents and soil and fertilizer amendments.

***Reverse Acquisition of Ethos***

On November 2, 2006, as part of a two-step reverse merger, the Company merged with and into Victor Nevada, Inc. a newly incorporated entity for the purpose of redomiciling under the laws of the State of Nevada. Concurrently therewith, we completed the merger transaction with Ethos Environmental, Inc., a privately held Nevada corporation "Ethos". The Company was the surviving entity. To more adequately reflect the new direction of the Company, the name was changed to Ethos Environmental, Inc. and the Company adopted the business plan of Ethos.

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**Acquisition**

On April 20, 2006, Victor Industries, Inc., with the approval of its Board of Directors, executed an Agreement and Plan of Merger with San Diego, CA based Ethos Environmental, Inc., a Nevada corporation.

At a meeting of the shareholders of the Company held on October 30, 2006, a majority of shareholders voted in favor of the merger. On November 2, 2006, the merger was consummated. As part of the merger, the Company redomiciled to Nevada, and changed its name to Ethos Environmental, Inc. In addition thereto, and as part of the merger, the Company set a record date of November 16, 2006 for a reverse stock split of 1 for 1,200.

The merger provides for a business combination transaction by means of a merger of Ethos with and into the Company, with the Company as the corporation surviving the merger. Under the terms of the merger, the Company acquired all issued and outstanding shares of Ethos in exchange for 17,718,187 shares of common stock of the Company. Shares of Company common stock, representing an estimated 97% of the total issued and outstanding shares of Company common stock, was issued to the Ethos stockholders. Ethos shareholders were able to exchange their shares beginning on or after November 16, 2006, the record date set for the reverse stock split.

The shares issued by the registrant (17,718,187) were revalued at the new par value of $.0001. Another adjustment to common stock and additional paid in capital was generated due to the cancellation of pre-merger shares (17,717,477). Due to the effect of the reverse merger, the Buyer's shares outstanding (479,500) were converted to common stock and the effect of the net assets acquired was adjusted to additional paid in capital. During the year, another 4,910,000 shares of common stock were issued for services based upon the price at date of issuance.

The merger was intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and no gain or loss will be recognized by the Company as a result of the merger.

The merger is accounted for under the purchase method of accounting as a reverse acquisition in accordance with U.S. generally accepted accounting principles for accounting and financial reporting purposes. Under this method of accounting, Ethos is treated as the "accounting acquirer" for financial reporting purposes. In accordance with guidance applicable to these circumstances, the merger was considered to be a capital transaction in substance. Accordingly, for accounting purposes, the merger was treated as the equivalent of Ethos issuing stock for the net monetary assets of the Company. The net monetary assets of the Company have been stated at their fair value.

In connection with the merger, Lana Pope and Dave Boulter voluntarily resigned from the board of directors of the Company on November 3, 2006.

Following such resignations, as a result of the merger, three persons became the Company's board of directors: Enrique de Vilmorin, President, Chief Executive Officer, and Director, Jose Manuel Escobedo, Director and Secretary, and Luis Willars, Director and Treasurer.

A summary of the merger follows:

- The Company was the surviving legal corporation,
- The Company acquired all issued and outstanding shares of Ethos in exchange for 17,718,187 shares of common stock of the Company. Shares of Company common stock, representing an estimated 97% of the total issued and outstanding shares of Company common stock, was issued to the Ethos stockholders,

- The shareholders of the Company received pro rata for their shares of common stock of Ethos, 17,718,187 shares of common stock of the Company in the merger, and all shares of capital stock of Ethos were cancelled,
- The officers and directors of Ethos became the officers and directors of the Company,

- The name of Victor Industries, Inc. was changed to “Ethos Environmental, Inc.”, and
- Ethos requested a new symbol for trading on the Over the Counter Bulletin Board (“OTCBB”), which also reflects the reverse stock split of 1 for 1,200, the new symbol of the Company is “ETEV.”

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Over the last decade, the unmatched value of *Ethos FR®* products has been proven through millions of miles of on-the-road testing. On average, customers have achieved a 7% to 19% increase in fuel mileage, and more than a 30% reduction in emissions.

Ethos seeks both a cleaner environment and economic success. As the name Ethos suggests, we are committed to the highest ethical standards - in the product that we sell, in the relationship with our clients, and in the conduct of our business. The Company's approach is to sell *Ethos FR®* "one gallon at a time", earning the trust and loyalty of each customer by providing products that perform as promised and make a positive difference in the world.

**Products**

Ethos manufactures a unique line of fuel reformulators that contain a blend of low and high molecular weight esters. Ethos products add cleaning and lubricating qualities to any type of fuel or motor oil, allowing engines to perform cooler, smoother and with more vigor. The overall benefits are increased fuel mileage, reduced emissions, and reduced maintenance costs.

Ethos fuel reformulating products increase fuel mileage and reduce emissions by burning fuel more completely. Exhaust is essentially unburned fuel, i.e. wasted fuel, so when that fuel is used more completely, the engine delivers better mileage from every tank. Efficient fuel use also improves engine performance due to the fact that a more complete combustion process obtains increased power from every engine revolution.

The management of Ethos Environmental firmly believes that the market for our product is aggressively expanding. Worldwide fuel consumption is approximately 85 million barrels per day and projected by the Energy Information Administration to continue to grow to 97 million barrels per day by 2015, and 118 million barrels per day by 2030. Much of the dramatic growth over the past decade has been fueled by the dramatic expansion of India, China and Brazil. As additional undeveloped countries begin to expand, so too will fuel consumption and the Company's market base. In addition, consumers are becoming more sensitive to increased fuel economy as oil prices have increased eight times since the late 1990s.

Ethos products reduce fuel emissions, benefiting the environment in two notable ways:

1. The use of Ethos products reduce engine exhaust emissions by 30% or more, including measurable reductions in the emission of hydrocarbons (HC), nitrogen oxides (Nox), and carbon monoxide (CO). All of these emissions are highly toxic and detrimental to the environment.

2. Ethos products reduce emissions of particulate matter, especially in diesel-powered engines. Diesel fuel is commonly dirty and maintaining a diesel engine in the prime condition necessary to reduce emissions is both expensive and time-consuming. As a result, diesel engines are a constant source of air contaminants. In most industrialized countries, including the U.S., diesel engines are one of the largest sources of air pollution. When Ethos products are added to diesel fuel, the engine runs cleaner, smoother and cooler - significantly reducing sooty exhaust. Engines treated with Ethos run with less friction, heat and noise. Fuel and lubricating systems, filters, tanks, and injectors last longer, reducing maintenance costs.

Ethos has two products, Ethos FR® and Ethos Bunker Fuel Conditioner ("Ethos BFC"). There are two esters used in each product, a light ester and a heavy ester. For the Ethos FR®, we obtain the esters from Hatco and Cognis. The mineral oil used in the Ethos FR® is obtained, primarily, from Chevron, and, at times, from Proctor and Gamble.

Ethos FR® can be used in any fuel. Ethos BFC is primarily used for Maritime Diesel Fuels and Power Plant Diesel Fuel, or external combustion engines. Ethos BFC uses two esters distinct from those used in the Ethos FR® as the diesel fuel used in external combustion engines is heavier and thicker than normal diesel fuel. We obtain the heavy ester for the Ethos BFC from Tekat (a Netherlands Company headquartered in the UK). The light ester is purchased

from Cognis. While there is no toxicity in the Ethos FR®, Ethos BFC has some degree of toxicity, though not much.

Ethos products provide risk-free benefits with an economic gain to the client. To date, all customers have testified, either verbally or in writing, that they experienced a monetary gain on fuel savings, with all stating that they experienced an average improvement in mileage per gallon between 7% and 19%, depending on the fuel (gasoline or diesel), the vehicle used, and the individual driver's practices and driving traits.

***Trademarks***

We own the following trademark(s) used in this document (which is registered with the United States Patent and Trademark Office under Registration Number 3,015,561): Ethos FR®. Trademark rights are perpetual provided that we continue to keep the mark in use. We consider these marks, and the associated name recognition, to be valuable to our business.

***Air Quality Standards***

It is believed that with the increased worldwide focus on the greenhouse effects of petroleum products, the ability of Ethos to reduce emissions by 30% can only increase the Company's market presence.Political and media pressures are causing more people to become concerned about our environment and the effects of global warming. For example, per the National Snow and Ice Data Center in Boulder, Colorado, the ice cover in the Arctic Ocean has shattered the all-time low record during the summer months of 2007. Most researchers had anticipated the complete disappearance of the Arctic ice pack during the summer months would not happen until after the year 2070, but now believe it could happen as early as 2030.

Ethos Environmental began the manufacturing and marketing of Ethos products after ten years of successful product testing. During the early years, widespread public environmental concerns were only beginning to surface. Air quality standards were non-existent and fuel costs were low, making penetration of the market an uphill battle.

In recent years most of the improvements in air quality have come through advancements in engine technologies. Through catalytic converters and computer controlled air and fuel injection systems, engineers have designed cars that use fuel much more efficiently and pollute far less than ever before. But as new engine technologies have reached their limits, the government has turned its attention to the oil companies to produce cleaner-burning fuels.

The approach of Ethos Environmental is to sell our products "one gallon at a time", earning the respect and trust of each user. Over the past decade, our products have gone though extensive miles of road tests, with all such testing verifying the ability of our products to significantly reduce emissions while improving gas mileage. Now, at a time of skyrocketing fuel costs, the value of Ethos products is paying off for a long list of domestic customers and a growing contingent of international clients.

***Market Research***

Air pollution caused by cars, trucks and other vehicles burning petroleum-based fuels is one of the most harmful and ubiquitous environmental problems. Furthermore, local accumulation in heavy traffic is the greatest source of community ambient exposure, largely because carbon monoxide is formed by incomplete combustion of carbon containing fuels.

Diesel exhaust is a major contributor of particulate matter concentrations. Representing only 2 percent of the vehicles on the road, diesel powered vehicles generate more than half of the particulates and nearly a third of the nitrogen oxides in the air, according to a study by the California Air Resources Board. Air pollution monitoring efforts by the American Lung Association indicate that diesel accounts for 70% of the cancer risk. Furthermore, pioneers in the study of global warming factors have come to believe that particulate matter, such as that emitted by diesel engines, plays a far more critical role in the development of the "greenhouse effect" than previously suspected.

To combat this problem the U.S. Environmental Protection Agency developed a two-step plan to significantly reduce pollution from new diesel engines. (New Emission Standards for Heavy-Duty Diesel Engines Used In Trucks and Buses) (October 1997, EPA 420-F-97-016). The first step set new emissions standards for diesel engines beginning in 2000. The second step sets even more stringent emission standards that will take effect in 2007, combined with mandated reductions in the sulfur levels of all diesel fuel.

As crude oil is heated, various components evaporate at increasingly higher temperatures. First to evaporate is butane, the lighter-than-air gas used in cigarette lighters, for instance. The last components of crude oil to evaporate, and the heaviest, include the road tars used to make asphalt paving. In between are gasoline, jet fuel, heating oil, lubricating oil, bunker fuel (used in ships), and of course diesel fuel. The fuel used in diesel engine applications such as trucks and locomotives is a mixture of different types of molecules of hydrogen and carbon and include aromatics and paraffin. Diesel fuel cannot burn in liquid form. It must vaporize into its gaseous state. This is accomplished by injecting the fuel through spray nozzles at high pressure. The smaller the nozzles and the higher the pressure, the finer the fuel spray and vaporization. When more fuel vaporizes, combustion is more complete, so less soot will form inside the cylinders and on the injector nozzles. Soot is the residue of carbon, partially burned and unburned fuel.

Sulfur is also found naturally in crude oil. Sulfur is a slippery substance and it helps lubricate fuel pumps and injectors. It also forms sulfuric acid when it burns and is a catalyst for the formation of particulate matter (one of the exhaust emissions being regulated). In an effort to reduce emissions, the sulfur content of diesel fuel is being reduced through the refinery process, however, the result is a loss of lubricity.

Diesel fuel has other properties that affect its performance and impact on the environment as well. The main problems associated with diesel fuel include:

- Difficulty getting it to start burning o Difficulty getting it to burn completely o Tendency to wax and gel
- With introduction of low sulfur fuel, reduced lubrication
- Soot clogging injector nozzles
- Particulate emissions
- Water in the fuel
- Bacterial growth

Today’s advanced diesel engines are far cleaner than the smoke-belching diesels of recent decades. Unfortunately, even smokeless diesel engines are not clean enough to meet current stricter air pollution regulations.

While diesel engines are the only existing cost-effective technology making significant inroads in reducing “global warming” emissions from motor vehicles, it is not sufficient to satisfy regulators and legislators. Diesel engines will soon be required to adhere to stringent regulatory/legislative guidelines that meet near “zero” tailpipe emissions, especially on smog-forming nitrogen oxides (NOx), particulate matter (PM) and “toxins”; the organic compounds of diesel exhaust.

The U.S. Department of Energy, Energy Information Administration (“EIA”) estimates that worldwide annual consumption of diesel fuel approximates 210 billion U.S. gallons. A breakdown of this estimate is summarized as follows:

Based o further EIA published data, the following table* depicts domestic distillate fuel oil consumption by energy use for 2001.

* Sources: Energy Information Administration's Form EIA-821, "Annual Fuel Oil and Kerosene Sales Report," for 1997-2001 and "Petroleum Supply Annual," Volume 1, 1997-2001. Totals may not equal sum of components due to independent rounding.

When blended with fuels, Ethos products reduce the emissions of hydrocarbons (HC), nitrogen oxides (Nox) carbon monoxide (CO), particulate matter (PM) and other harmful compounds of combustion. Given these conditions, the commercial fuels consumer market represents an important target for Ethos Environmental.

***Competition***

The market for products and services that increase diesel fuel economy, reduce emissions and engine wear is rapidly evolving and intensely competitive and management expects it to increase due to the implementation of stricter environmental standards. Competition can come from other fuel additives, fuel and engine treatment products and from producers of engines that have been modified or adapted to achieve these results. In addition, we believe that new technologies, including additives, will further increase competition.

Alternative fuels, gasoline oxygenates and ethanol production methods are continually under development. A number of automotive, industrial and power generation manufacturers are developing more efficient engines, hybrid engines and alternative clean power systems using fuel cells or clean burning gaseous fuels. Vehicle manufacturers are working to develop vehicles that are more fuel efficient and have reduced emissions using conventional gasoline. Vehicle manufacturers have developed and continue to work to improve hybrid technology, which powers vehicles by engines that utilize both electric and conventional gasoline fuel sources. In the future, the emerging fuel cell industry offers a technological option to address increasing worldwide energy costs, the long-term availability of petroleum reserves and environmental concerns.

The diesel fuel additive business and related anti-pollutant businesses are subject to rapid technological change, especially due to environmental protection regulations, and subject to intense competition. We compete with both established companies and a significant number of startup enterprises. We face competition from producers and/or distributors of other diesel fuel additives (such as Lubrizol Corporation, Chevron Oronite Company, Octel Corp., Clean Diesel Technologies, Inc. and Ethyl Corporation), from producers of alternative mechanical technologies (such as Algae-X International, Dieselcraft, Emission Controls Corp. and JAMS Turbo, Inc.) and from alternative fuels (such as bio-diesel fuel and liquefied natural gas) all targeting the same markets and claiming increased fuel economy, and/or a decrease in toxic emissions and/or a reduction in engine wear.

Ethos FR® and Ethos BFC are unique, and comparative fuel reformulators do not exist. The primary task for the Company is to distinguish itself as an industry leader in the reduction of fuel costs and emission problems at a profit gain to the commercial user. Part of the challenge before us is to differentiate Ethos products from two types of products in this industry, additives - that are purported to increase fuel mileage and oxygenates - which are mandated to lower emissions. Both provide short-term benefits at the price of long-term engine or environmental problems.

Additives contain highly refined petrochemicals or compressed hydrocarbons that promise better fuel mileage and sometimes lower emissions, by “cleaning” the engine. Used mainly by individual consumers, they are expensive and commonly sold at the auto parts and retail stores. More than five thousand EPA-registered fuel additives compete in the retail market and although the EPA requires that such products be registered, that registration constitutes neither endorsement nor validation of the product’s claims.

Oxygenates, such as methyl tertiary butyl ether (MTBE) and Ethanol, are intended to lower emissions by adding oxygen to the fuel. Ethos FR® products actually complement federally mandated oxygenates by lowering emissions, but as mentioned earlier, Ethos FR® is not an oxygenate and cannot be used for the purpose of complying with current language federal legislation.

In contrast, Ethos FR® products have cleaning properties that contribute to the lubrication of the engine instead of destroying it. The ester-based formula dissolves the gums and residues and adds important lubrication that an engine needs. The engine stays clean and lubricated, allowing it to run smoothly and efficiently.

***Marketing Strategy***

Ethos products are ideally positioned to capitalize on increasing fuel prices and regulatory pressure to tighten emissions standards. Fuel is a significant operating cost for companies that use cars, trucks or vessel fleets in their daily business, especially where competitive markets make it difficult to pass along fuel increases. Every hike in the price of fuel hurts the profitability of that company. For these businesses, obtaining better mileage offers a crucial competitive edge, and the goal of Ethos Environmental is to help them maximize their fuel use and maintain profitability.

From its earliest days, Ethos has focused on the product demonstration as the most effective means of introducing Ethos FR® to potential users. During this demonstration phase, Ethos supplies product to treat a sample of the fleet at no cost to the client. It is vital that the customer understand and prove the effectiveness of Ethos FR® in their fleets. This demonstration phase will last as long as necessary to quantify the value and projected savings possible once the entire fleet is treated.

Through this demonstration process, we prove to each customer that they can realize the benefits of reduced emissions, smoother-running vehicles and lower maintenance costs at virtually no risk, because the reduction in fuel usage will more than cover the expense of using Ethos FR®. In fact, the addition of Ethos FR® will result in fuel savings beyond the cost of treatment, resulting in monetary gain to the user.

Commercial fleets vary in size from a few to thousands of vehicles. Such fleets generally produce immediate sales results because administrative requirements are minimal and the product demonstration phase is brief. Typically, a sample of the fleet is treated and the potential customer is quickly able to quantify the value and project the savings that the use of Ethos FR® will produce. Usually a fleet's oldest and dirtiest vehicles, or vehicles out of warranty, are included in the demonstration. Such vehicles amplify the effectiveness of the products and help to ease any initial client objections regarding manufacturer warranties. Once the demonstration is underway, Ethos FR® products sell themselves, increasing fuel mileage between 7% and 19% and reducing emissions by more than 30%. Once the effectiveness of the product has been established, a conscientious customer-service program ensures continued use.

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The Ethos Environmental strategy has been to approach each market from the perspective of the customer's strongest motivation, whether to reduce fuel costs or reduce engine emissions. From a marketing standpoint, it is most cost-effective for Ethos Environmental to focus on commercial fuel users that keep track of maintenance and operating expenses. These consumers are more sensitive to pressures from rising fuel costs and more concerned about meeting emissions standards.

Rising fuel costs will always be a marketing advantage for Ethos. Higher fuel prices decrease the cost to treat each gallon of fuel; resulting in even greater savings to Ethos clients. The Company's marketing strategy strengthens as the price of fuel increases. Even where cost savings are a client's primary motivator, the use of Ethos FR® identifies the user as an environmentally conscientious business. It also creates goodwill within the community through the reduction of unhealthy and unsightly exhaust emissions.

***Ethos FR – Proof of Performance***

An integral part of our sales process is to conduct proof of performance demonstrations for potential customers wherein we accumulate historical data that documents the effects of the use of Ethos FR® (i.e. advantages in terms of increased fuel economy, a decrease in engine wear and reductions in toxic emissions) on that customer's specific vehicles or vessels. In connection with the proof of performance demonstrations, we provide fleet monitoring services and forecasts of fuel consumption for purposes of the prospective customer's own analysis.

The results below are test results of customer experiences using Ethos FR®. The first results are for a fleet of trucks for Allied Waste. The second results are for Ecuador for Ethos BFC used in external combustion engines. On our website are results for other customers including: US Department of Justice; LA Transport; Lucar Transport; Mission Linen Supply; Vista City; China City Bus Company; Oceanside School District; San Diego Port District; and the Shenzhen Public Transport Group. In all tests the results have been consistent, with a 7% to 19% cost saving, and an over 30% reduction in emissions.

Following is a Management Report outlining the process and methodology of the testing of Ethos FR® for Allied Waste Services:

## MANAGEMENT REPORT

**Testing of Ethos Fuel Reformulator**
**Allied Waste Services, Southwestern Region**

### Overview

Ethos FR has been used, without interruption, at multiple Allied Waste locations in Southern California since the year 200.

Based on the positive results realized at those locations (estimated at a 10 reduction in fuel consumption plus significant reductions in maintenance/repair costs and emissions) an initial test was conducted at one location in the Southwestern Region of Allied Waste during the months of July and August, 2006. The results of this initial 4 week test showed an estimated reduction in fuel consumption of 10.35%, as measured by gallons per engine hour, compared to a baseline period of the previous 12 months (July 2005 through June 2006).

Based on these positive results, a second phase of testing was initiated in May 2007 encompassing 4 locations in the Southwestern Region. The period of testing was generally the months of May, June and July 2007, however, one location continued Ethos use through August. The detailed data obtained from this testing period is content of this report.

### Testing Procedures and Data Compilation & Reporting Methodology

Upon initiation of the testing period, fuel consumption and engine hour data was obtained from each location for a baseline period in order to establish a point of comparison for the test. The baseline period for each location was generally the period of January through March, 2007.

The standard CFA report obtained from each location was the “Fuel Transaction Detail by Equipment #” report. This report provides the most comprehensive daily listing of fuel dispensed and engine hours recorded for each vehicle during each time period. It is important to note that **detailed** reports were used throughout the compilation of the data contained in this analysis because every report from every location contains several “anomalies” which could distort the accuracy of any data from any report.

Most common among these “anomalies” are:

1. Vehicles showing fuel consumed but few or no engine hours recorded (which would result in a higher fuel per hour calculation than is actually the case),
2. Vehicles showing no fuel consumed yet have engine hours recorded (which would result in a lower fuel per hour calculation than is actually the case), or
3. Vehicles that do not have recorded data for both comparative periods. This would include:
    - new vehicles that have been added to the fleet (and therefore have no baseline data)
    - vehicles that have been retired from the fleet or are out of service for repairs or maintenance (these vehicles will have baseline data but no data in one or more of the test periods).

### Raw Data vs. Comparable Data

Due to the frequency and significance of the anomalies outlined above, a detailed process was implemented to ensure that any such reporting inaccuracies did not undermine the validity of the comparative data obtained during this test.

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The procedures utilized by Green Fleet Associates were as follows:

1. Every CFA report that was obtained from every location for every time period as reviewed line-by-line, vehicle-by-vehicle to assure the validity of the data. Any obvious anomalies were highlighted on the raw CFA report.
2. This raw data from the CFA report was transferred to a spreadsheet in order to facilitate ongoing side-by-side, vehicle-by-vehicle comparisons of baseline to test period data. Any anomalies or missing data for any vehicle was highlighted on the spreadsheet for reach comparative period.
3. A true “apples-to-apples” comparison was obtained for each time period by removing all highlighted items.

**Verification of Ethos Use**

Equally important in assuring the validity of the data collected was making best efforts to verify that all of the fuel being consumed by each location during the testing period was being treated with Ethos. The method utilized to check this compliance was a detailed tracking of fuel deliveries compared the Ethos inventory at each location during the testing period. While almost all locations maintained a consistent treatment schedule throughout the three month testing period, there were some minor exceptions.

The spreadsheets detailing the baseline & test period data, for each month at each location are as follows:

Following is a summary of the test results for Ethos Bunker Fuel Conditioner, tested at Esmeraldas, Ecuador.

**1.) O2** levels increased by **41.53 %** after the application of the Ethos Bunker Fuel Conditioner.
2.) CO2 levels decreased by 7.79% after the application of the Ethos BFC.
3.) CO levels decreased by 91.75 % after the application of the Ethos Bunker Fuel Conditioner.
4.) SO2 levels decreased by 1.69% after the applications of the Ethos BFC.
5.) NO levels decreased by .82% after the application of the Ethos BFC.
6.) NO2 levels remained constant at 0.
7.) Nox levels decreased by .82% after the application of the Ethos BFC.
8.) tf levels decreased by 9.18% after the application of the Ethos BFC.
9.) ta levels decreased by 1.16% after the application of the Ethos BFC.
10.) CO2 max levels decreased by .69% after the application of Ethos BFC.
11.) Excess air readings increased by 48.14% after the application of the Ethos BFC.

***Ethos FR – Proof of Performance Demonstrations***

Ethos Environmental's fuel reformulating products reduce emissions by burning fuel more completely, which improves fuel mileage. Exhaust is essentially unburned fuel, wasted fuel, so when the fuel is used more completely the engine delivers better mileage from every tank. Efficient fuel use also means improved engine performance because a more complete combustion process obtains increased power from each engine revolution.

In the last decade hundreds of thousands of miles in road tests have been conducted. Test after test, Ethos products have proven to reduce engine exhaust emissions by 30% and more, including measurable reductions in the emissions of hydrocarbons (HC), nitrogen oxides (NOx), carbon monoxide (CO), and sooty exhaust or particulate matter (PM). All of these emissions are highly toxic and as a result, fuel mileage increases have been significant, ranging from 7% to 19% fleet wide.

Ethos Environmental uses an opacity meter, a detection device for diesel vehicles that measures the percentage of opacity (light obstructed from passage through an exhaust smoke plume), to demonstrate dramatic reductions in emissions. In more that 1,000 heavy-duty diesel vehicles treated (a motor vehicle having a manufacturer's maximum gross vehicle weight rating (GVWR) greater than 6,000 pounds), emissions were lowered by as much as 90%. The Society of Automotive Engineers (SAE) recommended practice SAE J1667 "Snap Acceleration Smoke Test Procedure" to be used for heavy-duty diesel powered vehicles. Attached are samples of opacity test sheets, taken from diesel-powered engines, demonstrating the positive results after using Ethos FR®.

***Target Markets***

According to the American Petroleum Institute, the United States fuels consumer market is comprised of the following segments: retail consumer 27%, government agencies 16%, ground fleets 14%, industrial users 10%, aircraft 9%, maritime 6%, miscellaneous 18%.

The Company's typical customers use cars, trucks or vessels in their day-to-day operations. Fuel is a significant operating cost, and consequently these fleets are particularly sensitive to fuel price fluctuations and strict emissions standards. The ideal clients are those with fleet managers and are conscientious about keeping track of operating expenses. They understand that every hike in fuel price hurts their profitability, this being a critical factor wherever competitive markets make it difficult to pass on the price increases to their clients; thereby making it critical for businesses to obtain better mileage as a competitive advantage.

Maritime and government agencies are desirable for their large fuel volume use and industry credibility. They offer the Company medium to long-term sales, since the process requires a longer lead-time to close. The product demonstration phase and administrative requirements are generally more complex, particularly with large government institutions. At the same time, they offer large volume sales and a continual source of staged orders that promote production stability.

Marine vessels run on bunker fuel that is less refined than diesel. A mid-size ship will use more than half a ton per hour of operation, or 125 gallons of fuel per hour. For example, a mid-size vessel running on bunker on a typical trip to Japan from Los Angeles will require a half ton per hour, or 180 tons. This represents a total of 45,000 gallons of fuel that requires 4,500 oz. (35 gallons) of Ethos BFC. This vessel would use approximately one drum (55gals.) of Ethos BFC per month. Accordingly, maritime customers represent a large and solid client base.

Countries all around the world are endeavoring to deal with the high costs of petroleum products and the detrimental effects of those products on the environment, much like the United States. The Company has found broad and enthusiastic acceptance of its Ethos products globally. During the past three years, the Company has opened markets in Asia, Latin America, Canada, Australia, Africa and Europe, often dealing directly with government entities that possess the power to implement widespread use of Ethos products – whether in citywide public transportation systems or countrywide fuel distribution structures.

As with our domestic client base, international customers of Ethos appreciate the benefits of improved mileage and reduced emissions. In countries that lack the regulatory structures necessary to control vehicle emissions and fuel efficiency, the benefits of Ethos are even more pronounced.

***Customers***

We have a diversified customer list which presently numbers 59 and is composed of state governments, corporations and high net worth individuals. There are two who account for over 10% of our revenue: Petroindustrial 76.64% and Petroecuador 10.51%. We do not have contracts with our customers. Purchase orders are used as Ethos products are required and ordered. We derive revenue from our customers as discussed in Note 1, "Organization and Significant Accounting Policies: Revenue Recognition" of the consolidated financial statements. Two customers accounted for 88% of our revenues for the fiscal year ended December 31, 2006. One customer accounted for 40% and the second customer accounted for 48%. One of these customers accounted for 62% of our accounts receivable at December 31, 2006. As our products reach more customers, the concentration of credit risk will spread out amongst the base of our clientele, and will lessen the effect of the risk shown during the year ended December 31, 2006.

***Supply Arrangements***

We presently obtain our raw materials on an exclusive basis from five (5) suppliers. However, these arrangements are not governed by any formal written contract. Accordingly, either party may terminate the arrangement at any time, including the exclusivity aspect of the arrangement. If a supplier is not able to provide us with sufficient quantities of the product, or chooses not to provide the product at all (for any reason), or if exclusivity is lost, business and planned operations could be adversely affected. Although management has identified alternate suppliers of the products, no assurance can be given that the replacement products will be comparable in quality to the product presently supplied to us by current suppliers, or that, if comparable, products can be acquired under acceptable terms and conditions.

***Revenue and Fixed Assets***

The Company's revenue is generated in the United States and abroad through our San Diego, California office, which at present is our only operating office. All of the fixed assets are located in the San Diego, California office. In February, 2007, the Company entered into a sale and leaseback arrangement as outlined below under Loan Facilities.

***Vendors***

The Company maintains strong relationships with all vendors. We are not dependent upon any one vendor for our business.

***Governmental Regulation***

In the United States, fuel and fuel additives are registered and regulated pursuant to Section 211 of the Clean Air Act. 40 CFR Part 79 and 80 specifically relates to the registration of fuels and fuel additives. Typically, there are registration and regulation requirements for fuel additives in each country in which they are sold. In accordance with the Clean Air Act regulations at 40 CFR 79, manufacturers (including importers) of gasoline, diesel fuel and additives for gasoline or diesel fuel, are required to have their products registered by the EPA prior to their introduction into commerce.

However, EPA registered additives are derived from petroleum while Ethos FR® is a reformulator. Even though you "add it" to the fuel, Ethos FR® is not derived from petroleum and is non-toxic and non-hazardous and therefore not subject to governmental regulations. There could be unforeseen future changes to the registration requirements under the Clean Air Act and Ethos FR® may have to seek registration under such new requirements. In addition, we currently sell our product outside of the United States and intend to further expand our sales efforts internationally. We may need to seek registration in other countries for the Ethos FR® product.

At this time the Company is not aware of any present or pending rules or regulations that would require the Company to seek registration of the Ethos FR® product either domestically or internationally.

***Research and Development Costs***

Research and development costs are charged to operations when incurred and are included in operating expenses. The amounts charged for the years ended December 31, 2006 and 2005 amounted to $112,051 and $132,404, respectively. All of these costs are borne by the Company.

Following is the Ethos FR® Material Safety Data Sheet (MSDS)

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***Employees***

As of March 31, 2007, we had 25 full-time and 10 part-time employees.

***Quarterly Developments***

During the period ended March 31, 2007, the Company had several important developments:

1. The Company announced its first shipment to Africa. The announcement came from an order of more than $500,000 USD from Chika Oil & Gas Ltd., an exclusive distributor in Nigeria, through EthosFR® distributor 4E Corporation. Chika Oil & Gas Ltd., located in Lagos, Nigeria, Africa's largest oil producer, distributes fuel and related products throughout Nigeria. A founding member of OPEC, Nigeria is also Africa's most populated nation with over 110 million people. Since Shell discovered oil in Oloibiri in the Niger Delta in 1956, oil production has grown to place Nigeria among the top ten largest petroleum producers in the world.
2. The Registrant, on or about March 8, 2007 received its first order for bunker fuel reformulator from Ecuador. The first order exceeded $2.1 million, and the remaining orders for the year are anticipated to approximate $40 million.
3. The Registrant, on or about February 7, 2007 arranged a sale/lease back arrangement on approximately $740,000 of its equipment. The sale/leaseback was arranged with Mazuma Capital Corp.
4. The Company participated in the RedChip Small-Cap Investor Conference in Phoenix, Arizona on February 12, 2007.

**Critical Accounting Policies and Estimates**

We believe that there are several accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management’s judgments and estimates. These significant accounting policies relate to revenue recognition, research and development costs, valuation of inventory, valuation of long-lived assets and income taxes. For a summary of our significant accounting policies (which have not changed from December 31, 2006), see our annual report on Form 10-KSB for the period ended December 31, 2006.

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2007 AS COMPARED WITH THE THREE MONTHS ENDED MARCH 31, 2006**

The following analysis of historical financial condition and results of operations are not necessarily reflective of the on-going operations of the Company.

***Income Taxes***

The Company accounts for its income taxes under the provisions of Statements of Financial Accounting Standards No. 109 (SFAS No. 109). Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of certain assets and liabilities for financial and tax reporting. Deferred taxes represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. No provision for deferred taxes is reflected in the financial statements as the valuation allowance offsets any deferred tax benefit.

The Company is liable for taxes in the United States. As of March 31, 2007, the Company does not expect to have any income for tax purposes and therefore, no tax liability or expense has been recorded in these financial statements, except for the minimum tax in California amounting to $800.

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The Company estimates that it has tax losses of approximately $10,800,000 which may be available to reduce future taxable income. Any tax loss carry forwards available expire between the years 2020 and 2026.

The deferred tax asset associated with the estimated tax loss carry forward is approximately $3,672,000. The Company has provided for a valuation allowance as an offset against the deferred tax asset as it is unknown at this time if the asset will be utilized. Deferred tax assets must be reduced by a valuation allowance if, based upon the weight of available evidence, it is more likely than not that some portion or all of the benefit will not be realized. The Company has taken a conservative approach in that it is unknown at this time if the tax benefit from these net operating losses will ever be realized. Therefore, the entire amount of the deferred tax benefit has been reduced by a valuation allowance equal to the tax benefit.

***Inflation***

Our results of operations have not been affected by inflation and we do not expect inflation to have a significant effect on its operations in the future.

***Research and Development Costs***

Research and development costs are charged to operations when incurred and are included in operating expenses. The amounts charged for period ended March 31, 2007 amounted to $7,500, compared to $ 82,933 for the same period in the prior year. All of these costs are borne by the Company.

The company continues to strive to improve its products, packaging, etc., and develops new products for the future.

***Revenues***

The Company recognized revenue of $ 2,697,133 for the period ended March 31, 2007 compared to revenues of $ 1,318,925 for the same period in the prior year, an increase of $1,378,208, or 104%. The primary source of revenue for the period ended March 31, 2007 is from the sale of *Ethos FR®*. Other components of revenue include freight and service. Freight is billed to the customer and compared to the amount of freight recorded in cost of sales, so that the Company is adequately capturing the cost of freight and billing to the client appropriately.

During the quarter, the Company added a major new customer in Nigeria, and experienced a dramatic growth in sales to Latin America. In addition, the Company has contracted additional sales through 2007 to Africa, Latin America and Australia.

The management of Ethos Environmental firmly believes that the market for our product is aggressively expanding. Worldwide fuel consumption is approximately 85 million barrels per day and projected by the Energy Information Administration to continue to grow to 97 million barrels per day by 2015, and 118 million barrels per day by 2030. Much of the dramatic growth over the past decade has been fueled by the dramatic expansion of India, China and Brazil. As additional undeveloped countries begin to expand, so too will fuel consumption and the Company's market base. In addition, consumers are becoming more sensitive to increased fuel economy as oil prices have increased eight times since the late 1990s.

It is our goal to continue to aggressively build on our success in the domestic and international markets, offering the benefits of our products to companies and countries around the world. During 2006, our revenue base increased by 168% over 2005. Since 2004, the company has increased its revenue base by 450%, and by 573% since 2003.

The Company's management is directed to continued growth with its attention focused on comparative savings in marketing and production costs. Our attention going forward is to increase market awareness of our name and the benefits provided by our product line.

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We expect our tremendous growth to continue as sales increase and the sales and marketing strategies are implemented into the targeted markets and we create an understanding and awareness of our technology through proof of performance demonstrations with potential customers.

Our future growth is significantly dependent upon our ability to generate sales. Our main priorities relating to revenue are: (1) increase market awareness of Ethos FR® product through our sales and marketing plan, (2) growth in the number of customers and vehicles per customer, and (3) providing extensive customer service and support.

***Gross Profit***

Gross profit, defined as revenue less cost of goods sold, was $ 1,772,408 or 66% of sales for the period ended March 31, 2007, compared to $ 1,087,862 or 82% of sales for the period ended March 31, 2006. In terms of absolute dollars, gross profit increased 63% for the period ended March 31, 2007 compared to same period in the prior year due primarily to the sales of the *Ethos FR*® product.

Cost of sales was $ 924,725 for the period ended March 31, 2007, which represented 34% of revenues compared to $ 231,063 for the comparable period in the prior year, which represented 18% of revenues. The reason for the decrease in gross profit and increase in cost of sales in 2007~~6~~ is partially due to the addition of depreciation of the building and equipment, beginning in 2006, of which substantially most of this depreciation is included within cost of sales. Cost of sales during the quarter ended March 31, 2006, were abnormally low due to a prior period adjustment for materials. Without this adjustment, cost of sales would have represented 32% of revenues for the period.

Management continues to direct attention to increasing production efficiency and thereby reducing cost of sales as a percentage of sales. Cost of sales includes the following components: Material, labor, depreciation, and freight.

***Operating Expenses***

The Company's current operating expenses are comprised of costs associated with administration; including salaries, consulting, marketing, legal and business development. We will incur additional operating expenses for new staff members as they are hired.

Depreciation expense incurred for the quarter ended March 31, 2007 was $64,411, of which $59,418 is included in cost of goods sold and $4,993 is included in operating expenses, versus $20,300 for the quarter ended March 31, 2006. The increase in depreciation was due to the purchase in 2006 of the new building and manufacturing equipment which represented approximately $59,418 of the total depreciation of $64,411. Production and office equipment are depreciated on a 5-year basis, and the building is depreciated on a 25-year basis. Much of the equipment was sold under a sale/leaseback transaction during the quarter ended March 31, 2007.

General and Administrative expenses incurred for the quarter ended March 31, 2007 totaled $2,513,895. These expenses were incurred primarily for the following reasons:

Accounting, audit, bookkeeping and director fees totaling $51,710
Business consulting fees of $7,042
Common Stock Issuance of $2,171,460, a non-cash item (See below and Note 1)
Outside Services of $10,000
Office expenses of $51,148
Salaries and Wage expense of $175,315

Similar expenses incurred for the period ended March 31, 2006 were $264,828 and were incurred primarily for expenses of a similar nature.

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Also, for comparison purposes, there were 468,000 newly issued shares for the payment of services during the period ended March 31, 2007 (See Note 1), compared to196,863 shares issued for cash during the period ended March 31, 2006.

Shares of stock were issued for services as of March 31, 2007 and December 31, 2006. The majority of the services were in relation to the merger.

***Research and Development Costs***

Research and development costs are charged to operations when incurred and are included in general and administrative expenses. The amounts expensed for the quarters ended March 31, 2007 and 2006 amounted to $7,500 and $82,933, respectively. Research and development (R&D) costs will continue to decrease in the future due to the completion of much of the R&D of the *Ethos FR*® product.

***Net Loss***

The Company incurred a net loss for the quarter ended March 31, 2007 of $924,407 as compared to a net profit of $698,033 for the quarter ended March 31, 2006. Even though revenue increased by 104% during the quarter, as compared to March 31, 2006, the net loss increased by $1,620,134. The main reason for the increase in net loss is due to the issuance of stock for services provided which totaled $2,171,460. No cash was transferred in this transaction.

In addition, during 2006, the Company purchased a new building for its corporate headquarters at a cost of $5,300,000, as well as, an additional $1,265,000 spent on building improvements and production equipment. The total value of fixed assets at March 31, 2007 totaled $6,189,660. These purchases were funded partially with interest-bearing notes valued at $5,250,000. Due to this increase in fixed assets, depreciation increased accordingly, and totaled $64,411 for the quarter ended March 31, 2007, versus $20,300 for the same period in 2006. During the quarter ended March 31, 2007, approximately $600,000 of equipment was sold in a sale and leaseback transaction (see below). The remainder of the equipment was sold in April, 2007.

***NON-OPERATING INCOME AND EXPENSES***

Non-operating expenses increased for the quarter ended March 31, 2007 versus 2006, due to the financing of the new building. Interest expense totaled $177,660 for the quarter ended March 31, 2007 from -0- for the comparable period in 2006. The interest was directly associated with the interest-only loans of $5,250,000, related to the purchase of the new building.

In addition, non-operating income increased for the quarter ended March 31, 2007 versus 2006, due to the sale and leaseback transaction with Mazuma Capital. The Company sold approximately $600,000 of assets to Mazuma, and leased back these assets in February of 2007. This transaction was treated as a sale and the Company recognized a gain upon the sale of the equipment of $131,073 which is shown in other income. (See Loan Facilities below).

***Liquidity and Capital Resources***

During the three months ended March 31, 2007, the Company had a working capital deficit of $3,191,269 and stockholders' equity of $2,943,322 compared to a working capital of $308,333 and stockholders' equity of $1,546,734 during the comparable period in 2006.

On March 31, 2007, the Company had $ 47,719 in cash and $ 300,000 in restricted cash, total assets of $9,655,854 and total liabilities of $ 6,712,532, compared to $ 98,566 in cash and $300,000 in restricted cash, total assets of $ 7,162,600 and total liabilities of $ 5,615,866 on March 31, 2006.

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The Company purchased a building in 2006. The initial term of the building loan was for a period of one year with a maturity date of January, 2007. In 2006, the note was assigned to a new note holder with reduced interest of 14% compared to the original 17%. In May, 2007 negotiations were finalized to modify the terms of the promissory note and extend the maturity for a period of two additional years through March 31, 2009, as well as, a reduced interest rate of 12%. This agreement would increase the Company's working capital and show a more positive outlook for the next two years in terms of liquidity.

Subsequent to quarter end (May 23, 2007), an agreement to modify the promissory note was negotiated. Terms of the modified note include an extension to March 31, 2009, and a reduction of interest to 12%. The conversion feature was replaced with a three-year warrant to purchase up to 1.9 million shares of common stock at an exercise price of $2.50. The warrant expires March 31, 2010. This transaction is reflected in the 8K which was filed May 24, 2007.

We anticipate, based on currently proposed plans and assumptions relating to our operations, that our current cash and cash equivalents together with projected cash flows from operations and projected revenues will be sufficient to satisfy our contemplated cash requirements for the next 12 months. Our contemplated cash requirements for 2007 and beyond will depend primarily upon the level of sales of our products, inventory levels, product development, sales and marketing expenditures and capital expenditures.

The Company has incurred significant losses from operations in the last two years. The Company's ability to continue as a going concern is in doubt and is dependent upon obtaining additional financing and/or achieving a sustainable profitable level of operations.

The net loss incurred at March 31, 2007 increased due to issuance of stock for services in the amount of $2,171,460, as reflected within the cash flow. This was a non-cash transaction that increased expenses and increased equity. In addition, depreciation expense increased due to the purchase of a building in 2006. Receivables have increased significantly due to a significant growth in sales. Payables have increased as well due to the need for additional cost of goods materials and labor to provide product for the growth in sales. Proceeds from the sale and leaseback provided for an influx of cash, although 50% of the proceeds are held back as a security deposit. In conclusion, cash only decreased by a minimal amount for the quarter ended March 31, 2007.

Management of the Company has undertaken steps as part of a plan with the goal of sustaining the Company operations for the next twelve months and beyond. These steps include: (a) attempting to raise additional capital and/or other forms of financing; (b) controlling overhead and operating expenses; and (c) continuing to increase the sales of its fuel reformulating product.

During the first quarter 2007 the company increased its presence in Africa, Australia and Latin America and has made strong progress in the Caribbean. There can be no assurance that any of these efforts will be successful.

**Loan Facilities**

On February 7, 2007, the Company entered into an equipment lease agreement with Mazuma Capital Corp. wherein the Company agreed to a 24-month sale and leaseback arrangement for up to $800,000 of its manufacturing equipment. The lease calls for a monthly payment based on a factor of .04125 times the average outstanding loan balance during the month. Through May 10, 2007, the company has placed property valued at $737,968 under this lease arrangement with Mazuma Capital Corp.

The contract for this sale and leaseback of equipment was accounted for as an operating lease per SFAS 13 and 28. There is no bargain purchase option at the end of the lease, and neither the 75% nor the 90% test has been met. The title may pass back to the Company at the end of the lease; however, the lease may also be continued at the end of the 24 month period. The Company feels the appropriate stance is to show this as an operating lease in 2007; thereby recording the reduction of equipment, the corresponding gain, and treating the payments as lease expense.

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The Company is in negotiations to extend the term of the mortgage on the building and reduce the interest rate accordingly.

Inflation has not significantly impacted the Company's operations.

***Off-Balance Sheet Arrangements***

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our investors.

***PLAN OF OPERATIONS FOR THE NEXT TWELVE MONTHS***

Since inception in 2000, Ethos Environmental has grown its customer base to thousands of diverse clients on six continents worldwide, using the most effective sales tool possible – a product that works! In addition to an effective and desirable product, the company's success also derives from the careful development and tenacious implementation of a structured "proof-of-concept" marketing strategy.

Throughout this "proof-of-concept" sales and marketing phase, gross sales for Ethos Environmental have consistently exceeded forecasts, reaching more than $1.78 million by the end of 2005, and $4.77 million by the end of 2006. Even more significant growth is anticipated for 2007, with sales in established markets in the U.S., Asia, Latin America, Australia, Africa and Europe expected to top current forecasts. Furthermore, market implementation plans anticipate growth in 2007 and beyond, leading to gross multi million sales in 2008. These projections are based on the product's proven ability to improve fuel efficiency while reducing emissions, the Company's proven ability to penetrate new markets and build a solid base of loyal customers, and the world's increasing costs in the petro-economic markets.

Looking forward, marketing will constitute a significant portion of company expenditures as Ethos Environmental continues to develop sales of new ester-based fuel and engine enhancing products. We are in the process of developing new products covering areas of synthetic oils, sulfur substitutes, and varied formulations of the original *Ethos FR*® and its enhancements.

In addition, we will continue to initiate patents to cover ongoing development of a new engine design that combines past, present and state-of-the-art technologies. This new system generates rotary shaft power using only a fraction of the fuel consumed by today's internal combustion engines, and testing has yielded power output that rivals current technologies with just a fraction of the emissions. We have great hope that this project will revolutionize power generation as we know it, significantly easing pollution from the usage of fossil fuels.

The management of Ethos Environmental is excited by the enthusiastic acceptance that *Ethos FR*® products have received - domestically and all around the world. We are proud to provide a product that is part of the solution to the high cost of fuel and the health costs of environmental pollutants. Since inception, management has been focused on the development of a solid infrastructure, building relationships and establishing the foundation of a business that will continue to grow - non-stop - into the future.

***Critical Accounting Policies***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make a wide variety of estimates and assumptions that affect (i) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and (ii) the reported amounts of revenues and expenses during the reporting periods covered by the financial statements. Our management routinely makes judgments and estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the future resolution of the uncertainties increases, these judgments

become even more subjective and complex. The most significant accounting policies that are most important to the portrayal of our current financial condition and results of operations are as follows:

***Revenue Recognition***

The Company recognizes revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104 ("SAB 104"), "Revenue Recognition in Financial Statements". Revenue consists of the sale of products and is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the product is shipped, and collectability is reasonably assured.

**ITEM 3. CONTROLS AND PROCEDURES**

*(a) Evaluation of Disclosure Controls and Procedures:*

Our President and Chief Financial Officer, after evaluating the effectiveness of our "disclosure controls and procedures" (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), have concluded that, as of March 31, 2007 due to the material weaknesses in our internal control over financial reporting identified in our 2006 Form 10-KSB, our disclosure controls and procedures were not effective in providing reasonable assurance that information we are required to disclose in reports we file is recorded, processed, summarized and reported within the periods specified.

*(b) Management's Annual Report on Internal Control Over Financial Reporting:*

While we have continued our efforts to address each of the material weaknesses identified in our 2006 Form 10-KSB, there were no material changes in our internal control over financial reporting during the most recently completed quarter. We have not identified any additional material weaknesses during this quarter. We are not planning to report on whether there has been full remediation of the identified material weaknesses until our 2007 report on internal control over financial reporting is complete.

*(c) Changes in Internal Control Over Financial Reporting:*

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

**PART II.**

**ITEM 1. LEGAL PROCEEDINGS**

None.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

Between January 1, 2007 and March 31, 2007, the Company issued 468,000 shares of our common stock for services rendered by key consultants, officers, and directors.

On March 9, 2007, the Company closed on a private placement of 50,000 shares of common stock for a total of $50,000, which was subsequently cancelled and returned to treasury on April 4, 2007.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

None.

**ITEM 5. OTHER INFORMATION**

On April 4, 2007, the Company cancelled and returned to treasury 50,000 shares of our common stock.

On April 16, 2007, the Company announced that it engaged RedChip Companies, Inc. to lead its investor relations campaign.

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits.

| EXHIBIT NUMBER | DESCRIPTION | LOCATION |
|---|---|---|
| 3.1 - 3.2 | Articles of Incorporation and Bylaws | Previously Filed. |
| 10.1 | Agreement and Plan of Merger by and between the Company and Ethos Environmental, Inc. | Incorporated by reference as an Exhibit to the Form 10-KSB/A filed on November 19, 2007. |
| 10.2 | 2006 Definitive Proxy Statement. | Incorporated by reference as an Exhibit to the Form 10-KSB/A filed on November 19, 2007. |
| 10.3 | Sale/Leaseback Agreement with Mazuma Capital Corp. | Incorporated by reference as an Exhibit to the Form 10-KSB/A filed on November 19, 2007. |
| 10.4 | Amendment No.1 to Agreement with Mazuma Capital Corp. | Incorporated by reference as an Exhibit to the Form 10-KSB/A filed on November 19, 2007. |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification (CEO) | Filed herewith |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification (CFO) | Filed herewith |
| 32.1 | Section 1350 Certification (CEO) | Filed herewith |
| 32.2 | Section 1350 Certification (CFO) | Filed herewith |

(b) Reports on Form 8-K.

The following reports on Form 8-K are incorporated by reference herein:

(a) Form 8-K filed on or about March 13, 2007; and
(b) Form 8-K filed on or about April 4, 2007.

**SIGNATURES**

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

Date: November 19, 2007

ETHOS ENVIRONMENTAL, INC
(Registrant)

By: /s/ Enrique de Vilmorin
Enrique de Vilmorin
Director, CEO and CFO