Ethos Environmental, Inc.
Form 10KSB
April 15, 2008

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

FORM 10-KSB

(Mark One)

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 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: 000-26673

ETHOS ENVIRONMENTAL, INC.
(Name of Small Business Issuer in Its Charter)

Nevada (State or Other Jurisdiction of Incorporation or Organization)	88-0467241 IRS Employer Identification Number

6800 Gateway Park
San Diego, CA 92154
(619) 575-6800
(Address and Telephone Number of Principal Executive Offices)

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

Title of each class registered:	Name of each exchange on which registered:
None	Over-the-Counter Bulletin Board

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, par value $0.0001
(Title of class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. ¨

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

Index

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

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

Revenues for year ended December 31, 2007: $10,376,646.

The aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately $20,541,157 as of March 24, 2008 based upon the average bid and asked price of the registrant's common stock on the Over the Counter Bulletin Board.

Number of shares of the registrant's common stock outstanding as of March 24, 2008 was: 37,347,559.

Transitional Small Business Disclosure Format: Yes No

DOCUMENTS INCORPORATED BY REFERENCE

All reports filed by the Registrant during 2007, and through the date of filing of this Annual Report.

Index

ETHOS ENVIRONMENTAL, INC.
ANNUAL REPORT ON FORM 10-KSB

FOR THE YEAR ENDED DECEMBER 31, 2006

INDEX

PART I		Page
Item 1.	Description of Business	5
	The Company	
	Products	
	Trademarks	
	Significant Events	
Item 2.	Properties	33
Item 3.	Legal Proceedings	33
Item 4.	Submission of Matters to a Vote of Security Holders	33
PART II		
Item 5.	Market for Common Equity and Related Stockholder Matters	34
Item 6.	Management's Discussion and Analysis or Plan of Operation	36
Item 7.	Financial Statements	43
Item 8.	Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	56
Item 8A(T).	Controls and Procedures	56
Item 8B.	Other Information	61
PART III		
Item 9.	Directors, Executive Officers and Corporate Governance	62
Item 10.	Executive Compensation	63
Item 11.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	66
Item 12.	Certain Relationships and Related Transactions	66
Item 13.	Exhibits	66
Item 14.	Principal Accountant Fees and Services	67

Index

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-KSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements are not historical facts but rather are based on current expectations, estimates and projections. We use words such as “anticipate,” “expect,” “intend,” “plan,” “believe,” “fore “estimate” and variations of these words and similar expressions to identify forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted. These risks and uncertainties include the following:

- The availability and adequacy of our cash flow to meet our requirements;
- Economic, competitive, demographic, business and other conditions in our local and regional markets;
- Changes or developments in laws, regulations or taxes in our industry;
- Actions taken or omitted to be taken by third parties including our suppliers and competitors, as well as legislative, regulatory, judicial and other governmental authorities;
- Competition in our industry;
- The loss of or failure to obtain any license or permit necessary or desirable in the operation of our business;
- Changes in our business strategy, capital improvements or development plans;
- The availability of additional capital to support capital improvements and development; and
- Other risks identified in this report and in our other filings with the Securities and Exchange Commission or the SEC.

You should read this report completely and with the understanding that actual future results may be materially different from what we expect. The forward looking statements included in this report are made as of the date of this report and should be evaluated with consideration of any changes occurring after the date of this Report. We will not update forward-looking statements even though our situation may change in the future and we assume no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Use of Term

Except as otherwise indicated by the context, references in this report to “Company,” “ETEV,” “we,” “us” and “our” a references to the pre-merger business of Victor Industries, Inc. and post-merger business of Ethos Environmental, Inc. All references to “USD” or “$” refer to the legal currency of the United States of America.

PART I

Item 1. Description of Business

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 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 (CO2) 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.

Index

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

Index

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.

Index
7

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.

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.

Index

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."

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.

Index

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 major suppliers. The mineral oil used in the Ethos FR® is obtained, primarily, from major suppliers.

Ethos FR® can be used in any fuel. Ethos BFC is used for Bunker Fuel, which is used in external combustion engines.

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 U.S. annual consumption of fuel will continue to escalate through the year 2030.
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 2006.

Sales of Distillate Fuel Oil by End Use 2006
(Thousands of Gallons)

Residential	4,984,826
Commercial	2,808,786
Industrial	2,463,676
Oil Company	636,788
Farm	3,261,345
Electric Power	656,355
Railroad	3,552,430
Vessel Bunkering	1,903,138
On-Highway	39,118,301
Military	327,827
Off-Highway	2,478,554
All Other	0
	62,192,026

Notes: Totals may not equal sum of components due to independent rounding.

Sources: Energy Information Administration Form EIA-821, "Annual Fuel
Oil and Kerosene Sales Report for 2002-2006.

Index

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.

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.

Index

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 2001.

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.

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.

Index

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:

Index

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

1.) O_2 levels increased by 41.53 % after the application of the Ethos Bunker Fuel Conditioner.
2.) CO_2 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.) SO_2 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.) NO_2 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.) CO_2 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.

Index

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®.

Index

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 was one who accounted for over 10% of our revenue: Petroindustrial 81.70%. 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, 2007.

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. In October 2007, the Company completed the Commercial Property Purchase Agreement executed in August 2007, and reported on Form 8-K on August 13, 2007.

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, 2007 and 2006 amounted to $71,217 and $112,051, respectively. All of these costs are borne by the Company.

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

Index

Index
23

Index

Employees

As of March 25, 2008, we had 25 full-time and 10 part-time employees.

RISK FACTORS

You should carefully consider the risks described below before investing in the Company. We consider these risks to be significant to your decision whether to invest in our Common Stock at this time. If any of the following risks actually occur, our business, results of operations and financial condition could be seriously harmed, the trading price of our Common Stock could decline and you may lose all or part of your investment.

Risks Related to Our Business

Due to the newness of our company and our products, our technology has received only limited market acceptance.

Our technology is a relatively new product to the market place. Although ever growing concerns and regulations regarding the environment and pollution has increased interest in environmentally friendly products generally, the engine treatment and fuel reformulator, i.e. additive, market remains an evolving market. The Ethos FR® technology competes with more established companies such as Lubrizol Corporation, Chevron Oronite Company (a subsidiary of Chevron Corporation), Octel Corp., Clean Diesel Technologies, Inc. and Ethyl Corporation, as well as other companies whose products or services alter, modify or adapt diesel engines to increase their fuel efficiency and reduce pollutants. Acceptance of Ethos FR® as an alternative to such traditional products and/or services depends upon a number of factors including:

- favorable pricing vis a vis projected savings from increased fuel efficiency
- the ability to establish the reliability of Ethos FR® products relative to available fleet data
- public perception of the product

Since we market a range of products within only one product line, we are entirely dependent upon the acceptance of Ethos FR® in the market place for our success. Our business operations are not diversified. If we do not generate sufficient sales of the Ethos FR® product, we will not be successful, and unlikely to be able to continue in business.

We have a limited operating history with significant losses and expect losses to continue for the foreseeable future, though we expect our sufficient revenues to sustain our operations.

We have yet to establish any history of profitable operations. We have incurred net losses allocable to shareholders of $18,352,316 and $6,490,113, respectively for the fiscal years ended December 31, 2007 and 2006. As a result, at December 31, 2007 we had an accumulated deficit of $28,218,893. We expect, however, that our revenues will be sufficient to sustain our operations for the foreseeable future. Our profitability though will require the successful commercialization of our fuel reformulator.

We believe that a viable market exists for our technology as there are many conventional or competitive products in the markets that we have identified for exploitation. In the event that a viable market for our products cannot be created as envisaged by our business strategy, we may need to commit greater resources than are currently available to further develop our technology into a commercially viable product. Should this occur, we may not be able to continue operations.

Our independent auditors have added an explanatory paragraph to their audit report issued in connection with the financial statements for the year ended December 31, 2006 relative to our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We rely on commercial arrangements with third parties, and any failure to retain relationships with these third parties could negatively impact our ability to develop and market our products.

Index

We anticipate that our success in creating markets for our products will depend largely on our ability to identify and establish strategic alliances with companies and individuals that have experience in manufacturing and distributing products to the markets we have identified. We have supplied our fuel reformulator for evaluation purposes to a number of strategic partners and customers. As such, our plans are dependent on and have been developed on the assumption that our product(s) will be promoted by our strategic partners and adopted by potential customers. Should our commercial arrangements with current or future strategic partners deteriorate or cease, it can be expected that this would have a material adverse affect on our financial conditions, business, results of operations, and continues growth prospects.

The Company's core product may not be acceptable to commercial customers due to transportation, storage, and handling issues.

Our core product is a fuel reformulator. However, as with any new technology, there are risks associated with the commercial production and use of this product and we have experienced technical difficulties when deploying in commercial applications which have required us to take additional precautions when transporting, storing and handling our product(s). These characteristics may make the finished product(s) unattractive to certain distributors, customers and end-users. In addition, the finished fuel may only be stored and dispensed from tanks that meet stringent standards for cleanliness and not all tanks may be capable of achieving these standards.

Our products must be distributed in commercial quantities, in compliance with regulatory requirements, and at an acceptable cost and these factors could harm our business and future prospects.

Our future revenues are unpredictable and our operating results may fluctuate as a result of the lack of a sales history of our products.

We expect to experience significant fluctuations in our future operating results due to a variety of factors, including (i) demand for our products, (ii) introduction or enhancement of products by competitors, (iii) market acceptance of our products, (iv) price reductions by competitors or changes in how new products are priced, (v) availability of raw materials of adequate quality and at prices which are economical, (vi) availability of distribution channels through which our products are to be sold, (vii) potential costs of litigation and intellectual property protection, (viii) our ability to attract, train and retain qualified personnel, (ix) the amount and timing of unforeseeable operating costs and capital expenditures related to the expansion of our business, operations and infrastructure, (x) any technical difficulties with respect to the use of our products, and (xi) effects of current and future governmental regulations on the sale of our products, which may be significant.

As a result of the lack of a sales history of our products, we do not have relevant historical financial data for any periods on which to forecast revenues or expected operating expenses in connection with growing revenues in the future. Our expense levels are based in part on certain expectations with regard to future revenues. We may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. As a result, any significant shortfall in anticipated demand for our products relative to our expectations would have an immediate adverse effect on the Company's business, financial conditions and results of operations.

Our ability to operate at a profit is dependent on the price and availability of raw materials.

Our results of operations and financial condition have been and will continue to be significantly affected by the cost and supply of raw materials used to produce our product(s). The price of raw materials can be volatile as a result of a number of factors, such as the overall supply and demand, the level of government support, and the availability and price of competing products.

Generally, higher prices, in relation to diesel and bio-diesel fuels and related products, will produce lower profit margins. This is especially true if market conditions do not allow us to pass through these increased costs to our

customers. It is important that we be able to pass through these higher raw material costs to our customers. If higher raw material prices were to be sustained for an extended period of time, such pricing may have a material adverse effect on our ability to grow profitable sales and operations, with a corresponding adverse impact on our cash flows and financial performance.

Index

We intend to contract with third parties to help control the costs of raw materials purchased and reduce short-term exposure to price fluctuations. Currently, we do not have definitive agreements with third parties for all of our needed supply.

Ethos has two products, Ethos FR® and Ethos BFC. Should we be unable to obtain the necessary raw materials to manufacture these products, this would have a negative impact on our revenue forecast and financial results. In addition to being able to obtain the necessary quantity of raw materials, it is important to carefully select raw material suppliers because there is a wide range of various quality of such materials in the marketplace. It is critical that the raw materials we purchase be of a consistently high quality and that they meet certain other specifications. Should inferior raw materials be used, this could negatively impact our customers results and our future business with them.

Our business could suffer if we are unable to effectively compete with our competitors' technologies.

We have identified as competitors a number of technologies and companies who are predominantly focusing on the fuel emission reduction market. In addition, other companies, many of which are likely to have substantially greater financial, research and development, sales and marketing and personnel resources, may currently be developing, or may develop in the future, technologies and products that are equally or more effective and/or economical as any product we may develop, or which would otherwise render our technologies obsolete.

If we were to lose the services of our founders or our senior management team, we may not be able to execute our business strategy.

Our future success depends in large part upon the continued service of key members of our senior management team. In particular, Enrique de Vilmorin is critical to our overall management, as well as to the development of our technology, our culture and our strategic direction. Thomas Maher, our Chief Financial Officer, is the only full-time trained financial professional in our organization; he performs most of the duties that in many other cases would be performed by several people within a larger and deeper organization. We do not maintain any key-person life insurance policies. The loss of any of our management or key personnel could seriously harm our business.

Our failure to protect our intellectual property could cause an erosion of our current competitive strengths.

We regard the protection of our patents, trademarks, copyrights, trade secrets and other intellectual property as critical to our success. We rely on a combination of patent, copyright, trademark, service mark and trade secret laws and contractual restrictions to protect our proprietary rights. We have entered into confidentiality and non-disclosure agreements with our employees and contractors, and non-disclosure agreements with parties with whom we conduct business, in order to limit access to and disclosure of our proprietary information. These contractual arrangements and the other steps taken by us to protect our intellectual property may not prevent misappropriation of our technology or deter independent third-party development of similar technologies. We also seek to protect our proprietary position by filing U.S. and foreign patent applications related to our proprietary technology, inventions and improvements that are important to the development of our business. Proprietary rights relating to our technologies will be protected from unauthorized use by third parties only to the extent they are covered by valid and enforceable patents or are effectively maintained as trade secrets. We pursue the registration of our trademarks and service marks in the United States and internationally. We recognize that there are certain jurisdictions where we have not applied for patent protection and where no patent protection may be available. Our ability to market products or technology in these jurisdictions may be limited.

The steps we have taken to protect our proprietary rights may be inadequate and third parties may infringe or misappropriate our trade secrets, trademarks and similar proprietary rights.

Index

Any significant failure on our part to protect our intellectual property could make it easier for our competitors to offer similar services and thereby adversely affect our market opportunities. Our products are unique and one of a kind, and should a comparative product come to market as a result of our inability to protect our trade secrets, this could have a material adverse affect on the Company's business and future. In addition, litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Litigation could result in substantial costs and diversion of management and technical resources and may not be successful.

We may not be able to manufacture and to market our products in commercial quantities due to facilities or raw material supplies not meeting our needs.

Our products must be manufactured in commercial quantities, in compliance with regulatory requirements and at an acceptable cost. If our existing facilities and/or raw material supplies cannot meet our needs, we will seek other manufacturers. The availability, pricing and supply of our products are currently dependent on arrangements with our raw material suppliers. The cost and availability of raw materials and esters, the availability of tax and other incentives for our products and arrangements for the distribution of our products by others, could change. Also, although we believe there is sufficient manufacturing capacity to meet our long term objectives, this could change as well. Should the situation change with any of these important components in the manufacture and distribution of our products this could have a significant negative effect on the company's business, and outlook.

Our business may be harmed if we fail to obtain regulatory approvals or comply with legislative and regulatory requirements.

The manufacturing, marketing, supply, distribution and use of fuel and fuel reformulators are subject to extensive legislation and regulation in most jurisdictions in which we intend to do business. Our reformulator and the resultant ester blend will be competing with both ordinary diesel fuel and other fuels and solutions that claim to offer environmental benefits. The business of Ethos depends, in part, on the availability of environmental legislation which requires or provides incentives to customers to use products similar to our own. New or revised legislation and regulations as a result of changes in the prevailing political climate or for any other reasons, which for example remove the availability of incentives or which impose additional compliance burdens on us, or which provide incentives to distributors and customers to adopt competitive products, could have an adverse effect on our business, prospects, results of operations and financial position.

The development and manufacture of our technology may subject us to environmental compliance or remediation obligations.

Our technology is and will be subject to many environmental laws and regulations wherever it is used. Such laws and regulations govern, among other things, fuel emissions, the use and handling of hazardous substances, waste disposal and the investigation and remediation of soil and groundwater contamination. As with other companies engaged in similar activities, a risk of environmental liability is inherent in our current and historical activities. Future additional environmental compliance or remediation obligations could adversely affect our business through increased production costs from implementing environmental compliance. By restricting or prohibiting the manufacture, distribution and use of our products, environmental regulations could harm our business.

Our business is subject to extensive and potentially costly environmental regulations that could significantly increase our operating costs and our ability to successfully operate.

We are subject to a number of environmental regulatory bodies such as the EPA, as well as other regulatory agencies.

In accordance with the regulations promulgated under the US Clean Air Act, manufacturers (including importers) of gasoline, diesel fuel and additives for gasoline or diesel fuel, are required to have their products registered with the

EPA prior to their introduction into the market place. Currently, Ethos FR® has such a registration (1910-0001). However, unforeseen future changes to the registration requirements may be made, and Ethos FR® may not be able to qualify for registration under such new requirements. The loss of our EPA registration or restrictions on its current registration could have an adverse affect on our business and plan of operation.

Index

We have registered this product with the US Environmental Protection Agency. This registration permits us to sell Ethos FR® for domestic on-road use in the United States. However, there are provisions in the Environmental Protection Act that could require further testing. In addition, we currently sell our product outside of the United States and intend to further expand our sales efforts internationally. Accordingly, Ethos FR® is registered in the United States only, and we are considering its registration in other countries. Further testing could be needed in these or other countries. The failure of Ethos FR® to maintain or obtain registration in countries or areas where we would like to market it would have a materially adverse effect on our business and plan of operation.

Our business is favorably affected by stricter air quality regulations and regulations regarding emission controls. If these regulations are withdrawn or determined to be invalid, our prospects would be adversely affected.

Additionally, environmental laws and regulations, both at the federal and state level, are subject to change and changes can be made retroactively. Consequently, even if we obtain approval, we may be required to invest or spend considerable resources to comply with future environmental regulations. If any of these events were to occur, they may have a material adverse impact on our operations, cash flows and financial performance.

Developing new products, creating effective commercialization strategies for our technology and enhancing our products and strategies are subject to inherent risks. These risks include unanticipated delays, unrecoverable expenses, technical problems or difficulties, as well as the possibility that funds will be insufficient. Any one of these could make us abandon or substantially change our technology commercialization strategy.

Our success will depend upon, among other things, our products meeting targeted cost and performance objectives for large-scale production, our ability to adapt technologies to satisfy industry standards, satisfying consumer expectations and needs and bringing our products to market before the market is saturated. We may encounter unanticipated technical or other problems that result in increased costs or substantial delays in introducing and marketing new products. Current and future products may not be reliable or durable under actual operating conditions or otherwise commercially viable. New products may not satisfy price or other performance objectives when introduced in the marketplace. Any of these events could adversely affect our realization of revenues from such new products.

Product liability claims related to our products could prove to be costly to defend and could harm our business reputation.

Fuel and fuel-additive businesses may be adversely affected by litigation and complaints from distributors, customers and government authorities resulting from fuel quality, illness, injury or other health concerns or other issues. Adverse publicity surrounding such allegations could negatively affect our products, regardless of whether the allegations are true, by discouraging distributors and customers from buying our products. We could also incur significant costs and the diversion of management time in defending the Company against claims, whether or not such claims have any basis.

We face management, financial and information systems and controls challenges that must be met to manage our anticipated growth and failure to do so will hurt our financial situation and the company’s future prospects.

In order to successfully manage our anticipated growth, we must improve our management, financial and informational systems and controls, and expand, train and manage our employee base effectively. There will be additional demands placed on our technical, sales, marketing and administrative resources as we expand in our target markets. Our ability to cope with these demands may be impaired as a result.

Our business may suffer if we are unable to attract and retain key officers or employees.

We believe our future success will depend greatly upon the expertise and continued service of certain key executives and technical personnel. Furthermore, our ability to expand operations to accommodate our anticipated growth will also depend on our ability to attract and retain qualified management, finance, marketing, sales and technical personnel. However, competition for these types of employees is intense due to the limited number of qualified professionals. We have attempted to reduce these personnel risks by (i) entering into contracts with certain key employees, (ii) providing employment benefits such as vacations and health coverage, and (iii) adopting an employee stock option plan that covers most employees. However, these measures do not guarantee that employees will remain with the Company, or ensure that qualified employees can be recruited in the future.

Our ability to continue as a going concern is uncertain.

The report of our independent registered public accounting firm on our consolidated financial statements for the fiscal year ended December 31, 2007 states that there is substantial doubt about the Company's ability to continue as a going concern. This "going concern" opinion could adversely affect our ability to sell our products, attract and retain strategic relationships and obtain additional financing.

Our ability to use our net operating loss carry forward may be limited.

As of December 31, 2007, we have approximately $28,218,893 million in federal and state net operating loss carry forwards which will begin to expire in 2022 if not used to offset future federal and state taxable income. Our net loss carry forwards are subject to various limitations and have not been audited by the Internal Revenue Service. We anticipate the net loss carry forwards will be used to offset the federal and state taxable income and the related tax payments which we would otherwise be required to make with respect to income, if any, generated in future years.

The growth of our business is dependent upon the availability of adequate capital.

The growth of our business will depend on the availability of adequate capital, which in turn will depend in large part on cash flow generated by our business and the availability of equity and debt financing. Our cash flow is dependent on the successful commercialization of our products, principally Ethos FR®. Should it be insufficient to achieve our financial projections, our ability to obtain additional funding will determine our ability to continue as a going concern.

We face intense competition and may not have the financial and human resources necessary to keep up with rapid technological changes which may result in our technology becoming obsolete.

The 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. Most of our competitors have substantially greater financial and marketing resources than we do and may independently develop superior technologies which may result in our technology becoming less competitive or obsolete. We may not be able to keep pace with this change. If we cannot keep up with these advances in a timely manner, we will be unable to compete in our chosen markets.

Competition from the advancement of alternative fuels may lessen the demand for our products and negatively impact our profitability.

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. Fuel cells have emerged as a potential alternative to certain existing power sources because of their higher efficiency, reduced noise and lower emissions. Fuel cell industry participants are currently targeting the transportation, stationary power and portable power markets in order to decrease fuel costs, lessen dependence on crude oil and reduce harmful emissions. If the fuel cell and hydrogen industries continue to expand and gain broad acceptance, and hydrogen becomes readily available to consumers for motor vehicle use, we may not be able to compete effectively. This additional competition could reduce the demand for Ethos FR® products, which would negatively impact our profitability, causing a reduction in the value of your investment.

Index

Our officers and directors have significant voting power and may take actions that may not be in the best interest of other stockholders.

Our officers and directors control 45% of our outstanding common stock, of which Enrique de Vilmorin, our Chairman, controls approximately 44%. If these stockholders act together, they may be able to exert significant control over our management and affairs requiring stockholder approval, including approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control and might adversely affect the market price of our common stock. This concentration of ownership may not be in the best interests of all our stockholders.

Risks Related to Regulation and Governmental Action

A change in government policies unfavorable to our products may cause demand for our products to decline.

Growth and demand for our products may be driven primarily by federal and state government policies. The continuation of these policies is uncertain, which means that demand for our products may decline if these policies change or are discontinued. A decline in the demand for our products may negatively affect our results of operations, financial condition and cash flows.

A change in environmental regulations or violations thereof could result in the devaluation of our common stock and a reduction in the value of your investment.

Environmental laws and regulations, both at the federal and state level, are subject to change and changes can be made retroactively. Consequently, even if we have the proper permits at the present time, we may be required to invest or spend considerable resources to comply with future environmental regulations or new or modified interpretations of those regulations, which may reduce our profitability.

Volatility in gasoline selling price and production cost may reduce our gross margins.

Ethos FR® products are used as a fuel reformulator to reduce vehicle emissions. Therefore, the supply and demand for gasoline impacts the price of raw materials and our business and future results of operations may be materially adversely affected if gasoline demand or price decreases.

Risks Related to Our Stock Being Publicly Traded

Our stock price may be volatile.

Since our recent name change to Ethos Environmental, our Common Stock has been trading in the public market since November 16, 2006. We cannot predict the extent to which a trading market will develop for our Common Stock or how liquid that market might become. The trading price of our Common Stock has been and is expected to continue to be highly volatile as well as subject to wide fluctuations in price in response to various factors. These factors include:

• Quarterly variations in our results of operations or those of our competitors.

• Announcements by us or our competitors of acquisitions, new products, significant contracts, commercial relationships or capital commitments

• Disruption to our operations.

• The emergence of new sales channels in which we are unable to compete effectively.

• Our ability to develop and market new and enhanced products on a timely basis.

• Commencement of, or our involvement in, litigation.

• Any major change in our board of directors or management.

• Changes in governmental regulations or in the status of our regulatory approvals.

• Changes in earnings estimates or recommendations by securities analysts.

• General economic conditions and slow or negative growth of related markets

In addition, the stock market in general, and the market for technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our Common Stock, regardless of our actual operating performance. In addition, in the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. Such litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

The liquidity of our common stock is affected by its limited trading market.

Shares of our common stock are quoted on the OTC Bulletin Board under the symbol ETEV.OB. We expect our shares to continue to be quoted in that market and not to be de-listed, as we have no intention to stop publicly reporting. An "established trading market" may never develop or be maintained. Active trading markets generally result in lower price volatility and more efficient execution of buy and sell orders. The absence of an active trading market reduces the liquidity of an investment in our shares. The trading volume of our common stock historically has been limited and sporadic. As a result of this trading activity, the quoted price for our common stock on the OTC Bulletin Board is not necessarily a reliable indicator of its fair market value, and the low trading volume may expose the price of our common stock to volatility. Further, if we cease to be quoted, holders would find it more difficult to dispose of, or to obtain accurate quotations as to the market value of, our common stock and the market value of our common stock would likely decline.

A significant number of our shares will soon become eligible for sale and their sale or potential sale may depress the market price of our common stock.

Some or all of the shares of common stock may be offered from time to time in the open market pursuant to Rule 144, and these sales may have a depressive effect on the market for our shares of common stock.

Investors should not anticipate receiving cash dividends on our common stock.

We have never declared or paid any cash dividends or distributions on our capital stock. We currently intend to retain any future earnings to support operations and to finance expansion and, therefore, we do not anticipate paying any cash dividends on our common stock in the foreseeable future.

Our Common Stock has a small public float and future sales of our Common Stock, or sales of shares being registered under this document may negatively affect the market price of our Common Stock.

We cannot predict the effect, if any, that future sales of shares of our Common Stock into the market will have on the market price of our Common Stock. However, sales of substantial amounts of Common Stock may materially and adversely affect prevailing market prices for our Common Stock.

Index

Because the market for and liquidity of our shares is volatile and limited, and because we are subject to the "Penny Stock" rules, the level of trading activity in our Common Stock may be reduced.

Our Common Stock is quoted on the OTCBB. The OTCBB is generally considered to be a less efficient market than the established exchanges or the NASDAQ markets. While our Common Stock continues to be quoted on the OTCBB, an investor may find it more difficult to dispose of, or to obtain accurate quotations as to the price of our Common Stock, compared to if our securities were traded on NASDAQ or a national exchange. In addition, our Common Stock is subject to certain rules and regulations relating to "penny stocks" (generally defined as any equity security that is not quoted on the NASDAQ Stock Market and that has a price less than $5.00 per share, subject to certain exemptions). Broker-dealers who sell penny stocks are subject to certain "sales practice requirements" for sales in certain nonexempt transactions (i.e., sales to persons other than established customers and institutional "accredited investors"), including requiring delivery of a risk disclosure document relating to the penny stock market and monthly statements disclosing recent bid and offer quotations for the penny stock held in the account, and certain other restrictions. If the broker-dealer is the sole market maker, the broker-dealer must disclose this, as well as the broker-dealer's presumed control over the market. For as long as our securities are subject to the rules on penny stocks, the liquidity of our Common Stock could be significantly limited. This lack of liquidity may also make it more difficult for us to raise capital in the future.

Available Information

We file electronically with the Securities and Exchange Commission our annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, and current reports on Form 8-K, pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. You may obtain a free copy of our reports and amendments to those reports on the day of filing with the SEC by going to http://www.sec.gov.

Item 2. Properties

We are located at 6800 Gateway Park Drive San Diego, CA 92154. We lease approximately 70,000 square feet of industrial space and manufacturing space. We purchased our current facility in 2006 and sold it with a lease-back agreement in October 2007. It is our belief that the space is more than adequate for our immediate and future needs. The company is also still obligated to a long-term lease at its prior facility. Please see Note 5. “Operating Leases” in the consolidated financial statements.

Item 3. Legal Proceedings

From time to time, we are involved in routine legal matters incidental to our business. In the opinion of management, the ultimate resolution of such matters will not have a material adverse effect on our financial position, results of operations or liquidity.

During 2007, the company became a defendant in a lawsuit filed by Accutek, Inc. of Vista, CA for an outstanding balance on equipment purchased in the amount of $43,000. The company has filed a cross-complaint asserting that the contractual obligations of the supplier, Accutek were not fulfilled. The case was still open at December 31, 2007, and the company is confident that the court will find in our favor.

During 2007, the company became a defendant in a lawsuit filed by Groovie Like A Movie in the amount of $19,950. The Preliminary Trial Date is in April 2008. The company has filed a cross-complaint claiming non-delivery of goods and services and is confident that the court will find in our favor.

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

None.

Index
33

PART II

Item 5. Market for the Common Equity and Related Stockholder Matters

Price Range of Our Common Stock

Our shares of common stock are currently trading on the OTC Bulletin Board (“OTCBB. Prior to November 16, 2006, our trading symbol was “VICI.” On November 16, 2006, to reflect our new name and the 1 for 1,200 stock split, our trading symbol was changed to “ETEV”. The OTCBB is a regulated quotation service that displays real-time quotes, last-sale prices, and volume information in over-the-counter equity securities. An OTCBB equity security generally is any equity that is not listed or traded on NASDAQ or a national securities exchange. The reported high and low bid and ask prices for the common stock are shown below for the period from January 1, 2006 through December 31, 2007.

	Bid*	
	Low	High
2006 Fiscal Year		
Jan - Mar 2006	$ 6.60	$ 13.20
Apr - June 2006	$ 6.00	$ 11.76
July - Sept 2006	$ 3.00	$ 7.68
Oct - Dec 2006	$ 2.00	$ 11.15
2007 Fiscal Year		
Jan - Mar 2007	$ 3.51	$ 5.50
Apr - June 2007	$ 1.92	$ 4.35
July - Sept 2007	$ 0.79	$ 2.00
Oct - Dec 2007	$ 0.90	$ 2.15

*All of the prices indicated in the table above reflect the reverse stock split, which became effective November 16, 2006.

Because our common stock is subject to the SEC's penny stock rules, broker-dealers may experience difficulty in completing customer transactions, and trading activity in our securities may be adversely affected.

Transactions in our common stock are currently subject to the "penny stock" rules promulgated under the Securities Exchange Act of 1934. Under these rules, broker-dealers who recommend our securities to persons other than institutional accredited investors must:

- make a special written suitability determination for the purchaser;
- receive the purchaser's written agreement to a transaction prior to sale;
- provide the purchaser with risk disclosure documents which identify certain risks associated with investing in "penny stocks" and which describe the market for these "penny stocks" as well as a purchaser's legal remedies; and
- obtain a signed and dated acknowledgment from the purchaser demonstrating that the purchaser has actually received the required risk disclosure document before a transaction in a "penny stock" can be completed.

As a result of these rules, broker-dealers may find it difficult to effectuate customer transactions and trading activity in our securities may be adversely affected. As a result, the market price of our securities may be depressed, and you may find it more difficult to sell our securities.

Holders

As of December 31, 2007, there were approximately 893 holders of record of our common stock.

Dividends

We have not paid any cash dividends on our common stock or preferred stock since inception and presently anticipate that all earnings, if any, will be retained for development of our business and that no dividends on our common stock or preferred will be declared in the foreseeable future. Any future dividends will be subject to the discretion of our Board of Directors and will depend upon, among other things, future earnings, operating and financial condition, capital requirements, general business conditions and other pertinent facts. Therefore, there can be no assurance that any dividends on our common stock or preferred stock will be paid in the future.

Securities Authorized for Issuance Under Equity Compensation Plans

On November 20, 2006, the board of directors adopted the 2006 Stock Incentive Plan or the 2006 Plan. The 2006 Plan reserves 3,500,000 shares of our common stock for issuance in connection with stock options, stock awards and other equity-based awards to be granted under the 2006 Plan.

Recent Sales of Unregistered Securities

None (other than in connection with the merger described herein).

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

The following discussion should be read in conjunction with our audited financial statements and notes thereto included herein. In connection with, and because we desire to take advantage of, the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, we caution readers regarding certain forward looking statements in the following discussion and elsewhere in this report and in any other statement made by, or on our behalf, whether or not in future filings with the Securities and Exchange Commission. Forward-looking statements are statements not based on historical information and which relate to future operations, strategies, financial results or other developments. Forward looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward looking statements made by, or our behalf. We disclaim any obligation to update forward-looking statements.

General Discussion on Results of Operations and Analysis of Financial Condition

We begin our General Discussion and Analysis with a discussion of the Critical Accounting Policies and the Use of Estimates, which we believe are important for an understanding of the assumptions and judgments underlying our financial statements. We continue with a discussion of the Results of Operations for the three-month periods ended December 31, 2007 and 2006 and for the years ended December 31, 2007 and 2006, followed by a discussion of Liquidity and Capital Resources available to finance our operations.

Since inception in 2000, Ethos has been used by over 10,000 corporations and/or consumers in over 40 countries worldwide, which extends to six of the seven continents. Each and every such end-user has reported to us, either in writing or verbally, that after using the Ethos FR product, they experienced cost savings of anywhere from 7% to 19% and emissions reductions of at least 30% as mentioned in this report. 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.

Index
35

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, $4.77 million by the end of 2006 and $ 10.376 million for the year ending December 31, 2007. Even more significant growth is anticipated for 2008, with sales in established markets in the U.S., Asia, Latin America, Australia, Africa and Europe expected to top current forecasts. Based on our growth to date, the 100% satisfaction rate and testimonials we are receiving from our satisfied customers, 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, we project that top line revenue will grow to the tens of millions in 2008 and beyond.

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.

The management of Ethos Environmental is excited by the enthusiastic acceptance that our 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.

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.
Ethos seeks both a cleaner environment and economic success. As the name Ethos suggests, we are committed to the highest ethical standards - in the products that we sell, in the relationships 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.

Index

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 products 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 2007, our revenue base increased by 120% over 2006. Since 2004, the company has increased its revenue base by 3,019%.

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 2008, the company will continue to direct 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..

PLAN OF OPERATIONS FOR THE NEXT TWELVE MONTHS

Since inception in 2000, Ethos Environmental has grown its customer base to thousands of diverse clients in over 15 countries 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, $4.77 million by the end of 2006 and $ 10,376 million by the end of 2007. Even more significant growth is anticipated for 2008, 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 2008 and beyond. 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.

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.

Index

Results of Operations

The following financial data compares the balances as relates to Ethos Environmental, Inc. for the fiscal years ended December 31, 2007 and 2006.

Revenues

We recognized revenues of $10,376,646 for the year ended December 31, 2007 compared to revenues of $4,768,013 for the year ended December 31, 2006,an increase of $5,608,633 or 118%. The primary source of revenue for the years ended December 31, 2007 is from the sale of Ethos FR® and Ethos Bunker Fuel.

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® and Ethos Bunker Fuel products 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 revenues less cost of goods sold, was $6,971,911 or 67% of sales for the year ended December 31, 2007, compared to $3,154,647 or 66% of sales for the year ended December 31, 2006.

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 year ended December 31, 2007 was $213,702, versus $ 292,096 for the year ended December 31, 2006. The decrease in depreciation was primarily due to the sale in October 2007 of the building which represented approximately $193,509 of the total depreciation of $213,702. Production and office equipment are depreciated on a 5-year basis, and the building is depreciated on a 25-year basis. Only $20,193 and $18,865 of depreciation is shown in general and administrative expenses at December 31, 2007 and 2006, respectively, as the remainder is included in cost of sales.

Operating expenses incurred during the year ended December 31, 2007 totaled $25,096,543. These expenses were incurred primarily in the following accounts:

• Legal fees of approximately $ 149,854
• Accounting, audit, bookkeeping and director fees totaling $ 253,045
• Business consulting fees of approximately $ 10,953,025 - of which $10,909,710 relates to the non-cash issuance of stock
• Debt Extinguishment Expense of $ 6,646,171 – a non-cash item relating to warrants associated with the building purchase
• Outside services of $ 218,578

• Payroll Expenses of $ 5,341,473 – of which $4,500,000 relates to the non-cash issuance of stock
• Selling Expenses of $ 561,554
• Rent and Equipment Lease of $ 551,022 – the majority of which relates to the Mazuma equipment sale/leaseback transaction
• Office expenses of $ 421,821

Index

Similar expenses incurred for the year ended December 31, 2006 totaled $ 9,696,398 and were primarily for services of a similar nature.

For comparison purposes, the Company issued 13,764,000 new shares of common stock during the year ended December 31, 2007, compared to 4,910,000 shares issued during the year ended December 31, 2006. Of the 13,764,000 shares issued in 2007, 6,164,000 shares were for services, 2,500,000 shares were issued for cash, 100,000 shares were issued under contract with the Chief Financial Officer and 5,000,000 shares were issued as a one-time bonus to the Chief Executive Officer. The shares issued were charged against general and administrative expenses, in accordance with Generally Accepted Accounting Principles (GAAP).

The 5,000,000 shares of stock issued in 2007 to our CEO were not subject to any performance and/or service conditions, and there was no pre-existing arrangement or agreement regarding the such shares.

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 years ended December 31, 2007 and 2006 amounted to $71,217 and $112,051, respectively.

Net Loss

The Company incurred a net loss for the year ended December 31, 2007 of $18,352,510 as compared to a net loss of $6,490,113 for the year ended December 31, 2006. Even though revenues increased by 118% during 2007, as compared to December 31, 2006, the net loss increased by approximately $11,862,397. The main reason for the increase in net loss is due to the issuance of stock for services, cash, debt extinguishment and compensation provided which totaled $24,055,881. The stock compensation is included in the consolidated statement of operations under general and administrative expenses.

NON-OPERATING INCOME AND EXPENSES

Non-operating income, net of expenses, remained constant in the year ended December 31, 2007 versus 2006. Interest expense decreased to $618,084 during the 12 months ended December 31, 2007 from $ 620,244 in 2006. The interest was primarily associated with the interest-only loan for $4,750,000, related to the purchase of our new building as well as interest only working capital loans for $500,000 and $700,000. All three of these loans were paid off when the company sold its headquarters building in October 2007. Non-operating Income decreased to $390,206 in 2007 versus $730,813 in 2006. Non-operating Income was primarily associated with Gains on Sales of Assets.

Liquidity and Capital Resources

On December 31, 2007, we had working capital of $6,471,769 and stockholders’ equity of $7,399,640 compared to a working capital deficit of $4,700,199 and stockholders’ equity of $1,696,269 on December 31, 2006.

On December 31, 2007, the Company had $74,176 in cash, total assets of $8,329,352 and total liabilities of $929,712, compared to $64,867 in cash and $300,000 in restricted cash, total assets of $7,519,474 and total liabilities of $5,823,205 on December 31, 2006.

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 2008 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 net loss incurred for the twelve months ended December 31, 2007 increased significantly due to issuance of stock and warrants for services, cash, debt extinguishment and compensation in the amount of $22,005,881, as reflected within the Stockholder's Equity Statement. These were non-cash transactions that increased expenses and increased equity. In addition, depreciation expense decreased to $213,702 during the twelve months ended December 31, 2007 from $292,096 for the same period 2006. The Company decreased its allowance for doubtful accounts based upon a more in depth analysis of the client base and realization of receivables, and an overall increase in collections. The introduction and sale of the Company's new bunker fuel product caused the increase in Accounts Receivable in 2007. Inventory has increased each year, due to the need for keeping larger quantities of inventory on hand as sales have increased over 100% annually from 2003 to 2007. Accounts payable and accrued expenses decreased due to more efficient handling of vendor bills and quicker payment turnaround.

Index

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.

Loan Facilities

On February 7, 2007, we 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 March 29, 2007, the company has placed property valued at $737,968 under this lease arrangement with Mazuma Capital Corp.

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.

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.

MOORE & ASSOCIATES, CHARTERED
ACCOUNTANTS AND ADVISORS
PCAOB REGISTERED

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Ethos Environmental Inc.

We have audited the accompanying consolidated balance sheet of Ethos Environmental Inc. as of December 31, 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ethos Environmental Inc. as of December 31, 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 10 to the financial statements, the Company has incurred a net loss due to non-cash transactions, which raises substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Moore & Associates, Chartered

Moore & Associates Chartered
Las Vegas, Nevada
April 14, 2008

2675 S. Jones Blvd. Suite 109, Las Vegas, NV 89146 (702) 253-7499 Fax (702) 253-7501

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Ethos Environmental, Inc.
San Diego, CA

We have audited the accompanying consolidated balance sheet of Ethos Environmental, Inc., ("the Company") as of December 31, 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ethos Environmental, Inc., as of December 31, 2006, and the results of its operations and its cash flows for the year ended, in conformity with accounting principles generally accepted in the United States.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in the notes to the consolidated financial statements, the Company has experienced recurring losses from operations. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding this matter are also described in the notes to the consolidated financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 9, the accompanying 2006 consolidated financial statements have been restated.

/S/ PETERSON SULLIVAN PLLC

Seattle, Washington
April 15, 2007, except for the effects of the restatement described in Note 9 for which the date is November 16, 2007
Index

Item 7. Financial Statements
ETHOS ENVIRONMENTAL, INC.

CONSOLIDATED BALANCE SHEET

ASSETS	December 31, 2007
CURRENT ASSETS:	
Cash	$ 74,176
Accounts Receivable, net	5,951,275
Inventory	1,376,030
Total Current Assets	$ 7,401,481
Property and Equipment, net	228,452
Other Assets	699,419
Total Assets	$ 8,329,352

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES:	
CURRENT LIABILITIES:	
Accounts Payable	$ 223,891
Accrued Expenses	109,300
Demand Note Payable	350,000
Note Payable Related Party	246,521
Total Current Liabilities	929,712
SHAREHOLDERS' EQUITY:	
Common Stock, $.0001 par value; 100,000,000 shares authorized; 36,871,687 issued and outstanding	3,687
Additional Paid-in Capital	35,615,040
Accumulated Deficit	(28,219,087)
Total Shareholders' Equity	7,399,640
Total Liabilities and Shareholders' Equity	$ 8,329,352

See notes to consolidated financial statements.

ETHOS ENVIRONMENTAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2007 and 2006

	2007	2006
Revenues	$ 10,376,646	$ 4,768,013
Cost of Sales	3,404,735	1,613,366
Gross Profit	6,971,911	3,154,647
Operating Expenses:		
Depreciation (Other than Cost of Sales)	20,193	18,865
Selling Expenses	2,361,554	4,689,910
General and Administrative	18,214,796	4,987,623
Investor Relations	1,800,000	-
Business Development	2,700,000	-
Total Operating Expenses	25,096,543	9,696,398
Operating Loss	(18,124,632)	(6,541,751)
Provision for Income Taxes	0	0
Other Income	390,206	730,813
Interest Expense	(618,084)	(620,244)
Other Expense	-	(58,931)
Net Loss	$ (18,352,510)	$ (6,490,113)
Net Loss per Common Share	$ (0.66)	$ (6.76)
Weighted average shares used in per share calculation (basic and fully diluted)	27,933,228	960,685

See notes to consolidated financial statements.

Index

ETHOS ENVIRONMENTAL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
For the Years Ended December 31, 2007 and 2006

	Common Stock		Additional	Accumulated	
	Number of Shares	Amount	Paid-in Capital	Deficit	Total
Balance at December 31, 2005	22,718,387	$ 2,272	$ 3,981,453	$ (3,376,464)	$ 607,261
Common Stock Repurchased for Cash	(5,000,200)	(500)	(49,500)		(50,000)
Capital Contribution	-	-	45,000	-	45,000
Recapitalization of Victor Industries, Inc.	479,500	48	3,083	-	3,131
					-
Common Stock issued for services	4,910,000	491	7,580,499	-	7,580,990
Net Loss				(6,490,113)	(6,490,113)
Balance at December 31, 2006 as restated	23,107,687	2,311	11,560,535	(9,866,577)	1,696,269
Common Stock Issued for cash	2,500,000	250	2,049,750	-	2,050,000
Common Stock Canceled	(50,000)	(5)	5	-	-
Warrants issued for extinguishment of debt			6,646,171		6,646,171
Common stock issued for services	11,314,000	1,131	15,358,579	-	15,359,710
Net Loss	-	-	-	(18,352,510)	(18,352,510)
Balance at December 31, 2007	36,871,687	$ 3,687	$ 35,615,040	$ (28,219,087)	$ 7,399,640

See notes to consolidated financial statements.

Index

ETHOS ENVIRONMENTAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2007 and 2006

	2007	2006
Cash Flows from Operating Activities		
Net Loss	$ (18,352,510)	$ (6,490,113)
Adjustments to Reconcile net Loss to net		
Cash provided by (used in) operating activities:		
Common Stock Issued for Services	15,359,710	7,580,990
Warrants issued for debt extinguishment	6,646,171	-
Depreciation	213,702	292,096
Changes in allowance for bad debts	(15,123)	(450,297)
Changes in Operating Assets and Liabilities		
Accounts Receivable	(5,608,828)	413,030
Inventory	(965,115)	(151,351)
Other assets	(674,519)	67,209
Accounts Payable	(280,007)	(246,658)
Accrued Expenses	7,812	10,929
Net Cash Provided by (Used in) Operating Activities	(3,668,707)	1,025,835
Cash Flows from Investing Activities		
Sale (Purchase) of Property and Equipment, net	1,199,314	(6,359,874)
Cash Received from Acquisition	-	589
Net Cash Provided by (Used in) Investing Activities	1,199,314	(6,359,285)
Cash Flows from Financing Activities		
Proceeds from Note Payable	1,055,334	5,167,819
Net Proceeds from Related Party Note Payable	196,521	50,000
Repayment of Note Payable	(1,123,153)	(13,000)
Repurchase of Common Stock	-	(50,000)
Proceeds from Common Stock sales	2,050,000	-
Proceeds from Capital Contributions	-	45,000
Net Cash Provided by (Used in) Financing Activities	2,178,702	5,199,819
Net Change in Cash and Cash Equivalents	(290,691)	(133,631)
Cash at Beginning of Period	364,867	498,498
Cash at End of Period	$ 74,176	$ 364,867
Reconciliation to Balance Sheet Presentation:		
Cash	$ 74,176	$ 64,867
Restricted Cash	-	300,000
	$ 74,176	$ 364,867
Supplemental Disclosure of Cash Flow Information:		
Cash paid for Interest	$ 618,084	$ 619,950
Cash paid for Income Taxes	$ 0	$ 0
Non Cash Transactions:		
Repayment of debt through sale leaseback	$ 4,750,000	$ -
Increase in other assets due to reclassification	$ 300,000	$ -

See notes to consolidated financial statements.

Index

NOTES TO FINANCIAL STATEMENTS

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. ("Victor"), 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, Victor redomiciled to Nevada, and changed its name to Ethos Environmental, Inc. In addition thereto, and as part of the merger, Victor set a record date of November 16, 2006 for a reverse stock split of 1 for 1,200 of the issued and outstanding shares of Victor. Prior to the reverse stock split and subsequent merger, Victor issued 47,685,805 shares to reduce its liabilities by $257,503 based on the pre-merger stock price of $0.0054 per share. All of the per share data in these consolidated financial statements are presented on a post-split basis.

The merger provides for a business combination transaction by means of a merger of Ethos with and into Victor, with Victor as the corporation surviving the merger. Under the terms of the merger, Victor acquired all issued and outstanding shares of Ethos in exchange for 17,718,187 shares of common stock of Victor. Shares of Victor common stock, representing an estimated 97% of the total issued and outstanding shares of Victor common stock, were 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 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 was recognized by Victor 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. Accordingly the operations of the company are included in these financial statements as of November 2, 2006. 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 a recapitalization of Victor. The assets and liabilities of Victor have been included in these consolidated financial statements at their net book value.

The assets acquired and liabilities assumed of Victor were as follows:

Assets	$ 66,062
Liabilities	62,931
Net Recapitalization	$ 3,131

The accounting effect of the reverse acquisition is reflected in the consolidated statements of stockholders' equity.

The historical financial statements prior to the reverse merger transaction have been restated to be those of the accounting acquirer and historical stockholders' equity prior to the reverse merger has been retroactively restated for the equivalent number of shares received in the merger after giving effect to the difference in par value of the issuer's and acquirer's stock with an offset to additional paid-in capital.

As part of the reverse acquisition, the prior activities of the Company were discontinued. No discontinued operations are presented in these financial statements since there were no expenses or revenues incurred after November 2, 2006 related to these operations.

The Company agreed to acquire Ethos Environmental, Inc. because of its anticipated future growth in a marketplace that is in strong demand for its product, and it was believed that the acquisition would benefit the existing shareholders of both companies.

Of the 4,910,000 shares issued in 2006, 3,600,000 shares represented a pre-merger commitment by the entity then known as Ethos Environmental, Inc. The entity then known as Ethos Environmental, Inc. committed to issue the shares on October 15, 2006, and the shares were to be issued regardless of the outcome of the then pending merger as such shares were not for services in any way associated with the then pending merger. As such, the shares were valued at fair value as determined by the pre-merger Ethos Board of Directors.

On the date that the pre-merger Ethos Environmental, Inc. committed to issue the shares, there was not a public market for Ethos' common stock, and the most readily determinable value of the stock was fair value. Of the 3,600,000 shares, 100,000 were issued for services rendered by an outside consultant prior to, and unrelated to, the merger. As this was the number of shares that said consultant was willing to accept as payment for services rendered valued at $25,000, we believe that the value of $0.25 approximated the fair value of the shares on the date of the commitment and therefore was the appropriate value to be used.

The remaining 3,500,000 shares (the "Bonus Shares") were issued to our Chief Executive Officer as a one-time bonus by the pre-merger entity known as Ethos Environmental, Inc. The Bonus Shares were not subject to any performance and/or service conditions, and there was no pre-existing arrangement or agreement regarding the Bonus Shares.

Since the 3,600,000 shares were due and payable in the 4th quarter of 2006 by the pre merger Ethos, these shares have been recorded on the year end financial statements of the post-merger entity. All 3,600,000 shares were deemed fully paid and non-assessable as of the date authorized by the pre-merger Ethos Board of Directors, October 15, 2006.

The 3,600,000 shares were accounted for at the fair value of $0.25 and charged against general and administrative expenses in accordance with Generally Accepted Accounting Principles (GAAP). The remaining 1,310,000 shares were issued in compliance with prior consulting agreements and valued at the market price at the date of issue, $5.10. The value of these shares was charged against selling expenses and general and administrative expenses. There was no cash involved in these transactions.

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All material inter-company accounts have been eliminated in consolidation.

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.

Cash

Cash includes a payroll account and an operating checking account held at a financial institution. The Company's cash balances exceed federally insured limits from time to time.

At December 31, 2006 Restricted cash consisted of a deposit made in August 2005 that is being held in a bank in Beijing, China. This deposit is required by the government of China and must be held in the account a minimum of eighteen months in order for the Company to conduct business in China. Since this deposit was not readily-accessible, the Company reclassified this asset in 2007 to Other Assets.

Index

Accounts Receivable

Accounts receivable are stated at their principal balances, do not bear interest and are generally unsecured. Management considers all balances over 30 days old to be past due. However, if credit is extended management conducts a periodic review of the collectability of its accounts receivable. If an account is determined to be uncollectible based on historical experience and the current economic climate, an allowance is established and the account is written off against the allowance. The Company determined that an allowance of $111,362 at December 31, 2007 was necessary. At December 31, 2007, 84% of accounts receivable is due from one customer.

Inventory

Inventory consists primarily of the Company's fuel reformulating product and is stated at the lower of cost or market.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the anticipated lease term or the estimated useful life. The Company's policy is to capitalize items with a cost greater than $4,000 and an estimated useful life greater than one year. The Company reviews all property and equipment for impairment at least annually.

Fair Value of Financial Instruments

The Carrying value of the Company's accounts receivable, accounts payable, accrued expenses, note payable, and note payable related party approximate their estimated fair value due to the relatively short maturities of those instruments.

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 87% of our revenues for the fiscal year ended December 31, 2007. One Ecuadorean customer accounted for 79% and the second customer accounted for 8%.

Two customers accounted for 88% of the Company’s revenues for the fiscal year ended December 31, 2006. One Mexican customer accounted for 40% and one U.S. customer accounted for 48%.

Stock Based Compensation

As of January 1, 2006, the Company adopted SFAS No. 123(R) “share-based payment” using the modified prospective method, 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”.

Since the Company did not issue stock options to employees during the year ended December 31, 2007 or 2006, there is no effect on net loss or earnings per share had the Company applied the fair value recognition provisions of SFAS No. 123(R) to stock-based employee compensation. When the Company issues shares of common stock to employees and others, the shares of common stock are valued based on the market price at the date the shares of common stock are approved for issuance.

Index
49

Loss Per Share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding in the period. Diluted loss per share takes into consideration common shares outstanding (computed under basic earnings per share) and potentially dilutive common shares. There were no dilutive securities outstanding at December 31, 2007 or 2006. The convertible feature of the Notes Payable is not included in the calculation of diluted earnings per share since the effect is anti-dilutive due to the Company's net loss. The convertible feature of the Notes Payable is not included in the calculation of diluted earnings per share since the effect is anti-dilutive due to the Company's net loss.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2007 and 2006, was $283,470 and $132,955, respectively and are included in selling expenses in the consolidated financial statements.

Shipping and Handling

Expenses related to shipping and handling are expenses as incurred and are included in "cost of sales" in the statement of operations.

Research and Development

Research and development costs are expensed to operations when incurred and are included in general and administrative expenses in these consolidated financial statements. The amounts expensed for the years ended December 31, 2007 and 2006 amounted to $71,217 and $112,051, respectively.

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. The deferred taxes represent the future tax return consequences of those differences, which will either be taxable when the assets and liabilities are recovered or settled.

Financial Accounting Standards Board Interpretation 48 (FIN 48) was issued in July 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes (SFAS 109). This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of this interpretation did not have a material impact on the Company's results of operations or financial position. As such, the Company has not recorded any liabilities for uncertain tax positions or any related interest and penalties. The Company will, however, remain open to audit for any related items hereunder through 2006.

Foreign Operations

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the local functional currency (the U.S. Dollar) are included in "general and administrative" expenses in the statements of operations, which amounts were not material for the years ended December 31, 2007 and 2006. Currently, the company requires all sales, receipts, purchases and disbursements to be calculated in U.S.

Dollars.

Index

Recent Accounting Pronouncements

The FASB issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)”. As the Company has no plans covered by this standard, it will have no effect on the consolidated financial statements.

The SEC has issued Staff Accounting Bulletin No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements” (“SAB 108”), in September 2006. SAB 108 requires entities to quantify misstatements based on their impact on each of their financial statements and related disclosures. SAB 108 is effective as of December 31, 2006. The adoption of this standard is not expected have an impact on the Company’s consolidated results of operations, cash flows or financial position.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115.” This statement permits entities to choose to measure eligible items at fair value at specified election dates. The statement is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007 although early adoption is permitted provided that an entity also adopts SFAS 157. The Company has not determined the impact this standard will have on its consolidated operating results or financial position upon adoption. In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115.” This statement permits entities to choose to measure eligible items at fair value at specified election dates. The statement is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007 although early adoption is permitted provided that an entity also adopts SFAS 157. The Company has not determined the impact this standard will have on its consolidated operating results or financial position upon adoption.

In December 2007, the FASB issued SFAS No. 141R, “Business Combinations”. This statement is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company has not determined the impact this standard will have on its consolidated operating results or financial position upon adoption.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51”. This statement addresses the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent’s equity. The statement is effective as of the beginning of an entity’s first fiscal year that begins after December 15, 2008. The Company has not determined the impact this standard will have on its consolidated operating results or financial position upon adoption.

In June 2007, the EITF issued Issue No. 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services To Be Used in Future Research and Development Activities (“EITF 07-3”), which concluded that nonrefundable advance payments for goods or services to be received in the future for use in research and development activities should be deferred and capitalized. The capitalized amounts should be expensed as the related goods are delivered or services are performed. Such capitalized amounts should be charged to expense if expectations change such that the goods will not be delivered or services will not be delivered. The provisions of EITF 07-3 are effective for new contracts entered into during fiscal years beginning after December 15, 2007. The consensus may not be applied to earlier periods and early adoption is not permitted. The Company does not expect that the adoption of EITF 07-3 will have a material impact on its financial position and results of operations.

Note 2. Concentrations

The Company uses eight vendors for most of its fuel reformulating products although there are other companies that can provide equivalent products. These vendors accounted for 96% of product purchases in 2007. During 2006, the company primarily used five vendors for most of its fuel reformulating products. Those vendors accounted for 90% of

products purchased in 2006.

Index

Note 3. Income Taxes

As of December 31, 2007, the deferred tax assets consist of the following:

Federal loss carryforwards	$ 9,594,138
State operating loss carryforwards	2,731,862
Accumulated depreciation	49,000
Allowance for doubtful accounts	150,000
	12,525,000
Less: valuation allowance	(12,525,000)
	$ -

The Company has established a valuation allowance equal to the full amount of the deferred tax asset primarily due to uncertainty in the utilization of the net operating loss carry forwards.

As a result of stock ownership changes, the Company's ability to utilize net operating losses in the future could be limited, in whole or part, under Internal Revenue Code Section 382.

During the year ended December 31, 2007, the valuation allowance increased by $6,480,000 and $2,210,000.

As of December 31, 2007, the effective tax rate is lower than the statutory rate due to net operating losses.

The use of any loss carry forwards may be limited under the Internal Revenue Code due to the change in control of the Company in 2006 with the merger with Victor Industries, Inc.

Note 4. Notes Payable

On January 26, 2006 the Company secured a loan for its building in the amount of $4,750,000 with a convertible Promissory Note. The Note was convertible at $2.50 per common share up to 1.9 million shares. The Note carried an annual interest rate of 17% with interest-only payments and a term of one year. On December 6, 2006, the Note was assigned to another third party.

Prior to maturity, the Company approached the current Note holders and requested that they extend the maturity of the Note to March 31, 2009. As part of its offer to induce the Note holder to extend the maturity date, the Company offered to rescind the conversion feature and issue 1.9 million detachable warrants. This Note was paid off in October 2007. The Warrants associated with this Note continue to exist.

In December 2007, the company entered into a Demand Loan Agreement in the amount of $350,000. This Note was increased to $500,000 in January 2008 and paid off on January 25, 2008.

Note 5. Note Payable - Related Party

During 2007, there was one Loan Payable to the Chief Executive Officer of the Company in the amount of $246,521. The loan has no stated repayment terms, is due on demand, is unsecured and does not bear interest. The Note was issued for accrued salary payable by the Company.

Note 6. Sale and Leaseback

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 August 20, 2007, the company had placed property valued at $737,968 under this lease arrangement with Mazuma Capital Corp.

Index

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 or the equipment retained by the lessor. 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.

Note 7. Operating Leases

The Company leases an office building under a lease agreement that expires in July 2012. The rent expense for the years ended December 31, 2007 and 2006, totaled $61,083 and $66,844, respectively.

The Company leases its manufacturing equipment on a lease expiring March 2009. The rent expense for 2007 was $246,554. For 2006, this expense was $4,996. The increase is directly attributable to the sale/leaseback agreement noted above.

Beginning November 2007, the Company leases its building at 6800 Gateway Park Drive for $63,000 per month. The lease expires in October 2017. The lease expense during 2007 was $126,000.

The Company's future annual minimum lease payments are as follows for years ending December 31:

2008	$ 1,174,860
2009	900,891
2010	809,568
2011	809,568
2012	782,784
Thereafter	3,654,000
Total	$ 8,131,671

Note 8. Stockholders' Equity

Stock Option Plan

In 2006, the Company adopted the 2006 Stock Incentive Plan which reserves a total of 3,500,000 common shares to provide the Company with a means of compensating selected key employees (including officers), directors and consultants. No options were granted in 2006 or 2007 under this Plan.

Warrants

During the year ended December 31, 2007, the Company issued to the lender as consideration for the modified loan terms a warrant for purchase of 1,900,000 shares of its common stock with an exercise price of $2.50 per share. This warrant expires on March 31, 2010. The fair value of the warrant was determined using the Black-Scholes valuation model. The assumptions included an estimated term of three years, volatility of 383%, discount rate of 8.25% and a dividend rate of 0%. The resulting fair value of the warrant totaled $6,646,171, which has been included in the general and administrative expenses for the year ended December 31, 2007.

Note 9. Financial Restatement

The Company has restated its consolidated balance sheet as of December 31, 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2006. 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. The net effect on the Statement of Operations resulted in a reduction of the net loss of $66,690 for the amortization which had previously been recorded on the intangibles. There was also a reduction of goodwill, customer list, accumulated amortization, accumulated depreciation and additional paid in capital resulting from this correction, in the amount of $2,411,103, $2,000,726, $66,690, $11,160 and $4,400,669, respectively.

- The Company corrected the classification of depreciation between cost of sales and general and administrative expenses.

The following table presents the effects of the restatement adjustments on net loss for the periods ended December 31, 2006:

Net loss, as previously reported	$ (6,556,803)
Restatement adjustments:	
Amortization of intangibles	66,690
Net loss, as restated	$ (6,490,113)

The following table presents the effects of the restatement adjustments on the Company's previously reported financial position and results of operations as of and for the year ended December 31, 2006:

	As Previously Reported	As Restated
Revenue	$ 4,768,013	$ 4,768,013
Cost of sales	1,340,135	1,613,366
Operating expenses	10,036,319	9,696,398
Other income/expense	51,638	51,638
Net loss	$ (6,556,803)	$ (6,490,113)
Net Loss per Common Share	$ (6.83)	$ (6.76)
Total current assets	$ 1,123,006	$ 1,123,006

Property and intangibles, net		10,725,447		6,391,568
Other assets		5,000		5,000
Total assets	$	11,853,453	$	7,519,474
Total current liabilities	$	5,823,205	$	5,823,205
Stockholders’ equity		6,030,248		1,696,269
Total liabilities and stockholders’ equity	$	11,853,453	$	7,519,474

Index
54

Note 10. 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, 2007 is mainly due to non-cash transactions for issuance of stock for services.

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.

Note 11. Subsequent Events

On January 18, 2008, The Company issued a Promissory Note in exchange for an aggregate principal amount of $150,000. This Note is due on January 18, 2009 and bears no interest.

On January 30, 2008, the Company paid off (2) Promissory Notes totaling $500,000.

On March 26, 2008, the Company issued a Secured Promissory Note, with the Note having an effective date of January 30, 2008. The Note has a principal amount of $1,000,000 and carries a 12% per annum interest rate. The Note is due and payable in full on July 30, 2008. Corporate assets were pledged as collateral along with 2 million shares of common stock currently owned by the Company's Chief Executive Officer.

Subsequent to December 31, 2007, the Company has issued 106,550 shares of its common stock for services and 742,798 shares of its common stock pursuant to a provision in the Registration Rights Agreement with GreenBridge Capital Partners, IV, LLC.

On March 31, 2008, the Company issued a Promissory Note in the amount of $300,000 with a rate of interest of 12%, payable monthly in arrears. The Note is due and payable on March 28, 2009.

Index

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

Other than as may have been previously disclosed in our filings with the SEC, we have had no changes in and disagreements with our independent public accountants on accounting and financial disclosure.

Item 8A(T). Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, our management, including Enrique de Vilmorin, our Chief Executive Officer, and Thomas W. Maher, our Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2007.

Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures.

Management conducted its evaluation of disclosure controls and procedures under the supervision of our chief executive officer and our chief financial officer. Based on that evaluation, Mssrs. Vilmorin and Maher concluded that because of the significant deficiencies and material weaknesses in internal control over financial reporting described below, our disclosure controls and procedures were not effective as of December 31, 2007.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act. Our management is also required to assess and report on the effectiveness of our internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404"). Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2007. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. During our assessment of the effectiveness of internal control over financial reporting as of December 31, 2007, management identified significant deficiencies related to (i) the U.S. GAAP expertise of our internal accounting staff and (ii) our internal audit functions, and material weaknesses related to (i) the absence of an Audit Committee as of December 31, 2007 and (ii) a lack of segregation of duties within accounting functions.

The Company completed a merger in November 2006, following which new management was appointed. We began preparing to be in compliance with the internal control obligations, including Section 404, for our fiscal year ending December 31, 2007 as of January 1, 2007. During most of 2007 our internal accounting staff was primarily engaged in ensuring compliance with reporting requirements. As a result, with the exception of certain additional persons hired at the end of 2007 to address the material weaknesses described in our Form 10-KSB, as amended, for the year ended 2006, including the hiring of our chief financial officer, our current internal accounting department responsible for financial reporting of the Company, on a consolidated basis, is relatively new to U.S. GAAP and the related internal control procedures required of U.S. public companies. Although our accounting staff is professional and experienced in accounting requirements, management has determined that they require additional training and assistance in U.S. GAAP matters. Management has determined that our internal audit function is also significantly deficient due to insufficient qualified resources to perform internal audit functions. Finally, management determined that the lack of

an Audit Committee of the board of directors of the Company and a lack of segregation of duties also contributed to insufficient oversight of our accounting and audit functions, which have led to the material weaknesses being reported for the year ended December 31, 2007.

Index

In order to correct the material weaknesses set forth in our Annual Report for the year ended December 31, 2006, and those significant deficiencies and material weaknesses being reported in this Form 10-KSB for the year ended December 31, 2007, we have taken the following remediation measures:

- In late 2007, we engaged an outside accounting firm with extensive experience in internal control and U.S. GAAP reporting compliance. Together with management, this firm will oversee and manage the financial reporting process and required training of the accounting staff.
- We have committed to the establishment of effective internal audit functions, however, due to the scarcity of qualified candidates with extensive experience in U.S. GAAP reporting and accounting in the region, coupled with our limited resources, we were not able to hire sufficient internal audit resources before end of 2007. However, we will increase our search for qualified candidates with assistance from recruiters and through referrals, subject to our available resources.
- In February 2008, we hired a bookkeeper with extensive experience in public company accounting and U.S. GAAP reporting requirements.
- In late 2007, we commenced our search for qualified members to nominate to the Audit Committee of our Board of Directors. We are still engaged in this process and an Audit Committee still has not been appointed.
- Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, we will implement procedures to assure that the initiation of transactions, the custody of assets and the recording of transactions will be performed by separate individuals.

We believe that the foregoing steps will remediate the significant deficiencies and material weaknesses identified above, and we will continue to monitor the effectiveness of these steps and make any changes that our management deems appropriate.

A material weakness (within the meaning of PCAOB Auditing Standard No. 5) is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting.

For the year ended December 31, 2007, our management concluded that because of the significant deficiencies in internal control over financial reporting described below, our disclosure controls and procedures were not effective as of December 31, 2007. However, though two material weaknesses remain, we believe that we have significantly remediated most of the material weaknesses in our internal control over financial reporting as they existed at December 31, 2006 as described below, and nothing has come to the attention of management that causes them to believe that any material inaccuracies or errors exist in our financial statements as of December 31, 2007. The reportable conditions and other areas of our internal control over financial reporting identified by us as needing improvement have not resulted in a material restatement of our financial statements for any fiscal quarter of 2007, except as set forth below. Nor are we aware of any instance where such reportable conditions or other identified areas of weakness have resulted in a material misstatement of omission in any report we have filed with or submitted to the Commission.

During the year ended 2006, and in the course of responding to comments from the SEC, our auditor discovered numerous errors in our financial statements for the year ended December 31, 2006. As a result of these errors, we restated our Form 10-KSB for the year ended 2006, and our Form 10-QSBs for the quarter ended March 30, 2007 and for the quarter ended June 30, 2007. Our conclusion to restate these Form 10-QSBs was related only to errors from 2006. Additional information pertaining to such restatements is set forth in the Form 8-K filed by the Registrant on November 8, 2007, which is incorporated by reference herein.

Index

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Auditor Attestation

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in Internal Controls. As disclosed in our 2006 Annual Report on Form 10-KSB, as amended, we reported material weaknesses in our internal controls over financial reporting as discussed in more detail below.

As of December 31, 2007, we have remediated the previously reported material weaknesses in internal controls over financial reporting only to the extent set forth herein. A summary of the material weaknesses and remediation results are as follows:

Lack of Control Environment that sufficiently promotes effective internal control over financial reporting throughout the management structure.

In 2006, our control environment did not sufficiently promote effective internal control over financial reporting throughout our management structure, and this material weakness was a contributing factor in the development of other material weaknesses described below. Principal contributing factors included the lack of permanent employees in key financial reporting positions, resistance to change of long-held practices developed in an entrepreneurial and trust culture, the lack of a formal program for training members of our finance and accounting group and a lack of a full evaluation of our financial system applications due to incomplete documentation and testing of key controls. Our control environment also contributed to our inability to fully evaluate our general computer controls and financial system application controls, as described more fully below.

Remediation:

We have hired permanent employees and retained special outside consultants in key financial reporting positions, all of whom have worked to promote effective internal control over financial reporting and improve our overall Company culture. We have instituted a training program for the accounting personnel and have completed a full evaluation of our control environment which included our general computer controls and financial system application controls.

Insufficient Segregation of Duties.

In 2006, we did not segregate duties in several important functions, including: permitting one person the ability to receive inventory, perform cycle counts and process adjustments, and another individual to initiate and authorize the scrapping of obsolete and excess inventory; permitting changes to inventory quantity information within the financial application system without appropriate review; providing users access within our financial application system to areas outside of their responsibilities; and permitting the creation, modification and updating of customer or vendor data without a secondary level of review or approval.

Material Weakness still Existed as of December 31, 2007:

We implemented changes to the various roles and responsibilities within the accounting department. These changes, however, have not addressed the above issues to ensure that adequate segregation was achieved or that enhanced

mitigating controls were in place and operating effectively.

Index

Insufficient personnel in our finance/accounting functions and Lack of Controls over the Invoice Posting Process.

In 2006, we had a lack of resources and inadequate training within our finance and accounting departments. Training for our accounting staff with respect to generally accepted accounting principles ("GAAP") had been ad hoc rather than systematic. As a result of these factors, certain transactions were not recorded initially in accordance with GAAP, such as a limited number of third-party vendor contracts, leases and licenses; the capitalization of sales and use taxes on fixed assets and the internal labor component of a financial application system implementation; and appropriate period-end cut-off for "FOB Origin" inventory received shortly after the end of the period. These deficiencies represented a material deficiency in internal controls at December 31, 2006, and a significant deficiency at December 31, 2007.

Remediation – Significant Deficiency Remains as to the US GAAP Expertise of our Internal Accounting Staff:

We have added staffing in a number of critical areas over the last year. Those positions include a permanent Chief Financial Officer and retention of an outside accounting firm. Also, we have added independent inventory counts and levels of independent review of inventory cycle counts, inventory adjustments, adjustments for scrapping excess and obsolete inventory, and creation or modification of customer and vendor data.

However, though we have implemented steps which we believe have helped, we believe that there remains a significant deficiency related to the US GAAP Expertise of our internal accounting staff as at December 31, 2007.

Insufficient policies and procedures over various financial statement areas.

In 2006, we had insufficient processes and personnel to provide adequate oversight of financially significant transactions and determinations by our finance and accounting personnel in our offices outside of headquarters. These deficiencies represented a design deficiency in internal controls which resulted in more than a remote likelihood that a material error would not have been prevented or detected, and constituted a material weakness at December 31, 2006.

Remediation – Significant Deficiency Remains as to our Internal Audit Functions:

In addition to the staffing added that provided additional levels of review, we have added additional documentation of review of accounting entries and balance sheet reconciliation accounts. This review and analysis has resulted in management's ability to identify errors and additional required disclosures through the closing process rather than through external examinations. In addition, management has maintained a schedule for the year-end closing process which has enhanced our review process.

However, though we have implemented steps which we believe have helped, we believe that there remains a significant deficiency related to our Internal Audit Functions as at December 31, 2007.

Lack of control process for recording and approving journal entries.

In 2006, we did not have appropriate controls around the process for recording and approving journal entries. We also noted instances where material journal entries were recorded before subsequently provided supporting documentation was prepared or reviewed by the accounting department. Instances also occurred in which journal entries were not adequately documented and reviewed. These deficiencies represented an operating effectiveness deficiency in internal controls which resulted in more than a remote likelihood that a material error would not have been prevented or detected, and constituted a material weakness.

Remediation:

We have implemented procedures requiring completed supporting documentation for all journal entries. The entries and the supporting documentation are reviewed by someone other than the preparer and checked for accuracy, completeness, disclosure requirements and appropriateness.

Lack of controls over the sales transaction process.

In 2006, we did not have a consistent process in place to document the significant terms of all important product sales contracts and our accounting for these contracts. We enter into a small number of high dollar amount contracts for our product sales. These contracts often contain complex terms that impact our recognition and determination of revenue (including customer rights of return, multiple elements and contingencies that can have a material impact on the recognition or deferral of revenue) and balance sheet classification of deferred revenue. These deficiencies represented a design deficiency in internal controls which resulted in more than a remote likelihood that a material error would not have been prevented or detected, and constituted a material weakness.

Remediation:

We performed a fair market analysis for all significant sales contracts for 2007 which have been reviewed by the Chief Financial Officer and by our outside accounting firm. In addition, all sales contracts are now reviewed by the Chief Financial Officer and our outside accounting firm.

Lack of Independent Directors for our audit committee & lack of an audit committee financial expert.

In 2006, we did not have an audit committee with a designated financial expert. An audit committee is engaged primarily in an oversight function and ultimately is responsible for the company's financial reporting processes and the quality of its financial reporting. As a basis for carrying out its responsibilities, an audit committee must have a working knowledge of a company's goals and strategies as well as the issues it faces in achieving its objectives. During 2006, we had numerous material weaknesses which would have likely made the role of an audit committee obsolete. These deficiencies represented a design deficiency in internal controls, and constituted a material weakness at December 31, 2006, and again at December 31, 2007.

Material Weakness still Existed as of December 31, 2007:

Though we are actively working towards formalizing an audit committee, we have not as of the date of this report, appointed an audit committee. However, we did engage key financial consultants and lawyers during 2007 to assist in the preparation, timeliness, thoroughness and quality of our financial reporting.

Lack of Training in Public Company Reporting Obligations.

In 2006, our Chief Executive Officer had only held his position for approximately two (2) months, and our Chief Financial Officer had held his position for less than one (1) month. This represented a design deficiency in internal controls which resulted in more than a remote likelihood that a material error would not have been prevented or detected, and constituted a material weakness.

Remediation:

During 2007, our Chief Executive Officer and our Chief Financial Officer obtained a working knowledge of public company reporting requirements, in addition to attending lectures and obtaining literature regarding the obligations associated with our reporting obligations.

During 2007, we adopted Standard Operating Procedures, which were successfully tested for every function. In addition, we had an Employee Manual prepared and we implemented a system of full compliance checks and balances.

Insufficient documentation for accounting or business transactions and Lack of Policies and procedures over records retention.

In November 2006, new officers and directors were appointed and the process of obtaining and producing certain corporate documentation proved to be a difficult and lengthy task. These deficiencies represented a design deficiency in internal controls which resulted in more than a remote likelihood that a material error would not have been prevented or detected, and constituted a material weakness.

Index

Remediation:

During 2007, we designation an internal employee to be responsible for all documentation related to accounting and business transactions. Additionally, we also designated our corporate secretary as the person responsible for maintaining our board minutes and copies of all records related to accounting and/or business transactions.

Insufficient Corporate Governance Policies.

In 2006, following the transaction involving Victor Industries, Inc. and Ethos Environmental, Inc., our officers and directors had only been in place for less than two (2) months. This represented a design deficiency in internal controls which resulted in more than a remote likelihood that a material error would not have been prevented or detected, and constituted a material weakness.

Remediation:

During 2007, we adopted Standard Operating Procedures, which were successfully tested for every function. In addition, we had an Employee Manual prepared and we implemented a system of full compliance checks and balances.

Conclusion:

In the third and fourth quarters of 2007, we undertook testing to validate compliance with the newly implemented policies, procedures and controls. We have undertaken this testing over these two quarters in order to be able to demonstrate operating effectiveness over a period of time that is sufficient to support our conclusions. In reviewing the result from this testing, management has concluded that the internal controls over financial reporting have been significantly improved and that the material weaknesses described above have been remediated to the extent described above as of December 31, 2007.

Except for the corrective action discussed above, there have been no changes in our internal controls over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Item 8B. Other Information
None.

Index

PART III

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

The following sets forth the names and ages, as of March 25, 2008, of the members of the Board of Directors, their respective positions and offices with the Company, the period during which each has served as a director of the Company and their principal occupations or employment during the past five years.

Directors

Name	Age	Position	Director/Officer Since
Enrique de Vilmorin	56	Chief Executive Officer, President and Director	2006
Jose Manuel Escobedo	67	Director	2006
Luis Willars	66	Director	2006

All directors serve until their successors have been duly elected and qualified, unless they earlier resign.

Enrique de Vilmorin

Since 2000, Mr. de Vilmorin has served and President, CEO and Director of Ethos Environmental, Inc. Mr. de Vilmorin has more than 25 years experience in multi-national corporations. His areas of expertise include finance, management and manufacturing. His hands-on approach makes him as comfortable with clients as he is in the warehouse or in the boardroom. His background includes work with Intel, IBM, First Union Bank, and the World Bank Group and a Masters Degree in Economics from the University of Southern California.

Jose Manuel Escobedo

Since 2000, Mr. Escobedo has served as Treasurer and Director of Ethos Environmental, Inc. Mr. Escobedo brings to the Company more than 30 years of entrepreneurial experience and an MBA from IPADE. Mr. Escobedo has owned and managed businesses within the oil and fuels industry. He is a director of the Company.

Luis Willars

Since 2000, Mr. Willars has served as Secretary and Director of Ethos Environmental, Inc. Mr. Willars, an Economist with more than 30 years experience in government and private sector corporations, adds a strong knowledge in corporate finance and administration. Mr. Willars holds a Masters Degree in Economics from IETSM. He is responsible for Ethos Environmental's worldwide Strategic Planning and Finance.

Executive officers of the company are as follows:

Enrique de Vilmorin - President and Chief Executive Officer (see above).

Thomas W. Maher – Chief Financial Officer

Mr. Maher brings to the company over 20 years of senior financial management experience. Over this period, he has served as Chief Financial Officer for both privately held and publicly reporting corporations. Over the past 10 years he has served as a Chief Financial Officer of a publicly traded international sign manufacturing company, Luminart

Corp., and as a Chief Financial Officer of a commercial construction general contracting firm RC Vannatta Inc. Mr. Maher has a MBA degree in Finance and Economics from the University of Detroit.

Index

During the last five (5) years none of our directors or officers has:

(1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

(2) been convicted in a criminal proceeding or subject to a pending criminal proceeding;

(3) been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or

(4) been found by a court of competent jurisdiction in a civil action, the Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16 of the Securities Exchange Act of 1934 requires the Company's directors and certain executive officers and certain other beneficial owners of the Company's common stock to periodically file notices of changes in beneficial ownership of common stock with the Securities and Exchange Commission. To the best of the Company's knowledge, based solely on copies of such reports received by it, and the written representations of its officers and directors, the Company believes that for 2006 all required filings were timely filed by each of its directors and executive officers.

Code of Ethics

We have adopted a Code of Ethics and Business Conduct for Officers, Directors and Employees that applies to all of our officers, directors and employees.

Item 10. Executive Compensation

Summary Compensation Table

The following table sets forth the overall compensation earned over each of the past two fiscal years ending December 31, 2007 by (1) each person who served as the principal executive officer of the Company during fiscal year 2007; (2) the Company's most highly compensated executive officers as of December 31, 2007 with compensation during fiscal year 2007 of $100,000 or more; and (3) those individuals, if any, who would have otherwise been in included in section (2) above but for the fact that they were not serving as an executive of the Company as of December 31, 2007.

The following executive compensation was paid during 2006 or 2007,

Salary Compensation									
Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation Compensation ($) (2)(3)	Total ($)
Enrique de Vilmorin - CEO & President	2006	$ 344,325	$ —	875,000	—	—	—	—	$ 1,219,325
	2007	$ 360,000	$ 78,610	4,500,000	—	—	—	—	$ 4,934,410
Thomas W. Maher - CFO	2006	$ --	--	--	--	--	--	--	$
	2007	$ 84,000	$ 1,250	195,000					280,250

There were no stock options granted or exercised by the named executive directors in 2007.

GRANTS OF PLAN BASED AWARDS

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Payouts Under Equity Incentive Plan Awards						
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards; Number of Shares of Stock or Units (#)	All Other Option Awards; Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards
- -	- -	-	- - -	-	- -	- - -	- -	-- -	-	- -	- -

There were no other stock based awards under the Stock Incentive Plan in 2007 to the Named Executive Officers.

Executive Officer Outstanding Equity Awards at Fiscal Year-End

The following table provides certain information concerning any common share purchase options, stock awards or equity incentive plan awards held by each of our named executive officers that were outstanding as of December 31, 2007.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised	Number of Securities Underlying Unexercised	Equity Incentive Plan Awards: Number of	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That	Market Value of Shares or Units of	Equity Incentive Plan Awards:	Equity Incentive Plan Awards: Market or

	Options(#) Exercisable	Options(#) Unexercisable	Securities Underlying Unexercised Unearned Options (#)			Have Not Vested (#)	Stock That Have Not Vested	Number of Unearned Shares, Units or Other Rights That Have Not Vested	Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
Enrique de Vilmorin CEO & President	—	—	—	$ —	—	—	—	—	—
Thomas Maher CFO	—	—	—	$ —	—	—	—	—	—

Index

64

OPTION EXERCISES AND STOCK VESTED

There were no options exercised or stock vested during the year ended December 31, 2007.

PENSION BENEFITS AND NONQUALIFIED DEFERRED COMPENSATION

The Company does not maintain any qualified retirement plans or non-nonqualified deferred compensation plans for its employees or directors.

EMPLOYMENT AGREEMENTS

On December 4, 2006, the Company entered into an employment agreement (the "Maher Agreement") with Thomas W. Maher defining the terms of his employment with the Company as Chief Financial Officer, effective December 1, 2006. The initial term of Mr. Maher's employment under the Maher Agreement is through December 1, 2007 (unless earlier terminated in accordance with the terms of the Maher Agreement), with automatic one-year renewals for each of the successive two years following the Effective Date.

On December 12, 2007, the Company entered into an employment agreement with Enrique de Vilmorin defining the terms of his employment with the Company as Chief Executive Officer, effective January 1, 2007. The initial term of Mr. De Vilmorin's employment under the Employee Agreement is through December 31, 2011 (unless earlier terminated in accordance with the terms of the Employee Agreement), with automatic one-year renewals for each of the successive ten years following the Effective Date.

DIRECTOR COMPENSATION

Stock Options

The Company does not currently have a fixed stock option plan that provides for the issuance of incentive and non-qualified stock options to officers, directors, employees and non-employees.

Cash Compensation

Directors receive no cash compensation for services rendered.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information regarding beneficial ownership of common stock as of December 31, 2007, by:

- Each person known to us to own beneficially more than 5%, in the aggregate, of the outstanding shares of our common stock;
- Each director;
- Each of our chief executive officer and our other two most highly compensated executive officers; and
- All executive officers and directors as a group.

The number of shares beneficially owned and the percent of shares outstanding are based on 36,871,687 shares outstanding as of December 31, 2007. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities.

Index

Beneficial Owner	Shares of Common Stock Number	Beneficially Owned Percent	
Enrique de Vilmorin	15,500,000	44.44	%
Jose Manuel Escobedo	250,000	0.72	%
Thomas W. Maher	100,000	0.28	%
GreenBridge Capital Partners, IV, LLC	2,500,000	0.07	%
All such directors and executive Officers as a group	15,850,000	45.44	%
Total	18,350,000	49.77	%

Changes in Control

We know of no plans or arrangements that will result in a change of control at our company.

Item 12. Certain Relationships and Related Transactions

During 2007, there was one Loan Payable to the President of the Company in the amount of $246,521. The loan has no stated repayment terms, is due on demand, is unsecured and does not bear interest.

Item 13. Exhibits

EXHIBIT NUMBER	DESCRIPTION	LOCATION
3.1 - 3.2	Articles of Incorporation and Bylaws	Incorporated by reference as Exhibits to the Form 8-K filed on December 12, 2004 as amended on February 3, 2005.
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 8-K filed on April 24, 2006.
10.2	2006 Definitive Proxy Statement.	As filed with the Commission on October 4, 2006.
10.3	Sale/Leaseback Agreement with Mazuma Capital Corp.	Previously filed.
10.4	Amendment No.1 to Agreement with Mazuma Capital Corp.	Previously filed.
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

Item 14. Principal Accounting Fees and Services

During the year ended December 31, 2007, we engaged Peterson Sullivan PLLC, J.H. Cohn LLP and Moore & Associated, Chartered as our independent auditors. For the year ended December 31, 2007, we incurred fees to these firms as discussed below.

- Audit Fees: Peterson Sullivan PLLC fees for audit and quarterly review services totaled $29,273 and $117,457 for 2007 and 2006, respectively, including fees associated with consents and the review of this report.

- Tax Fees: We paid PETERSON SULLIVAN PLLC, $1,728 for tax related services associated with our 2006 corporate tax return extensions.

- All Other Fees: J. H. Cohn LLP fees totaled $43,411 for 2007, although they were not associated with any audit or review, and NIL for 2006. In addition, the Company contracted for the services of Blum and Clark, CPAs, for assistance in preparing the Registrant's financial statements. The fees associated with Blum and Clark in 2007 were $68,076 and NIL in 2006. Moore & Associates, Chartered, fees totaled $26,000 for 2007 and NIL for 2006.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 14th day of April, 2008.

Ethos Environmental, Inc.
a Nevada Corporation

By: /s/ Enrique de Vilmorin
Enrique de Vilmorin
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, the following persons on behalf of the Registrant and in the capacities and on the dates indicated have signed this report below.

Signature	Position	Date
/s/ Enrique de Vilmorin Enrique de Vilmorin	Chief Executive Officer and Director	April 14, 2008
/s/ Jose Manuel Escobedo Jose Manuel Escobedo	Director	April 14, 2008
/s/ Luis Willars Luis Willars	Director	April 14, 2008
/s/Thomas W. Maher Thomas W. Maher	Principal Accounting Officer Chief Financial Officer	April 14, 2008

Index