Ethos Environmental, Inc.
Form 10KSB/A
April 04, 2008

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

FORM 10-KSB/A

AMENDMENT NO. 2

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

For the Fiscal Year Ended December 31, 2006

Commission File Number: 000-26673

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

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

6800 Gateway Park
San Diego, CA 92154
(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 $0.001
(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

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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 o No x

Revenues for year ended December 31, 2006: $4,768,013.

The aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately $85,254,407 as of April 16, 2007 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 April 16, 2007 was: 23,681,687.

Transitional Small Business Disclosure Format: Yes o No x

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive proxy statement for its 2006 Annual Meeting of Shareholders are incorporated by reference in Part I and III of this Form 10-KSB.

EXPLANATORY NOTE:

This Form 10-KSB/A is being filed to restate the Consolidated Statements of Stockholders Equity and to more fully explain certain stock-based compensation. These changes are reflected in the Management Discussion & Analysis, in the Financial Statements and in Note 1 to the Financial Statements.

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Ethos Environmental, Inc.

ANNUAL REPORT ON FORM 10-KSB

FOR THE YEAR ENDED DECEMBER 31, 2006

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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.

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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

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Repairs:

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

How Do Ethos Products Work?

Ethos products reformulate any fuel, resulting in two important benefits. The first benefit is the added lubricity to the engine. The second is adding cleansing properties to the fuel. All of the internal components benefit from the cleansing and lubricating action including the fuel lines, filters, carburetors, spark plugs and injectors. Ethos also conditions the engine seals, keeping them tighter for a longer period of time. A cleaner, more lubricated engine runs smoother, requires less maintenance and reduces engine heat significantly, thereby returning horsepower closer to the manufacturer's specifications. Ethos removes carbon deposits that cause fuel to combust incompletely, resulting in wasted fuel that creates toxic emissions. The combination of cleaning and lubricating esters in our products stabilize the fuel without changing its specifications.

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

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

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

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

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

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

readily available and continuously produced at a lower price.

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

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

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

Our Corporate History

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

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

Reverse Acquisition of Ethos

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

Acquisition

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

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

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

The shares issued by the registrant (17,718,187) were revalued at the new par value of $.0001. Another adjustment to common stock and additional paid in capital was generated due to the cancellation of pre-merger shares (17,717,477). Due to the effect of the reverse merger, the Buyer’s shares outstanding (479,500) were converted to

common stock and the effect of the net assets acquired was adjusted to additional paid in capital. During the year, another 4,910,000 shares of common stock were issued for services based upon the price at date of issuance.

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

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

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

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

A summary of the merger follows:

- The Company was the surviving legal corporation,
- The Company acquired all issued and outstanding shares of Ethos in exchange for 17,718,187 shares of common stock of the Company. Shares of Company common stock, representing an estimated 97% of the total issued and outstanding shares of Company common stock, was issued to the Ethos stockholders,
- The shareholders of the Company received pro rata for their shares of common stock of Ethos, 17,718,187 shares of common stock of the Company in the merger, and all shares of capital stock of Ethos were cancelled,
- The officers and directors of Ethos became the officers and directors of the Company,
- The name of Victor Industries, Inc. was changed to "Ethos Environmental, Inc.", and
- Ethos requested a new symbol for trading on the Over the Counter Bulletin Board ("OTCBB"), which also reflects the reverse stock split of 1 for 1,200, the new symbol of the Company is "ETEV."

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.

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

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

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

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

Ethos FR® can be used in any fuel. Ethos BFC is primarily used for Maritime Diesel Fuels and Power Plant Diesel Fuel, or external combustion engines. Ethos BFC uses two esters distinct from those used in the Ethos FR® as the diesel fuel used in external combustion engines is heavier and thicker than normal diesel fuel. We obtain the heavy ester for the Ethos BFC from Tekat (a Netherlands Company headquartered in the UK). The light ester is purchased from Cognis. While there is no toxicity in the Ethos FR®, Ethos BFC has some degree of toxicity, though not much.

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

Trademarks

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

Air Quality Standards

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

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

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

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

Market Research

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

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

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

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

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

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

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

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

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

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

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

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

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

Competition

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

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

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

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

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

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

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

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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.

The results below are test results of customer experiences using Ethos FR®. The first results are for a fleet of trucks for Allied Waste. The second results are for Ecuador for Ethos BFC used in external combustion engines. On our

website are results for other customers including: US Department of Justice; LA Transport; Lucar Transport; Mission Linen Supply; Vista City; China City Bus Company; Oceanside School District; San Diego Port District; and the Shenzhen Public Transport Group. In all tests the results have been consistent, with a 7% to 19% cost saving, and an over 30% reduction in emissions.

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

MANAGEMENT REPORT

Testing of Ethos Fuel Reformulator
Allied Waste Services, Southwestern Region

Overview

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

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

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

Testing Procedures and Data Compilation & Reporting Methodology

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

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

Most common among these “anomalies” are:

1. Vehicles showing fuel consumed but few or no engine hours recorded (which would result in a higher fuel per hour calculation than is actually the case),
2. Vehicles showing no fuel consumed yet have engine hours recorded (which would result in a lower fuel per hour calculation than is actually the case), or
3. Vehicles that do not have recorded data for both comparative periods. This would include:

- new vehicles that have been added to the fleet (and therefore have no baseline data)
- vehicles that have been retired from the fleet or are out of service for repairs or maintenance (these vehicles will have baseline data but no data in one or more of the test periods).

Raw Data vs. Comparable Data

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

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.

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Verification of Ethos Use

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

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

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

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

Ethos FR – Proof of Performance Demonstrations

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

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

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

Target Markets

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

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

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

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

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

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

Customers

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

Supply Arrangements

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

Revenue and Fixed Assets

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

Vendors

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

Governmental Regulation

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

commerce.

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

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

Research and Development Costs

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

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

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Employees

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

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 $6,490,113 and $1,051,637, respectively for the fiscal years ended December 31, 2006 and 2005. As a result, at December 31, 2006 we had an accumulated deficit of $9,866,577. 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.

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.

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.

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.

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.

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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, 2006 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, 2006, we have approximately $9,866,577 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.

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 46% of our outstanding common stock, of which Enrique de Vilmorin, our Chairman, controls approximately 45%. 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

We have a material weakness in internal controls due to a limited segregation of duties, and if we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential stockholders could lose confidence in our financial reporting which could harm the trading price of our stock.

Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. Inferior internal controls could cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock. With only 25 employees at the Company, there is very limited segregation of duties, which the Company has identified as a material weakness in our internal controls.

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.