Ethos Environmental, Inc.
Form 10-Q
November 23, 2009

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended: September 30, 2009

Commission File Number: 000-30237

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 No.)

6800 Gateway Park, San Diego, CA 92154

(Address of principal executive offices)

(619) 575-6800

(Registrant's telephone number, including area code)

with a copy to:

Carrillo Huettel, LLP

3033 Fifth Ave. Suite 201

San Diego, CA 92103

Telephone (619) 399-3090

Telecopier (619) 330-1888

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 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 S No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	**£**	**Accelerated Filer**	**£**
Non-Accelerated Filer	**£**	**Smaller Reporting Company**	**S**

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

As of November 20, 2009, there were 50,815,173 shares of the registrant s Common Stock outstanding.

ITEM 1. FINANCIAL STATEMENTS

Ethos Environmental, Inc.

September 30, 2009

Ethos Environmental, Inc.

Consolidated Balance Sheets

(unaudited)

	September 30, 2009 $ (unaudited)	December 31, 2008 $
ASSETS		
Current Assets		
Cash	87,884	72,232
Accounts Receivable, net of allowance of doubtful accounts	14,493	94,894
Inventory (Note 3)	141,240	223,144
Total Current Assets	**243,617**	**390,270**
Property and Equipment (Note 4)	40,551	70,552
Other Assets	417,916	405,417
Total Assets	**702,084**	**866,239**
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current Liabilities		
Accounts Payable	1,390,236	681,583
Accrued Liabilities	383,986	301,876

Notes Payable (Note 5)	941,265	1,031,580
Convertible Promissory Notes, net of accumulated discount of $690,842 (Note 6)	834,158	385,000
Total Liabilities	**3,549,645**	**2,400,039**
Stockholders Deficit		
Common Stock (Note 7)		
Authorized: 100,000,000 common shares, par value: $0.0001 per common share		
Issued and outstanding: 49,034,305 and 43,518,958 common shares, respectively	4,903	4,352
Additional Paid-In Capital (Note 7)	52,801,155	50,073,653
Common Stock Subscribed	87,000	
Accumulated Deficit	(55,740,619)	(51,611,805)
Total Stockholders Deficit	**(2,847,561)**	**(1,533,800)**
Total Liabilities and Stockholders Deficit	**702,084**	**866,239**

Going Concern (Note 1)

Commitments and Contingencies (Note 9)

(The accompanying notes are an integral part of these consolidated financial statements)

Ethos Environmental, Inc.

Consolidated Statements of Operations

(unaudited)

	For the Three Months Ended September 30, 2009	**For the Three Months Ended September 30, 2008**	**For the Nine Months Ended September 30, 2009**	**For the Nine Months Ended September 30, 2008**
	$	$	$	$
Revenue	417,381	653,765	1,026,685	2,015,956
Cost of Sales	164,878	414,893	406,857	1,203,128
Gross Profit	**252,503**	**238,872**	**619,828**	**812,828**
Operating Expenses				
Amortization Expense	611	2,134	3,000	6,407
Bad Debt Expense			14,979,979	205,119
General and Administrative	857,913	1,151,246	4,044,294	4,214,732
Selling Expense	42,441	65,152	266,464	238,583
Total Operating Expenses	**900,965**	**1,218,532**	**4,328,737**	**4,664,841**
Total Operating Income (Loss)	**(648,462)**	**(979,660)**	**(3,708,909)**	**(3,852,013)**
Other Income (Expenses)				
Interest Expense	(114,313)	(24,500)	(284,349)	(142,540)
Loss on Settlement of Debt (Note 7)	(75,674)		(139,674)	
Other Income		2,500	4,118	198,637

Net Loss	**(838,449)**	**(1,001,660)**	**(4,128,814)**	**(3,795,916)**
Net Loss Per Share Basic and Diluted				
Net Loss Per Share Basic and Diluted	**(0.02)**	**(0.02)**	**(0.09)**	**(0.10)**
Weighted Average Shares Outstanding	**48,476,702**	**41,049,677**	**47,160,629**	**39,726,085**

(The accompanying notes are an integral part of these consolidated financial statements)

Ethos Environmental, Inc.

Consolidated Statements of Cash Flows

(unaudited)

	For the Nine Months Ended September 30, 2009 $	For the Nine Months Ended September 30, 2008 $
Operating Activities		
Net Loss For The Period	(4,128,814)	(3,795,916)
Adjustments to reconcile net loss to net cash used in operating activities:		
Accretion of discount on convertible notes	136,736	
Amortization Expense	30,001	64,101
Bad Debt Expense	14,979	205,119
Common Stock Issued for Services	451,107	265,836
Common Stock Issued as Incentive Shares	270,880	
Common Stock Issued for Settlement of Debt	209,948	
Common Stock Issued for Registration Rights		1,492,241
Common Stock Issued to repay interest expense	14,873	
Issuance of share purchase warrants		666,930
Loss on settlement of debt	139,674	
Stock-based compensation	483,266	
Changes in operating assets and liabilities:		
Accounts Receivable	65,422	(170,970)
Inventory	81,904	310,958
Other Assets	(12,499)	(10,998)
Accounts Payable and Accrued Liabilities	788,489	160,924
Net Cash Used In Operating Activities	**(1,454,034)**	**(811,775)**

Investing Activities		
Purchase of Property and Equipment		(32,991)
Net Cash Used In Investing Activities		**(32,991)**
Financing Activities		
Proceeds from Issuance of Note Payable	1,349,686	1,100,000
Proceeds from Issuance of Common Shares	120,000	300,000
Repayment of Note Payable		(350,000)
Repayment to Related Parties		(246,521)
Net Cash Provided By Financing Activities	**1,469,686**	**803,479**
Increase (Decrease) in Cash	**15,652**	**(41,287)**
Cash Beginning of Period	**72,232**	**74,176**
Cash End of Period	**87,884**	**32,889**
Supplemental Disclosures		
Interest paid		
Income tax paid		
Non-Cash Investing and Financing Activities		
Common shares issued to settle debt	300,000	

(The accompanying notes are an integral part of these consolidated financial statements)

Ethos Environmental, Inc.

Notes to the Consolidated Financial Statements

1.

Nature of Operations

Ethos Environmental, Inc. (the Company) was incorporated under the laws of the State of Nevada on January 19, 1926 as Omo Mining and Leasing Corporation. On January 19, 1929, the Company changed its name to Omo Mines Corporation. On November 14, 1936, the Company changed its name to Kaslo Mines Corporation. On December 24, 1977, the Company changed its name to Victor Industries, Inc., focused on the development, manufacturing, and marketing of products related to zeolite, a metal used for the production of toxic chemical absorbents, water softeners, gas absorbents, radiation absorbents and soil and fertilizer amendments.

On November 2, 2006, the Company signed and executed the Plan of Merger (the Merger) with Ethos Environmental, Inc., a company incorporated in the State of Nevada which manufactures and distributes fuel reformulating products that increase fuel mileage, reduce emissions, and maintain lower fuel costs. Under the terms of the Agreement, the Company acquired 100% of the issued and outstanding common shares of Ethos Environmental, Inc. in exchange for the issuance of 17,718,187 common shares of the Company. As a result of the Agreement, the former owners of Ethos Environmental, Inc. hold approximately 97% of the issued and outstanding common shares of the Company. The acquisition is, in substance, a capital transaction and is accounted for as a continuation of the Ethos Environmental, Inc. business. Under recapitalization accounting, Ethos Environmental, Inc. is considered the acquirer for accounting and financial reporting purposes, and acquired the assets and assumed the liabilities of Victor Industries, Inc.

These consolidated financial statements have been prepared on a going concern basis, which implies that the Company will continue to realize its assets and discharge its liabilities in the normal course of business. During the nine month period ended September 30, 2009, the Company recognized sales revenue of $1,026,685 but incurred a net loss of $4,128,814. As at September 30, 2009, the Company had a working capital deficit of $3,306,028 and an accumulated deficit of $55,740,619. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability to raise equity or debt financing, and the attainment of profitable operations from the Company's future business. These factors raise substantial doubt regarding the Company s ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company s plan of action over the next twelve months is to continue its operations to manufacture and distribute fuel reformulating products and raise additional capital financing, if necessary, to sustain operations.

2.

Summary of Significant Accounting Policies

a)

Basis of Presentation

These consolidated financial statements and related notes are presented in accordance with accounting principles generally accepted in the United States, and are expressed in US dollars. The Company s fiscal year-end is December 31.

b)

Interim Financial Statements

These interim unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Securities and Exchange Commission (SEC) Form 10-Q. They do not include all of the information and footnotes required by generally accepted accounting principles for complete consolidated financial statements. Therefore, these consolidated financial statements should be read in conjunction with the Company s audited financial statements and notes thereto for the year ended December 31, 2008.

The consolidated financial statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to present fairly the Company s financial position at September 30, 2009, and the results of its operations and cash flows for the three and nine month periods ended September 30, 2009 and 2008. The results of operations for the period ended September 30, 2009 are not necessarily indicative of the results to be expected for future quarters or the full year.

Ethos Environmental, Inc.

Notes to the Consolidated Financial Statements

2.

Summary of Significant Accounting Policies (continued)

c)

Use of Estimates

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to valuation allowances on accounts receivable and inventory, valuation and amortization policies on property and equipment, stock-based compensation expense, and valuation allowances on deferred income tax losses. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company s estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

d)

Cash and Cash Equivalents

The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents. As at September 30, 2009 and December 31, 2008, the Company had no cash equivalents.

e)

Accounts Receivable

Accounts receivable are stated at their principal balances and are non-interest bearing and unsecured. Management conducts a periodic review of the collectability of accounts receivable and deems all unpaid amounts greater than 30 days to be past due. If uncertainty exists with respect to the recoverability of certain amounts based on historical experience or economic climate, management will establish an allowance against the outstanding receivables. As at September 30, 2009, the Company recorded an allowance of doubtful accounts of $262,224.

f)

Inventory

Inventory is comprised of raw materials, work-in-progress, and finished goods of its fuel reformulating products and is recorded at the lower of cost or net realizable value on a first in first out (FIFO) basis. The Company establishes inventory reserves for estimated obsolete or unmarketable inventory equal to the differences between the cost of inventory and the estimated realizable value based upon assumptions about future and market conditions. Shipping and handling costs are classified as a component of cost of sales in the statement of operations.

h)

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. Typically, the company depreciates its assets over a 5 year period except for the building which is depreciated on a 25 year basis.

i)

Revenue Recognition

The Company will recognize revenue from the sale of its fuel reformulating products in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605, *Revenue Recognition*. Revenue will be recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is provided, and collectibility is assured.

Ethos Environmental, Inc.

Notes to the Consolidated Financial Statements

2.

Summary of Significant Accounting Policies (continued)

j)

Basic and Diluted Net Income (Loss) Per Share

The Company computes net income (loss) per share in accordance with ASC 260, *Earnings Per Share,* which requires presentation of both basic and diluted earnings per share (EPS) on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing Diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti dilutive.

k)

Comprehensive Loss

ASC 220, *Comprehensive Income,* establishes standards for the reporting and display of comprehensive loss and its components in the consolidated financial statements.

l)

Financial Instruments

ASC 820, *Fair Value Measurements* and ASC 825, *Financial Instruments,* requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. It prioritizes the inputs into three levels that may be used to measure fair value:

Level 1

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company s financial instruments consist principally of cash, accounts receivable, other assets, and accounts payable and accrued liabilities. Pursuant to ASC 820 and ASC 825, the fair value of our cash is determined based on Level 1 inputs, which consist of quoted prices in active markets for identical assets. We believe that the recorded values of all of our other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

m)

Advertising Costs

Advertising costs are expensed as incurred and are recorded in the consolidated financial statements as selling expense.

n)

Income Taxes

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not. The Company has adopted ASC 740 *Accounting for Income Taxes* as of its inception. Pursuant to ASC 740, the Company is required to compute tax asset benefits for net operating losses carried forward. The potential benefits of net operating losses have not been recognized in these consolidated financial statements because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

Ethos Environmental, Inc.

Notes to the Consolidated Financial Statements

2.

Summary of Significant Accounting Policies (continued)

o)

Stock-Based Compensation

The Company records stock-based compensation in accordance with ASC 718, *Compensation Stock Compensation*, using the fair value method. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. Equity instruments issued to employees and the cost of the services received as consideration are measured and recognized based on the fair value of the equity instruments issued.

p)

Recent Accounting Pronouncements

In October 2009, the FASB issued an amendment to the accounting standards related to certain revenue arrangements that include software elements. This standard clarifies the existing accounting guidance such that tangible products that contain both software and non-software components that function together to deliver the product s essential functionality, shall be excluded from the scope of the software revenue recognition accounting standards. Accordingly, sales of these products may fall within the scope of other revenue recognition standards or may now be within the scope of this standard and may require an allocation of the arrangement consideration for each element of the arrangement. This standard is effective commencing January 1, 2011 and is not expected to have a material effect on the Company s financial statements.

In October 2009, the FASB issued an amendment to the accounting standards related to the accounting for revenue in arrangements with multiple deliverables including how the arrangement consideration is allocated among delivered and undelivered items of the arrangement. Among the amendments, this standard eliminated the use of the residual method for allocating arrangement considerations and requires an entity to allocate the overall consideration to each deliverable based on an estimated selling price of each individual deliverable in the arrangement in the absence of having vendor-specific objective evidence or other third party evidence of fair value of the undelivered items. This standard also provides further guidance on how to determine a separate unit of accounting in a multiple-deliverable revenue arrangement and expands the disclosure requirements about the judgments made in applying the estimated selling price method and how those judgments affect the timing or amount of revenue recognition. This standard is effective commencing January 1, 2011 and is not expected to have a material effect on the Company s financial statements.

In August 2009, the FASB issued an amendment to the accounting standards related to the measurement of liabilities that are recognized or disclosed at fair value on a recurring basis. This standard clarifies how a company should measure the fair value of liabilities and that restrictions preventing the transfer of a liability should not be considered as a factor in the measurement of liabilities within the scope of this standard. This standard is effective for the Company on October 1, 2009 and is not expected to have a material effect on the Company s financial statements.

q)

Recently Adopted Accounting Pronouncements

On September 30, 2009, the Company adopted changes issued by the Financial Accounting Standards Board (FASB) to the authoritative hierarchy of GAAP. These changes establish the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. Other than the manner in which new accounting guidance is referenced, the adoption of these changes had no impact on the Company s financial statements.

Effective June 30, 2009, the Company adopted a new accounting standard issued by the FASB related to the disclosure requirements of the fair value of the financial instruments. This standard expands the disclosure requirements of fair value (including the methods and significant assumptions used to estimate fair value) of certain financial instruments to interim period financial statements that were previously only required to be disclosed in financial statements for annual periods. In accordance with this standard, the disclosure requirements have been applied on a prospective basis and did not have a material impact on the Company s financial statements.

Ethos Environmental, Inc.

Notes to the Consolidated Financial Statements

2.

Summary of Significant Accounting Policies (continued)

r)

Reclassifications

Certain of the figures presented for comparative purposes have been reclassified to conform to the presentation adopted in the current period.

3.

Inventory

	September 30, 2009 $ (unaudited)	December 31, 2008 $
Raw Materials	75,711	161,211
Finished Goods	65,529	61,933
	141,240	**223,144**

4.

Property and Equipment

	Cost	Accumulated Amortization	Net Book Value September 30, 2009	December 31, 2008
	$	$	$	$
			(unaudited)	
Building	2,712	678	2,034	2,441
Computers	13,248	13,248		818
Equipment	238,547	201,535	37,012	60,646
Furniture and Fixtures	67,048	65,543	1,505	6,647
	321,555	**281,004**	**40,551**	**70,552**

5.

Notes Payable

a)

As at September 30, 2009, the Company owed $500,000 in a Nonrecourse Loan (the Loan). Under the terms of the Loan, the amounts are unsecured, due interest at 10% per annum and due on October 1, 2009.

b)

As at September 30, 2009, the Company owed $59,685 in demand loans to non-related parties for funding of the Company s operating costs. The amount owing is unsecured, non-interest bearing, and due on demand.

c)

As at September 30, 2009, the Company owed $100,000 in a promissory note that is unsecured, due interest at 10% per annum, and due June 30, 2009. Subsequent to June 30, 2009, the promissory note will continue on a month-to-month basis under the same terms as the original promissory note.

d)

As at September 30, 2009, the Company owed $31,580 to an investor for funding of the Company s operations. The amount owing is unsecured, due interest at 10% per annum, and due on demand.

e)

On January 8, 2009, the Company replaced a $300,000, 12% unsecured promissory note that was due on March 31, 2009 with a new $250,000, 12% unsecured promissory note that is due on December 31, 2009 and one unit of the $50,000 convertible promissory notes that are disclosed in Note 5(b).

Ethos Environmental, Inc.

Notes to the Consolidated Financial Statements

6.

Convertible Promissory Notes

a)

During the period ended September 30, 2009, the Company issued units (the August Units) of convertible promissory notes. Under the terms of the note agreement, each August Unit is comprised of a $100,000 convertible note, due interest at 12% per annum, secured by the Company s assets, and due in two years from the date of issuance, and convertible into common shares of the Company at the option of the note holder at a conversion rate of $0.225 per common share. Furthermore, each August Unit includes 100,000 share purchase warrants, where each warrant allows the warrant holder to purchase one additional common share of the Company at $0.30 per common share for a period of three years from the date of issuance. During the period ended September 30, 2009, the Company issued two units for cash proceeds of $200,000. In accordance with ASC 470, *Debt Debt with Conversions and Other Options,* the Company determined that the multiple financial instruments issued in the convertible promissory notes resulted in an allocation of the fair value between the convertible note and the share purchase warrants which resulted in a discount on the convertible notes of $146,258 that was recorded against the note payable and a corresponding credit to additional paid-in capital. As at September 30, 2009, the Company has recognized accretion expense of $12,188, which increased the carrying value of the August Units to $65,930.

b)

During the period ended June 30, 2009, the Company issued units (the 12% Units) of convertible promissory notes. Under the terms of the note agreement, each 12% Unit is comprised of a $50,000 convertible note due interest at 12% per annum, secured by the Company s assets, and due in two years from the date of issuance, and convertible into common shares of the Company at the option of the note holder at a conversion rate of $0.25 per common share. Furthermore, each 12% Unit includes 100,000 share purchase warrants, where each warrant allows the warrant holder to purchase one additional common share of the Company at $0.25 per common share for a period of three years from the date of issuance. During the period ended June 30, 2009, the Company issued nineteen units for cash proceeds of $950,000, and issued one unit to settle a promissory note with a carrying value of $50,000 (refer to Note 5(j)). In accordance with ASC 470, *Debt Debt with Conversions and Other Options,* the Company determined that the multiple financial instruments issued in the convertible promissory notes resulted in an allocation of the fair value between the convertible note and the share purchase warrants which resulted in a discount on the convertible notes of $650,667 that was recorded against the note payable and a corresponding credit to additional paid-in capital. During the period ended September 30, 2009, three units ($150,000) were converted into common shares at $0.25 per common share, resulting in the recognition of the unaccreted discount of the convertible note of $25,923. As at September 30, 2009, the Company has recognized accretion expense of $110,391, which increased the carrying value of the remaining 12% Units to $309,724.

c)

During the period ended June 30, 2009, the Company issued units (the 10% Units) of convertible promissory notes. Under the terms of the note agreement, each 10% Unit is comprised of a $25,000 convertible note due interest at 10% per annum, secured by the Company s assets, and due in two years from the date of issuance, and convertible into common shares of the Company at the option of the note holder at a conversion rate of $0.40 per common share. Furthermore, each 10% Unit includes 50,000 share purchase warrants, where each warrant allows the warrant holder to purchase one additional common share of the Company at $0.40 per common share for a period of three years from the date of issuance. During the period ended June 30, 2009, the Company issued one unit for cash proceeds of $25,000. In accordance with ASC 470, *Debt Debt with Conversions and Other Options,* the Company determined that the multiple financial instruments issued in the convertible promissory notes resulted in an allocation of the fair value between the convertible note and the share purchase warrants which resulted in a discount on the convertible notes of $19,196 that was recorded against the note payable and a corresponding credit to additional paid-in capital. As at September 30, 2009, the Company has recognized accretion expense of $2,700, which increased the carrying value of the 10% Units to $8,504.

d)

On January 9, 2009, the Company terminated a $300,000 unsecured promissory note that was due interest at 10% per annum and due on February 11, 2009 and replaced it with a new $550,000 promissory note that is unsecured, due interest at 10% per annum, and due on September 30, 2009. The promissory note is also convertible into common shares of the Company, at the option of the note holder, at $0.40 per common share. In addition, the Company terminated 1,000,000 and 500,000 share purchase warrants that were issued in August and September 2008 respectively, which allowed the warrant holder to purchase one additional common share of the Company at $0.37 and $0.30, respectively, and replaced it with 1,500,000 share purchase warrants which allows the warrant holder to purchase one additional common share of the Company at $0.25 per common share for a period of five years from the date of issuance. In May 2009, the note holder converted $100,000 of the promissory note into 400,000 common shares of the Company.

Ethos Environmental, Inc.

Notes to the Consolidated Financial Statements

6.

Convertible Promissory Notes (continued)

e)

On January 1, 2009, the Company issued a convertible promissory note to settle professional services with a fair value of $50,000. Each promissory note is comprised of a $50,000, 12% unsecured convertible promissory note due two years from the date of issuance and convertible into common shares of the Company at the option of the note holder at a conversion rate of $0.25 per common share, and 100,000 share purchase warrants, where each warrant allows the warrant holder to purchase one additional common share of the Company at $0.25 per common share for a period of three years from the date of issuance. In accordance with ASC 470, *Debt Debt with Conversions and Other Options*, the Company determined that the multiple financial instruments issued in the convertible promissory notes resulted in an allocation of the fair value between the convertible note and the share purchase warrants which resulted in a discount on the convertible notes of $11,457 that was recorded against the note payable and a corresponding credit to additional paid-in capital. During the period ended September 30, 2009, the promissory note was converted into common shares and resulted in the recognition of the unaccreted portion of the discount of $8,116. As at September 30, 2009, the Company has recognized accretion expense of $11,457.

7.

Common Shares

a)

On September 4, 2009, the Company issued 70,147 common shares of the Company at $0.13 per share for consulting services with a fair value of $9,119.

b)

On August 13, 2009, the Company issued 100,000 common shares of the Company at $0.20 per share for consulting services with a fair value of $20,000.

c)

On August 6, 2009, the Company issued 23,894 common shares of the Company at $0.24 per share for consulting services with a fair value of $5,735.

d)

On August 5, 2009, the Company issued 30,000 common shares of the Company at $0.22 per common share for consulting services with a fair value of $6,600.

e)

On August 5, 2009, the Company issued 325,000 common shares of the Company to settle legal services with a fair value of $45,000. The common shares were valued at $71,500 resulting in a loss on settlement of debt of $26,500.

f)

On August 4, 2009, the Company issued 63,143 common shares of the Company at $0.25 per share for consulting services with a fair value of $15,786.

g)

On August 3, 2009, the Company granted 60,000 common shares of the Company at $0.30 per common share for incentive shares with a fair value of $18,000. As at September 30, 2009, the common shares have not been issued and has been recorded as common stock subscribed.

h)

On July 31, 2009, the Company issued 800,000 common shares at $0.25 per share to convert $200,000 of convertible promissory notes and issued 42,389 to settle accrued interest of $9,220.

i)

On July 24, 2009, the Company issued 60,000 common shares at $0.17 per share for consulting services with a fair value of $10,200.

j)

On July 8, 2009, the Company issued 50,891 common shares at $0.19 per share for consulting services with a fair value of $9,671.

k)

On July 1, 2009, the Company granted 300,000 common shares at $0.23 per share to settle professional services with a fair value of $22,100. The common shares were valued at $69,000 resulting in a loss on settlement of debt of $46,900. As at September 30, 2009, the common shares have not been issued and has been recorded as common stock subscribed.

l)

On June 4, 2009, the Company issued 51,000 common shares of the Company with a fair value of $0.294 per share to settle professional fees with a fair value of $15,000.

m)

On May 29, 2009, the Company issued 15,000 common shares at $0.36 per common share to settle debt with a fair value of $5,400.

Ethos Environmental, Inc.

Notes to the Consolidated Financial Statements

7.

Common Shares (continued)

n)

On May 29, 2009, the Company issued 250,000 common shares at $0.36 per common share to settle debt with a fair value of $90,000.

o)

On May 14, 2009, the Company issued 14,133 common shares at $0.40 per common share to settle accrued interest charges of $5,653 from outstanding promissory notes.

p)

On May 14, 2009, the Company issued 100,000 common shares at $0.40 per common share, or $4,000 as incentive shares for the purchase of convertible promissory notes.

q)

On May 12, 2009, the Company issued 400,000 common shares at $0.41 per common share, or $164,000, to settle outstanding promissory notes of $100,000. The Company recorded $64,000 as a loss on settlement of debt.

r)

On April 22, 2009, the Company issued 15,000 common shares at $0.57 to settle debt with a fair value of $8,550.

s)

On April 21, 2009, the Company issued 363,000 common shares at $0.57 per common share, or $206,910, as incentive shares for the purchase of convertible promissory notes.

t)

On April 1, 2009, the Company issued 33,000 common shares at $0.19 per common share, or $6,270, as incentive shares for the purchase of convertible promissory notes.

u)

On March 25, 2009, the Company issued 60,750 common shares of the Company with a fair value of $7,898 as a settlement agreement for outstanding obligations owing by the Company.

v)

On March 18, 2009, the Company issued 33,000 common shares of the Company with a fair value of $4,950 as incentive shares for the purchase of convertible promissory notes.

w)

On February 9, 2009, the Company issued 66,000 common shares of the Company with a fair value of $13,200 as incentive shares for the purchase of convertible promissory notes.

x)

On February 8, 2009, the Company issued 100,000 common shares of the Company with a fair value of $20,000 for marketing services incurred by a consultant to the Company.

y)

On January 28, 2009, the Company cancelled 210,000 common shares of the Company that were previously issued and returned the common shares to treasury.

z)

On January 26, 2009, the Company issued 400,000 common shares of the Company with a fair value of $76,000 as a settlement agreement for outstanding obligations owing by the Company.

aa)

On January 15, 2009, the Company issued 150,000 common shares of the Company with a fair value of $30,000 for consulting services.

bb)

On January 14, 2009, the Company issued 600,000 common shares of the Company for cash proceeds of $120,000 that were received during the year ended December 31, 2008.

cc)

On January 8, 2009, the Company issued 66,000 common shares of the Company with a fair value of $11,880 as incentive shares for the purchase of convertible promissory notes.

dd)

On January 6, 2009, the Company issued 200,000 common shares of the Company for consulting services to June 2009 with a fair value of $30,000.

ee)

On January 1, 2009, the Company issued 1,000,000 common shares of the Company for consulting services to December 2009 with a fair value of $180,000.

ff)

On January 1, 2009, the Company issued 33,000 common shares of the Company with a fair value of $5,940 as incentive shares for the purchase of convertible promissory notes.

Ethos Environmental, Inc.

Notes to the Consolidated Financial Statements

7.

Common Shares (continued)

gg)

On January 1, 2009, the Company issued 300,000 common shares of the Company with a fair value of $54,000 for consulting services.

8.

Share Purchase Warrants

In January 2009, the Company cancelled 1,500,000 share purchase warrants that were issued during the year ended December 31, 2008 and replaced them with 1,500,000 new share purchase warrants with an exercise price of $0.25 per warrant for a period of five years from the date of issuance.

During the period ended June 30, 2009, the Company issued 1,625,000 share purchase warrants as part of the 12% Units and 50,000 share purchase warrants as part of the 10% Units. Each warrant grants the warrant holder the option to purchase one additional common share of the Company at $0.25 per common share (12% Units) and $0.40 per common share (10% Units) for a period of three years from the date of issuance.

In June 2009, the Company issued 100,000 share purchase warrants with an exercise price of $0.40 per warrant for a period of three years, as part of the demand loan received from an investor.

In August 2009, the Company issued 200,000 share purchase warrants with an exercise price of $0.30 per warrant for a period of three years, as part of the convertible loan received from investors.

During the nine months ended September 30, 2009, the Company issued the following share purchase warrants:

		Number of Warrants	Weighted Average Exercise Price	Weighted Average Contractual Life (years)	Aggregate Intrinsic Value
Balance	**December 31, 2008**	**3,400,000**	**$1.55**		
	Granted	3,125,000	$0.25		
		150,000	$0.40		
		200,000	$0.30		
	Cancelled	(1,500,000)	$(0.35)		
Balance	**September 30, 2009 (unaudited)**	**5,375,000**	**$1.05**	**2.41**	

As at September 30, 2009, the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
1,900,000	$2.50	May 23, 2010
400,000	$0.25	January 1, 2012
200,000	$0.25	January 8, 2012
200,000	$0.25	February 19, 2012
100,000	$0.25	March 9, 2012
100,000	$0.25	April 1, 2012
625,000	$0.25	April 21, 2012
50,000	$0.40	May 11, 2012
100,000	$0.40	May 14, 2012
200,000	$0.30	August 5, 2012
1,500,000	$0.25	January 9, 2014
5,375,000		

9.

Stock Options

In February 2009, the Company issued 7,500,000 incentive stock options to Thrive Worldwide LLC (Thrive) in accordance with the Outsource Agreement (the Agreement) for marketing and consulting services. As at March 31, 2009, 2,500,000 incentive stock options were vested and the remaining 5,000,000 incentive stock options are unvested and are not obligated by the Company until Thrive achieves certain sales and marketing targets over the next 24-month and 36-month periods of the Agreement. The fair value of the stock options of $452,111 was determined using the Black-Scholes Option Pricing model using an exercise price of $0.25, expected life of five years, expected volatility of 147.7%, and a risk-free rate of 1.87%.

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Ethos Environmental, Inc.

Notes to the Consolidated Financial Statements

9.

Stock Options (continued)

		Number of Options	Weighted Average Exercise Price	Weighted Average Contractual Life (years)	Aggregate Intrinsic Value
Balance	**December 31, 2008**	2,400,000	$0.22		
	Granted	7,500,000	$0.25		
Balance	**September 30, 2009 (unaudited)**	**9,900,000**	**$0.24**	**3.82**	

As at September 30, 2009, the following stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
2,400,000	$0.22	August 31, 2013
7,500,000	$0.25	February 1, 2014
9,900,000		

As at September 30, 2009, the weighted average fair value of the stock options granted during 2009 was $0.18 (December 31, 2008 - $0.17).

As at September 30, 2009, the Company had no unrecognized compensation expense related to unvested options.

10.

Commitments and Contingencies

a)

In October 2007, the Company completed a sale and leaseback agreement with respect to its building. Commencing November 1, 2007, the Company entered into a 15-year lease agreement, with monthly lease payments of $63,000 in 2007. For the three months ended March 31, 2009, the Company incurred lease expense of $189,000 (March 31, 2008 - $201,041).

During the year ended December 31, 2007, the Company entered into various lease agreements with respect to its manufacturing equipment, including sale leaseback agreements of manufacturing equipment of approximately $737,968. Under the lease terms, the monthly payment is based on a factor of 0.04125 times the average outstanding loan balance for the month. For the nine months ended September 30, 2009, the Company incurred lease expense of $273,970 (September 30, 2008 - $273,970).

The Company s future annual minimum lease payments are as follows:

	Amount
	$
December 31, 2009	620,568
December 31, 2010	809,568
December 31, 2011	809,568
December 31, 2012	782,784
Thereafter	7,434,000
	10,456,488

b)

In January 2009, the Company entered into a consulting service agreement with a consultant through April 30, 2010. Under the terms of the consulting agreement, the Company is committed to monthly payments of $7,500 to June 2009, and monthly payments of $10,000 until April 30, 2010. In addition, the Company issued 200,000 common shares of the Company at $0.15 per common share (refer to Note 6(j)).

c)

In February 2009, the Company entered into a consulting agreement for investor relations with a consulting firm. Under the terms of the consulting agreement, the Company is committed to pay $4,000 per month for the first three month of the agreement, and $6,000 per month for the remaining term of the agreement. In addition, the Company issued 100,000 common shares of the Company (refer to Note 6(d)).

Ethos Environmental, Inc.

Notes to the Consolidated Financial Statements

10.

Commitments and Contingencies (continued)

d)

In February 2009, the Company entered into an Outsource Agreement (the Thrive Agreement) with Thrive Worldwide LLC (Thrive) for a three-year term in exchange for business plan, promotion, and marketing services. Under the terms of the Thrive Agreement, the Company is committed to issuing 7,500,000 stock options to Thrive, with each option allowing the holder to purchase one common share of the Company at $0.25 per common share over a five-year period. The Company issued 2.500,000 stock options, vested immediately, upon the date of the Agreement. The remaining 5,000,000 stock options are contingent on Thrive achieving certain future sales and marketing targets, with 2,500,000 stock options due 24-months from the date of the Agreement if Thrive creates new revenue to the Company exceeding $20 million for the entire trailing 12-month period, and a further 2,500,000 stock options due 36-months from the date of the Agreement if Thrive creates new revenue to the Company for any 12-month period exceeding $50 million.

11.

Subsequent Events

In accordance with ASC 855, we have evaluated subsequent events through November 20, 2009, the date of issuance of the unaudited interim consolidated financial statements, and did not have any material recognizable subsequent events, with the exception of the following:

a)

On November 2, 2009, the Company issued a $400,000, 10% convertible promissory note (the November Note). The November Note carries interest at 10% per annum and is due one year from the date of issuance, and the principal and accrued interest is convertible into common shares at $0.10 per share.

b)

On October 7, 2009, the Company entered into a Settlement Agreement and General Release (the Settlement Agreement) with Thrive Worldwide LLC relating to the terms of the Agreement noted in Note 10(d). Under the terms of the Settlement Agreement, both Thrive and the Company have been released from all obligations noted in the Thrive Agreement. As part of the Settlement Agreement, the Company issued an $80,000 promissory which is unsecured, due interest at 10% per annum, and due within six months of the issuance date, and issued 1,000,000 restricted common shares.

c)

Subsequent to September 30, 2009, the Company issued 300,000 common shares for settlement of debt (see Note 7(k)), 420,868 common shares for consulting services, 1,000,000 common shares for Settlement Agreement noted in Note 11(b), and 60,000 common shares for incentive shares (see Note 7(g)).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY FORWARD-LOOKING STATEMENT

CERTAIN STATEMENTS IN THIS QUARTERLY REPORT ON FORM 10-Q (THIS "FORM 10-Q"), CONSTITUTE "FORWARD LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1934, AS AMENDED, AND THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 (COLLECTIVELY, THE "REFORM ACT"). CERTAIN, BUT NOT NECESSARILY ALL, OF SUCH FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "BELIEVES", "EXPECTS", "MAY", "SHOULD", OR "ANTICIPATES", OR THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY, OR BY DISCUSSIONS OF STRATEGY THAT INVOLVE RISKS AND UNCERTAINTIES. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF ETHOS ENVIRONMENTAL, INC. ("ETHOS", "THE COMPANY", "WE", "US" OR "OUR") TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. REFERENCES IN THIS FORM 10-Q, UNLESS ANOTHER DATE IS STATED, ARE TO SEPTEMBER 30, 2009.

Item 1. Description of Business

Overview

The mission of Ethos is to become the industry leader in the provision of high quality & environmentally friendly engine cleaning and lubrication products. Ethos affordably priced fuel catalysts maximize fuel mileage while minimizing ecologically damaging emissions.

The Company manufactures and distributes a unique line of fuel catalysts comprised of a blend of low and high molecular weight esters. Our products have been formulated to enhance fuel and motor oil with powerful self-cleaning and lubrication properties, with our flagship product, Ethos FR+ designed to improve the combustion of fuel as well. Our products have been tested on a wide selection of fuels and motor oils including bio-fuels and ultra low sulfur diesel.

Ethos has provided a remedy for reducing both the costs and the environmental impact of vehicle fuels and engine oils. Notably, both wasted fuel and high emissions stem from the same problem inefficient burning of fuel. That is why the use of our products, formulated and tested for greater fuel burning efficiency, addresses both of these problems while also reducing overall engine maintenance costs in the process.

Ethos products address the problems of wasted fuel, air pollution, and insufficient lubricity. 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 all three of the aforementioned adverse effects. Most importantly, the use of Ethos products is likely to result in fuel cost savings for most customers.

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.

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 re-domiciling 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, and changed its name to Ethos Environmental, Inc. to more accurately reflect its new direction and business model.

Current Organizational Chart

ecoMates, LLC

ecoMates™, a Nevada LLC formed on March 3, 2009, is wholly owned and managed by Ethos. ecoMates will direct the Company's retail distribution and marketing functions. ecoMates™ is a network marketing system that will leverage a proprietary suite of web/broadcast communication tools to maximize productivity and optimize communications.

Ethos Scientific LLC

Ethos Scientific, LLC, is a wholly-owned subsidiary also formed on March 3, 2009 as a Nevada LLC. Ethos Scientific™ will conduct research and development activities as well as advisory services to the Company as pertains to new products.

Government and Commercial Sales

All Government and Commercial Sales will continue to be handled by the parent company, Ethos Environmental, Inc.

Products

How Do Ethos Products Work?

Ethos products reformulate fuels for significantly greater lubricity and cleansing properties, with Ethos FR+ having the added benefit of improving the combustion of fuel. All of the internal engine components benefit from the improved cleansing and lubricating action including the fuel lines, filters, carburetors, spark plugs and injectors. A cleaner, more lubricated engine runs smoother, requires less maintenance, and lasts much longer. Most importantly, our products are formulated to help reduce the levels of carbon deposits that result in incomplete fuel combustion, thereby resulting in wasted fuel and toxic emissions. The unique combination of cleaning and lubricating esters in our products stabilize all fuels for greater efficiency without altering the fuel s specifications.

For example, in the Ethos FR® product, a group of low molecular weight esters cleans the dirty deposits formed by fuels and the combustion process. These deposits impair engine performance and result in the exhaust of raw fuel the primary contributor to pollution. Concurrently, a group of high molecular weight esters lubricate the engine surfaces as the fuel runs through the engine. The molecular structure of these higher weight esters is small enough to penetrate the metal and form a lubricating layer between the engine surfaces. This process enables an engine s moving components to operate with less energy-robbing and pollution-causing 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. Part of the challenge 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.

We believe, that 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 products complement federally mandated oxygenates by lowering emissions. Ethos products are not oxygenates 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 our products are readily available and continuously produced at a lower price.

Esters

Esters comprise the primary element of all of the Company s products. In the simplest terms, esters can be defined as the reaction products of acids and alcohols. Thousands of different varieties of esters are produced commercially for a broad range of applications. Within the realm of synthetic lubrication, a relatively limited family of esters has been demonstrated to be useful. Esters as 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 ndesirable and unstable impurities found in conventional petroleum based oils. The primary structural difference between esters and PAOs is the presence of multiple ester linkages (COOR) in esters which impart polarity to the molecules. This polarity affects the way esters behave as lubricants in the following ways:

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

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

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

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

Product Line

The Company manufactures a unique line of fuel re-formulators that contain a blend of low and high molecular weight esters. Ethos has three products, Ethos FR®, Ethos FR+, and Ethos Bunker Fuel Conditioner ("Ethos BFC"). Ethos FR® and Ethos BFC cleanse and lubricate the engine while Ethos FR+ is a fuel catalyst. There are two esters used in each product, a light ester and a heavy ester. Ethos FR® and Ethos FR+ can be used in any internal combustion engine. Ethos BFC is used for Bunker Fuel, which is used in external combustion engines.

Ethos FR®

Product Benefits: Ethos FR® is a unique combination of high-quality, non-toxic, specially designed esters comprised exclusively of carbon, hydrogen and oxygen. This product reduces emissions, helps maximize fuel efficiency, and lowers engine maintenance costs. Its considerable emissions-reducing capacity renders it an immediate and cost-effective method for countering the air pollution caused by fossil fuels and the internal combustion engine. Ethos FR® is a multi-functional fuel catalyst. 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. 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.

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.

Testing To Date: An EPA registered laboratory confirms that Ethos FR® is 99.99976% clean (upon ignition), ash-less upon combustion, and free of carcinogens. It is recommended for use at 1 part in 1280, which is equal to 2 fluid ounces of Ethos FR® per 20 gallons of fuel.

In March 2008, Louis Meyer III, the Technical Director for the Indy Racing League and the Firestone Indy Lights Series, oversaw testing of Ethos FR®. This testing indicated that the product is successful in generating quicker lap times, lower water and oil temperature readings, a drop in emissions, and an improvement in power & fuel efficiency.

Testing was also conducted in September of 2008 at a Transport Canada (Canadian Government) Motor Vehicle Test Center in Blainville, Quebec. The results of this test indicated a 1.51% improvement in fuel consumption and a reduction in opacity from 5.5% to 3.9%.

As well, an October 2008 test conducted at an EPA-approved laboratory confirmed that Ethos FR® increases lubricity in engine oil by 10%. This improved lubricity confirms that the product enables engines to run cooler and reduce friction, thereby resulting in greater engine life. The test was performed by adding 1 ounce of Ethos FR per quart of oil, which is the dosage recommended on each bottle of Ethos FR®.

Regulatory Status: Ethos FR® is registered with the Environmental Protection Agency for use in gas and diesel fuels. In 2008, Ethos FR successfully demonstrated compliance with the SAE s J1321 specification.

Ethos FR+

Product Benefits: Ethos FR+ consists of our original product, with one additional plant based ingredient. Ethos FR+ offers all the same benefits as its predecessor. The "+" represents improved fuel efficiency and emissions reductions.

Testing to Date: Ethos FR+ has been tested at the California Environmental Engineering Laboratory - Center for Environmental Research (EPA-recognized and CARB-certified) in Santa Ana, California. The tests were conducted in full compliance with Federal Regulations. Test analysis confirmed a reduction in tailpipe emissions for Hydrocarbons, Carbon Monoxide, Nitrous Oxide, and Particulate Matter. Tests also confirmed a marked improvement in horsepower. It is recommended that 2 fluid ounces of Ethos FR+ be used per 15 gallons of fuel.

For additional information, please refer to the below letter:

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Regulatory Status: Ethos FR+ has been registered with the EPA, and we will seek other approvals, registrations or certifications as necessary to fully comply with all regulations.

Ethos BFC

Product Benefits: Ethos BFC (Ethos Bunker Fuel Conditioner) has been demonstrated to reduce carbon emissions substantially. When added in proper concentration, the components of Ethos BFC are optimized to enhance fuel stability. This product also helps maximize performance by cleaning and maintaining the entire fuel system.

Testing to Date: Thus far, all testing on this product has been internal.

Regulatory Status: At present, Ethos BFC cannot be sold domestically. Ethos will seek approvals, registrations and certifications as necessary for Ethos BFC.

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 also have two pending Trademark registrations for ecoMates™ and Ethos Scientific™. 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 can only increase the Company s market presencePolitical and media pressures are causing more people to become concerned about our environment and the effects of global warming. 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.

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 The Company 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.

Market Research

Domestic Vehicle Market

Since our products have been formulated to benefit both passenger and commercial vehicles, its potential market encompasses all such vehicles in the United States (with other countries to be targeted subsequently): As of 2006, there are over 250 million passenger vehicles in active use in the United States alone[1]. Of these, roughly 135 million are cars, 100 million are pick-up trucks & sport utility vehicles, roughly 9 million are other types of trucks/trailers, and approximately 7 million are motorcycles. These numbers keep growing steadily, even in an economic downturn: Almost 11 Million new vehicles were sold in the United States in 2008[2] -- roughly ¼ of total global demand for new vehicles.

However, due to current economic conditions, the rate of growth is expected to stay negative for the immediate future. The 2008 numbers mark a double digit decrease from the previous year and a further year-over-year decline is expected for 2009[3]. Fortunately, positive growth is expected to resume by the end of 2009 and, by 2010, sales of 14 million new vehicles are projected for the US market[4]. By 2012, that sales figure is projected to exceed 16 million[5]. So, even within the next 3 year period, overall growth estimates are very positive.

1

Total Number of Vehicles, Department of Transportation: Bureau of Transportation Statistics, 2006

2

J.D. Power & Associates Vehicle Forecast, J.D. Power & Associates, October 9th, 2008

3

Germany's VDA Forecasts US Auto Market Will Grow in 2010 - Clean Diesels Go on the Offensive , The Auto Channel, January 11, 2009

4

North American Light Vehicle Industry Forecasts , IHS Global Insight, December 2008

5

Ibid.

Segment Focus Domestic Fuel & Engine Oil Consumption

According to the latest (2009) energy outlook from the Department of Energy s Energy Information Administration, current domestic consumption of transportation fuel exceeds 14 Million barrels per day[6]. This figure is expected to rise fairly consistently for the foreseeable future (to 2030) but the projected growth rate is tempered by higher CAFE standards and other regulatory and technological factors that are likely to moderate the use of transportation fuel. Nonetheless, with among the most rapidly growing populations in the industrialized world[7], continued growth in domestic transportation fuel usage is, for the foreseeable future, inevitable.

Sub-Segment Focus The Lubricant Additive Industry

Within the fuel segment of the domestic automotive market, Ethos competes in the sub-segment of Lubricant Additives. Despite the current economic contraction, the lubricant additive market will grow by 0.7% in 2009[8] not a remarkable growth rate but very strong when most markets are experiencing marked declines. Notably, within this sub-segment, friction modifiers like Ethos FR are enjoying particularly strong growth and are expected to continue outperforming the general lubricant additive market through to 2013[9].

A recent market study on this sub-segment revealed a number of trends of direct relevance to the Ethos product line. Until 2013, the primary drivers of growth in the lubricant additive industry will be emission control, improving fuel economy in passenger vehicles, use of bio-fuels, use of ultra low sulfur diesel, and maximizing engine life. Our products have been tested successfully with bio-fuels and ultra low sulfur diesel[10]. Most importantly, the Company s primary objectives with its products pertain specifically to improved fuel economy, lower emissions, and increasing engine life. These objectives seem to be in perfect alignment with the direction of the market.

A Green Regulatory Environment

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. In March of 2009, the Department of Transportation mandated a significant increase in CAFE (Corporate Average Fuel Economy) standards for 2011 vehicles. These policy initiatives are expected to be continually strengthened throughout the term of the new administration.

Within his first week in office, President Barack Obama issued 2 executive orders of direct relevance to the ongoing growth of the Company: One mandates heightened fuel economy standards while the second strengthens enforcement of greenhouse gas emissions rules. Given that improved fuel economy and lower emissions are the two primary benefits of Ethos products, the direction of the new administration is very positive for Ethos. Moreover, as revealed by its recent budget proposals, the Obama administration is intent on implementing an emissions trading system that will both discourage greenhouse gas emissions and provide an additional source of revenue to the government[11].

The drastic emissions-reducing impact of Ethos product line is ideally suited to the aggressively green public policy pursued by the administration and the Democratic-led Congress. Even if only half of these green legislative initiatives become law, they are likely to have a dramatic impact on demand for emissions-reducing products on both the commercial and consumer level. Clearly, from a regulatory perspective, the domestic market is heading into very favorable territory for the commercial and consumer prospects of the Ethos product. Moreover, it is possible that, in such a regulatory environment, there will be public/private partnership opportunities for Ethos (and/or ecoMates, its wholly owned marketing and distribution subsidiary discussed above).

6

Annual Energy Outlook 2009, Department of Energy: Energy Information Administration, March 2009

7

"U.S. population hits 300 million mark", Associated Press, October 17th, 2006

8

Global Lubricant Additives 2008, Kline & Company, March 18, 2009

9

Ibid.

10

Ibid.

11

Eilperin, Juliet, & Mufson, Steven, Budget Expects Revenue From Limits on Emissions, Washington Post, February 26, 2009

Competition

Although there are hundreds of fuel additive products that purport to improve fuel mileage, relatively few of those products also reduce emissions (in fact, many of those formulations actually worsen emissions). Among those that do both, Ethos products are in a class of their own for a number of compelling reasons: Most importantly, we are not aware of any other brand of fuel additive that has demonstrated its ability to reduce all tailpipe emissions. As well, the company has engineered its products to enable additional horsepower. Offering such an advanced level of performance and environmental advantages, Ethos believes that it is in a class of its own among fuel additive brands.

However, 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, may 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 Company competes 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.

In contrast, the Company s 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. After all, it has been demonstrated that particulate matter circulating in the engine increases friction thereby increasing the wear on the engine and impairing its ability to operate with maximal efficiency and smoothness.

To illustrate the competitive dynamics further, here is some further information regarding two of the Company s primary competitors (note that even these competitors do not provide the full range of benefits provided by Ethos):

Red Line Oil: Friction Modifier -- Red Line s "Limited Slip Friction Modifier" claims to reduce break-in temperatures by up to 50 degrees Fahrenheit. The product has been formulated for use with both synthetic and petroleum gear lubricants. A four fluid ounce bottle of this product retails for $6.95[12]. Red Line Synthetic Oil Corporation is a privately held company headquartered in Benicia, California.

AMSOIL: Friction Modifier -- Amsoil s "Friction Modifier Slip Lock Differential Additive" claims to not only reduce but eliminate gear chatter in most cars, trucks, and SUVs. Like Red Line s friction modifier, this product has also been formulated for use with both synthetic and petroleum gear lubricants. A four fluid ounce bottle of this product retails for $7.70[12]. According to the Goliath business database, AMSOIL Incorporated generated over $44,000,000 in revenue for 2008. Notably, a successful network marketing system is the primary source of sales for this company. AMSOIL Incorporated is a privately held company based in Superior, Wisconsin.

Competitive Advantage

Looking forward, the Company carries a significant competitive advantage on multiple dimensions: All of the Company s products add cleaning and lubricating qualities, allowing engines to perform cooler, smoother and with more vigor. The overall benefits are increased fuel mileage, reduced emissions, and reduced maintenance costs. The Company s 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.

12

Red Line Oil: Gear Lubricants , Red Line Corporate Website, accessed March 23, 2009

13

AMSOIL Online Store , Amsoil Corporate Website, accessed March 23, 2009

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

1. Customers report that the use of Ethos products reduce engine exhaust emissions, 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.

Another significant element of the competitive advantage is the Company s powerful distribution system: ecoMates, powered by a suite of proprietary communication technologies and a team of direct marketing veterans, is well-positioned to maximize the promotional impact of the Ethos product line and generate long-term sales growth.

Research and Development

The Ethos Scientific Board is continually identifying and developing new product enhancements for the Company s product line. The purpose of this board is to ensure that the Company maintains its competitive edge in the fuel additive industry.

Distribution and Marketing

The Company will continue to work to develop its commercial business by expanding the number and size of its commercial clients throughout the United States and beyond. However, for the foreseeable future, the core entity directing the Company s distribution and marketing functions will be ecoMates™.

ecoMates™

Like other network marketing systems, ecoMates™ is comprised of a network of vertically organized independent distributors whereby distributors will acquire designated quantities of Ethos products at wholesale prices. Distributors are free to determine how much of the product to use for themselves and how much to sell to consumers at retail prices. The full profit from such retail sales is kept by distributors. Moreover, distributors earn additional income by enlisting associates. A portion of the wholesale product purchases made by these "down-line" associates are paid out to those that enlisted them. In such a manner, strong incentives are in place for not only selling as much product as possible but urging others to sell the product as well.

Dissimilar to other network marketing systems, ecoMates™ hosts a unique set of advanced communication technologies. These include streaming video web tools especially designed to facilitate remote face-to-face communications among ecoMates distributors. Of course, this saves time, money, and logistical difficulties by minimizing the need for arranging meetings in the same room. As such, it is an excellent way of maximizing the productivity of distributors. Moreover, all video meetings are stored for future playback on any web-enabled device (including cell phones!). Similarly, ecoMates video e-mail enables distributors to utilize a host of advanced video tools within their e-mail communications.

ecoMates™ management and distributors also benefit from live broadcasting capability whereby one can broadcast via the web and anyone, throughout the world, with the designated login information for the broadcast will be able to view it on any web-enabled device. This broadcasting system includes sophisticated features such as real time chat, polling, and viewer statistics. Among other productivity tools, ecoMates™ also provides a "media vault" through which distributors can instantly backup files of all kinds on the vault and access those files as needed through a user-friendly online interface.

Notably, ecoMates™ is not only advanced in terms of technological sophistication but also in terms of eco-friendliness. ecoMates™ intends to be the leading green network marketing organization in the world. The communication technologies described above are all outstanding green productivity tools that enable a more effective distributor network that can do its business with as little driving, flying, and paper use as possible. And, of course, ecoMates distributes a product that reduces emissions thereby enabling an unprecedented green opportunity. That is why ecoMates offers both a financial opportunity (i.e. reduce fuel expenses and earn money selling the product) and a green opportunity (i.e. reduce emissions on the road).

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 results are for a fleet of trucks for Allied Waste. On our website are results for other customers, which may be viewed by visiting www.ethosfr.com. In most customer tests.

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 September 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, September 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:

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new vehicles that have been added to the fleet (and therefore have no baseline data)

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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.

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:

Ethos FR Proof of Performance Demonstrations

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.

As with our domestic client base, international customers of Ethos appreciate the benefits of improved mileage and reduced emissions.

Customers

Although we have many customers utilizing products, the broadly diversified base means there is no significant concentration in any industry. We derive revenue from our customers as discussed in Note 1, "Organization and Significant Accounting Policies: Revenue Recognition" of the consolidated financial statements.

Supply Arrangements

We presently obtain our raw materials from six (6) suppliers. However, these arrangements are not governed by any formal written contract. Accordingly, either party may terminate the arrangement at any time. 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), 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.

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.

Our products may also be subject to other local, federal or international regulations, and Ethos will comply with all such regulations.

Research and Development Costs

Research and development costs are charged to operations when incurred and are included in operating expenses.

Employees

As of November 18, 2009, we employed 5 full-time employees and 0 part-time employees. None of our employees is subject to a collective bargaining agreement and we believe that relations with our employees are very good. We also frequently use third party consultants to assist in the completion of various projects. Third parties are instrumental to keep the development of projects on time and on budget.

Available Information

We file electronically with the Securities and Exchange Commission our annual reports on Form 10-K, quarterly reports on Form 10-Q, 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.

RESULTS OF OPERATIONS FOR THE PERIOD ENDED SEPTEMBER 30, 2009 COMPARED TO THE PERIOD ENDED SEPTEMBER 30, 2008.

Results of Operations

Revenues

During the three and nine month periods ended September 30, 2009, the Company recognized revenues of $417,381 and $1,206,685 compared with $653,765 and $2,015,956 for the three and nine months ended September 30, 2008, respectively. The decrease in revenues is attributed to the fact that the Company focused on the incorporation of its two wholly-owned subsidiaries, and obtaining the necessary financing to acquire patents to improve the *Ethos FR*® product as well as to settle outstanding liabilities of the Company. Furthermore, the Company commenced the sale of its *Ethos FR*® product through Ecomates, its wholly-owned subsidiary, rather than the use of a MLM (multi-level marketing) in fiscal 2008. The Company will re-focus its attention on selling and marketing of the *Ethos FR*® product for the remainder of the year, through Ecomates, to increase the current level of sales activity.

Our future growth is significantly dependent upon our ability to generate sales. Our main priorities relating to revenue are: (1) increase market awareness of Ethos FR® product through our sales and marketing plan, (2) growth in the number of customers and vehicles per customer, and (3) providing extensive customer service and support. The current downturn in the economy could be beneficial to the Company s sales opportunities given the fact that our products can assist consumers and businesses in saving fuel costs, especially with the continued increase in oil and gas prices in a strong economic downturn.

Gross Profit

Gross profit for the three and nine months ended September 30, 2009 was $252,503 and $619,828 compared with $238,872 and $812,828 for the three and nine months ended September 30, 2008, respectively. The gross profit margin for the nine months ended September 30, 2009 was 60.4% compared with 40.3% for the nine months ended September 30, 2008. The increase in the gross profit margins in fiscal 2009 is attributed to the fact that the Company commenced sales of its *Ethos FR*® product using Ecomates, their wholly-owned subsidiary, rather than a MLM which required the Company to pay commission charges which impacted the overall gross profit margin.

Operating Expenses

The Company s current operating expenses are comprised of costs associated with general and administrative costs such as staff salaries, consulting, marketing, and legal and accounting, and selling expenses such as marketing and business development.

Bad Debt Expense

For the three and nine months ended September 30, 2009, the Company incurred bad debt expense of $nil and $14,979 compared to $nil and $205,119 for the three and nine months ended September 30, 2008, respectively. Bad debt expense in fiscal 2008 was attributed to the 100% write-off of accounts receivable for one vendor based on the fact that management did not warrant the amounts to be objectively collectable. During the current period, the Company had sales revenue of $1,026,685 and accounts receivable of $276,717, of which $262,224 was over sixty days past due as at September 30, 2009 and remained uncollected as at November 20, 2009, and have been impaired by the Company. The remaining accounts receivable of $14,493 is collectible, hence no allowance has been provided on the current outstanding accounts receivable balance.

Depreciation Expense

For the nine months ended September 30, 2009, the Company incurred depreciation expense of $30,001, of which $27,001 is included in cost of goods sold, compared to $64,101 of which $57,694 is included in cost of goods sold for the nine months ended September 30, 2008. The decrease in overall depreciation expense is based on the fact that depreciation on various computer and furniture equipment reached its acquisition cost. The Company has not purchased any new property and equipment during the nine month period ended September 30, 2009.

General and Administrative

For the three and nine months ended September 30, 2009, the Company incurred general and administrative expense of $857,913 and $4,044,294 compared with $1,151,246 and $4,214,732 for the three and nine months ended September 30, 2008. Overall, general and administrative costs decreased during fiscal 2009 given the downturn in the economy and the commitment by management to preserve cash balances. The decrease in general and administrative costs for the nine months ended September 30, 2009 and 2008 is attributed to the recognition of $483,266 of stock-based compensation expense due primarily to the issuance of stock options to Thrive Worldwide LLC for the business plan and marketing agreement as well as accretion expense of $136,736 from the discount on the convertible notes that were issued during fiscal 2009.

Selling Expense

For the three and nine months ended September 30, 2009, the Company incurred selling expense of $42,441 and $266,464 compared with $65,152 and $238,583 for the three and nine months ended September 30, 2008. Overall, selling expense was consistent to prior year as the Company entered into contracts designed to generate new sales leads and distributors in fiscal 2009 to offset declines in revenue due to the poor economic climate.

Other Income (Expenses)

Interest Expense

For the three and nine months ended September 30, 2009, the Company incurred interest expense of $114,313 and $284,349 compared to $24,500 and $142,540 for the three and nine months ended September 30, 2008. The increase in interest expense is attributed to the fact that, during the current period, the Company issued $2,200,000 of convertible promissory notes and $25,000 of 10% promissory notes since January 1, 2009.

Net Loss

For the three and nine months ended September 30, 2009, the Company incurred a net loss of $838,449 and $4,128,814 compared with a net loss of $1,001,660 and $3,795,916 for the three and nine months ended September 30, 2008. The increase in net loss is attributed to the effects of the stock-based compensation expense and decreases in sales revenue and gross profit margin compared with fiscal 2008.

Common Shares

During the nine months ended September 30, 2009, the Company issued 5,515,347 common shares to settle services and debt incurred on behalf of the Company (3,264,825 common shares), incentive shares related to the convertible notes payable (604,000 common shares), shares on conversion of convertible and promissory notes (1,256,522 common shares) and for cash proceeds (600,000 common shares) less cancelled common shares of 210,000 common shares. The fair value of the share issuances were based on the end-of-day closing share price of the Company s common stock traded on the Over-the-Counter Bulletin Board (OTCBB: ETEV).

Liquidity and Capital Resources

At September 30, 2009, we had cash of $87,884, current assets of $243,617, total assets of $702,084, total liabilities of $3,549,645, and stockholders deficit of $2,847,561.

As at September 30, 2009, we had a working capital deficit of $3,306,028 compared with a working capital deficit of $2,009,769 for the year ended December 31, 2008. The increase in the working capital deficit is attributed to the fact that the Company has had limited cash flows and therefore, have not purchased inventory amounts in large quantities until the Company obtains more financing or generates positive earnings.

Cash Flows from Operating Activities

For the nine months ended September 30, 2009, the Company used $1,454,034 of cash flows for operating activities compared with $811,775 for the nine months ended September 30, 2008. The increase in cash flows used in operating activities is attributed to the fact that the Company had a higher operating loss during the current year, had $1,569,748 of non-cash issuances of common stock and stock-based compensation for warrants and to settle services and debt compared with $2,630,126 in fiscal 2008. The increases in cash flow used in operating activities was offset by a net change in operating assets and liabilities of $633,402 which is due to the fact that the Company preserved its cash flow to sustain operations going forward, which attributed to a sharp increase in accounts payable.

Cash Flows from Investing Activities

For the nine months ended September 30, 2009, the Company used $nil of cash flows for investing activities compared with $32,991 for the nine months ended September 30, 2008. The decrease in cash flows used for investing activities were attributed to lower amounts of property and equipment purchases during the current period compared to prior year.

Cash Flows from Financing Activities

During the nine months ended September 30, 2009, the Company received proceeds of $1,469,686 from cash flows from financing activities compared with $803,479 for the nine months ended September 30, 2008. The increase in cash flows provided by financing is attributed to the issuance of $50,000 12 % promissory note units and net proceeds from demand loans from various investors during fiscal 2009 that raised approximately $1,349,000 along with issuance of common shares that raised $120,000. In fiscal 2008, the Company raised net proceeds of $950,000 from demand loans and promissory notes.

Loan Facilities

As at September 30, 2009, the Company owed $59,685 in demand loans to non-related parties for funding of the Company s operating costs. The amount owing is unsecured, non-interest bearing, and due on demand.

During the period ended September 30, 2009, the Company issued units (the August Units) of convertible promissory notes. Under the terms of the note agreement, each August Unit is comprised of a $100,000 convertible note, due interest at 12% per annum, secured by the Company s assets, and due in two years from the date of issuance, and convertible into common shares of the Company at the option of the note holder at a conversion rate of $0.225 per common share. Furthermore, each August Unit includes 100,000 share purchase warrants, where each warrant allows the warrant holder to purchase one additional common share of the Company at $0.30 per common share for a period of three years from the date of issuance. During the period ended September 30, 2009, the Company issued two units for cash proceeds of $200,000. In accordance with ASC 470, *Debt Debt with Conversions and Other Options,* the Company determined that the multiple financial instruments issued in the convertible promissory notes resulted in an allocation of the fair value between the convertible note and the share purchase warrants which resulted in a discount on the convertible notes of $146,258 that was recorded against the note payable and a corresponding credit to additional paid-in capital. As at September 30, 2009, the Company has recognized accretion expense of $12,188, which increased the carrying value of the August Units to $65,930.

During the period ended September 30, 2009, the Company issued units (the 12% Units) of convertible promissory notes. Under the terms of the note agreement, each 12% Unit is comprised of a $50,000 convertible note due interest at 12% per annum, secured by the Company s assets, and due in two years from the date of issuance, and convertible into common shares of the Company at the option of the note holder at a conversion rate of $0.25 per common share. Furthermore, each 12% Unit includes 100,000 share purchase warrants, where each warrant allows the warrant holder to purchase one additional common share of the Company at $0.25 per common share for a period of three years from the date of issuance. During the period ended June 30, 2009, the Company issued nineteen units for cash proceeds of $950,000, and issued one unit to settle a promissory note with a carrying value of $50,000 (refer to Note 5(j)). In accordance with ASC 470, *Debt Debt with Conversions and Other Options,* the Company determined that the multiple financial instruments issued in the convertible promissory notes resulted in an allocation of the fair value between the convertible note and the share purchase warrants which resulted in a discount on the convertible notes of $650,667 that was recorded against the note payable and a corresponding credit to additional paid-in capital. During the period ended September 30, 2009, three units ($150,000) were converted into common shares at $0.25 per common share, resulting in the recognition of the unaccreted discount of the convertible note of $25,923. As at September 30, 2009, the Company has recognized accretion expense of $110,391, which increased the carrying value of the remaining 12% Units to $309.724.

During the period ended September 30, 2009, the Company issued units (the 10% Units) of convertible promissory notes. Under the terms of the note agreement, each 10% Unit is comprised of a $25,000 convertible note due interest at 10% per annum, secured by the Company s assets, and due in two years from the date of issuance, and convertible into common shares of the Company at the option of the note holder at a conversion rate of $0.40 per common share. Furthermore, each 10% Unit includes 50,000 share purchase warrants, where each warrant allows the warrant holder to purchase one additional common share of the Company at $0.40 per common share for a period of three years from the date of issuance. During the period ended June 30, 2009, the Company issued one unit for cash proceeds of $25,000. In accordance with ASC 470, *Debt Debt with Conversions and Other Options,* the Company determined that the multiple financial instruments issued in the convertible promissory notes resulted in an allocation of the fair value between the convertible note and the share purchase warrants which resulted in a discount on the convertible notes of $19,196 that was recorded against the note payable and a corresponding credit to additional paid-in capital. As at September 30, 2009, the Company has recognized accretion expense of $2,700, which increased the carrying value of the 10% Units to $8,504.

In February 2009, the Company issued a demand loan to a third party for $17,500. Under the terms of the loan, the amount owing is unsecured, non-interest bearing, and due on demand.

On January 9, 2009, the Company terminated a $300,000 unsecured promissory note that was due interest at 10% per annum and due on February 11, 2009 and replaced it with a new $550,000 promissory note that is unsecured, due interest at 10% per annum, and due on September 30, 2009. In addition, the Company terminated 1,000,000 and 500,000 share purchase warrants that were issued in August and September 2008 respectively, which allowed the warrant holder to purchase one additional common share of the Company at $0.37 and $0.30, respectively, and replaced it with 1,500,000 share purchase warrants which allows the warrant holder to purchase one additional common share of the Company at $0.25 per common share for a period of five years from the date of issuance. In May 2009, the note holder converted $100,000 of unsecured promissory note into 400,000 common shares of the Company at a rate of $0.25 per common share.

On January 8, 2009, the Company replaced a $300,000, 12% unsecured promissory note that was due on March 31, 2009 with a new $250,000, 12% unsecured promissory note that is due on December 31, 2009 and one unit of the $50,000 convertible promissory notes.

On January 1, 2009, the Company issued a convertible promissory note to settle professional services with a fair value of $50,000. Each promissory note is comprised of a $50,000, 12% unsecured convertible promissory note due two years from the date of issuance and convertible into common shares of the Company at the option of the note holder at a conversion rate of $0.25 per common share, and 100,000 share purchase warrants, where each warrant allows the warrant holder to purchase one additional common share of the Company at $0.25 per common share for a period of three years from the date of issuance. In accordance with ASC 470, *Debt Debt with Conversions and Other Options*, the Company determined that the multiple financial instruments issued in the convertible promissory notes resulted in an allocation of the fair value between the convertible note and the share purchase warrants which resulted in a discount on the convertible notes of $11,457 that was recorded against the note payable and a corresponding credit to additional paid-in capital. During the period ended September 30, 2009, the promissory note was converted into common shares and resulted in the recognition of the unaccreted portion of the discount of $8,116. As at September 30, 2009, the Company has recognized accretion expense of $11,457.

Inflation has not significantly impacted the Company s operations.

Going Concern

As at September 30, 2009, the Company had a cash balance of $87,884 and accumulated deficit of $55,740,619. For the nine months ended September 30, 2009, the Company recorded sales revenue of $1,026,685, gross profit of $619,828, and a net loss of $4,128,814. In addition, as at September 30, 2009, the Company had a working capital deficit of $3,306,028.

Based on the above factors, there is substantial doubt regarding the Company s ability to continue as a going concern. The continuation of the Company as a going concern is dependent on the continuation of the Company s profitability from its operations, continued financial support from its shareholders, and the ability to raise additional equity or debt financing to sustain operations. The consolidated financial statements presented in the Form 10-K/A does not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

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.

<u>Critical Accounting Policies</u>

Use of Estimates

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to valuation allowances on accounts receivable and inventory, valuation and amortization policies on property and equipment, and valuation allowances on deferred income tax losses. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company s estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

Revenue Recognition

The Company will recognize revenue from the sale of its fuel reformulating products in accordance with ASC 605, *Revenue Recognition*. Revenue will be recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is provided, and collectibility is assured.

Stock-Based Compensation

The Company records stock-based compensation in accordance with ASC 718, *Compensation Stock Compensation*, using the fair value method. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. Equity instruments issued to employees and the cost of the services received as consideration are measured and recognized based on the fair value of the equity instruments issued.

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Recent Accounting Pronouncements

In October 2009, the FASB issued an amendment to the accounting standards related to certain revenue arrangements that include software elements. This standard clarifies the existing accounting guidance such that tangible products that contain both software and non-software components that function together to deliver the product s essential functionality, shall be excluded from the scope of the software revenue recognition accounting standards. Accordingly, sales of these products may fall within the scope of other revenue recognition standards or may now be within the scope of this standard and may require an allocation of the arrangement consideration for each element of the arrangement. This standard is effective commencing January 1, 2011 and is not expected to have a material effect on the Company s financial statements.

In October 2009, the FASB issued an amendment to the accounting standards related to the accounting for revenue in arrangements with multiple deliverables including how the arrangement consideration is allocated among delivered and undelivered items of the arrangement. Among the amendments, this standard eliminated the use of the residual method for allocating arrangement considerations and requires an entity to allocate the overall consideration to each deliverable based on an estimated selling price of each individual deliverable in the arrangement in the absence of having vendor-specific objective evidence or other third party evidence of fair value of the undelivered items. This standard also provides further guidance on how to determine a separate unit of accounting in a multiple-deliverable revenue arrangement and expands the disclosure requirements about the judgments made in applying the estimated selling price method and how those judgments affect the timing or amount of revenue recognition. This standard is effective commencing January 1, 2011 and is not expected to have a material effect on the Company s financial statements.

In August 2009, the FASB issued an amendment to the accounting standards related to the measurement of liabilities that are recognized or disclosed at fair value on a recurring basis. This standard clarifies how a company should measure the fair value of liabilities and that restrictions preventing the transfer of a liability should not be considered as a factor in the measurement of liabilities within the scope of this standard. This standard is effective for the Company on October 1, 2009 and is not expected to have a material effect on the Company s financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit to the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission s rules and forms, and that information is accumulated and communicated to our management, including our principal executive and principal financial officer (whom we refer to in this periodic report as our Certifying Officer), as appropriate to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our Certifying Officer, the effectiveness of our disclosure controls and procedures as of September 30, 2009, pursuant to Rule 13a-15(b) under the Securities Exchange Act. Based upon that evaluation, our Certifying Officer concluded that, as of September 30, 2009, our disclosure controls and procedures were not effective and contained the following significant deficiencies and material weaknesses of our internal controls over financial reporting:

1.

We do not have an Audit Committee While not being legally obligated to have an audit committee, it is the management s view that such a committee, including a financial expert member, is an utmost important entity level control over the Company s financial statement. Currently the Board of Directors acts in the capacity of the Audit Committee, consisting of one sole member who is not independent of management and one member who is independent of management, but lacks sufficient financial expertise for overseeing financial reporting responsibilities.

2.

We did not maintain appropriate cash controls As of September 30, 2009, the Company has not maintained sufficient internal controls over financial reporting for the cash process, including failure to perform monthly bank reconciliations and the fact that the Company operated through most of the period with a single director and officer and did not require dual signature on the Company s bank accounts. Alternatively, the effects of poor cash controls were mitigated by the fact that the Company had limited transactions in their bank accounts and that the Company s quarterly and year-end financial statements and audit working papers and supporting documents were prepared and reviewed by an independent accounting firm prior to submission to our external auditors, which mitigated the risk of misappropriation of cash.

Continuing Remediation Efforts to address deficiencies in Company s Internal Control over Financial Reporting

Once the Company is engaged in a business of merit and has sufficient personnel available, then our Board of Directors, in particular and in connection with the aforementioned deficiencies, will establish the following remediation measures:

1.

Our Board of Directors will nominate an audit committee and audit committee financial expert.

2.

We will appoint additional personnel to assist with the preparation of the Company s monthly financial reporting, including preparation of the monthly bank reconciliations.

3.

We now have one sole member of management and one independent member of the Board of Directors. We will implement necessary procedures and policies to ensure that any transactions requiring payment from the Company s bank accounts will be reviewed and approved by more than one individual.

Changes in Internal Controls

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION.

ITEM 1. 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.

Consistent with Item 103 of Regulation S-K, we are presently involved in the following material pending legal proceedings not incidental to the business of the Company:

On May 21, 2008, a lawsuit was filed in Superior Court of Arizona, Maricopa County, by the Bedrock Group (a shareholder) naming the Company as a defendant. The Company and Bedrock have reached a Settlement Agreement and anticipate resolving this matter on or before fiscal year end 2009.

On November 19, 2008, the Company filed a lawsuit in Superior Court of California, San Diego County, against Enrique de Vilmorin, the Company's former Chief Executive Officer, and Sonia Dominguez, Mr. de Vilmorin s spouse. However, the Company dismissed the this action without prejudiced preserving the right to pursue this action in the future. The Company is presently considering all available options realting to this matter.

On March 2009, a lawsuit was filed in the United States District Court, District of Utah, Central Division, against Ethos Environmental, Inc. by Republic Bank. The lawsuit alleges that the Company breached the terms of a Lease Agreement involving Mazuma Capital Corp. and Ethos. Republic Bank is seeking monetary damages and return of certain equipment. The Company believes that it has numerous meritorious defenses and has filed an Answer and Counterclaims.

Item 1A. RISK FACTORS.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

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

1.

Issuance of Equity Securities in exchange for services:

a)

On July 8, 2009, the Company issued 50,891 restricted shares of the Corporation s common stock for professional services, the services were valued at $9,671.

b)

On July 24, 2009, the Company issued 60,000 restricted shares of the Corporation s common stock for professional services, the services were valued at $10,200.

c)

On August 4, 2009, the Company issued 63,143 restricted shares of the Corporation s common stock for professional services, the services were valued at $15,786.

d)

On August 5, 2009, the Company issued 325,000 restricted shares of the Corporation s common stock for professional services, the services were valued at $71,500.

e)

On August 5, 2009, the Company issued 30,000 restricted shares of the Corporation s common stock for professional services, the services were valued at $6,600.

f)

On August 6, 2009, the Company issued 23,894 restricted shares of the Corporation s common stock for professional services, the services were valued at $5,735.

g)

On August 13, 2009, the Company issued 100,000 restricted shares of the Corporation s common stock for professional services, the services were valued at $20,000.

h)

On September 4, 2009, the Company issued 70,147 restricted shares of the Corporation s common stock for professional services, the services were valued at $9,119.

2.

Convertible Securities:

None.

3.

Outstanding Warrants:

None.

4.

Issuances of Securities:

a)

On July 31, 2009, the Company issued 207,807 restricted shares of common stock pursuant to the conversion by the Holder of a 12% Convertible Note.

b)

On July 31, 2009, the Company issued 634,582 restricted shares of common stock pursuant to the conversion by three Holders of the Company's 12% Convertible Notes, each Holder exercising such conversion rights thereunder.

5.

Issuances of Equity Securities for Cash:

a)

On November 2, 2009, the Company issued a $400,000 10% Convertible Promissory which carries 10% simple interest with maturity date 12 months from the date of execution and the entire principal amount of the Note, including any accrued interest, may be converted into shares of the Company s common stock by election of the Holder at any time or automatically upon Maturity at a rate of $0.10 per share.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

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

None

ITEM 5. OTHER INFORMATION.

None

ITEM 6. EXHIBITS

The following exhibits are filed with this Quarterly Report on Form 10-Q:

Exhibit Number	Description of Exhibit
3.01	Articles of Incorporation(1)
3.01	Restated Articles of Incorporation(1)
3.03	Bylaws(1)
31.01	Certification of Principal Executive Officer Pursuant to Rule 13a-14(2)
31.02	Certification of Principal Financial Officer Pursuant to Rule 13a-14(2)
32.01	CEO and CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act(2)

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(1) Incorporated by reference as an Exhibit to the Form 8-K filed on April 24, 2006.
(2) Filed Herewith.

* All exhibits are numbered with the number preceding the decimal indicating the applicable SEC reference number in Item 601 and the number following the decimal indicating the sequence of the particular document.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the Undersigned, thereunto duly authorized.

ETHOS ENVIRONMENTAL, INC.

Dated: November 20, 2009

/s/ Corey P. Schlossmann

By: Corey P. Schlossmann

Its: President and CEO