Ethos Environmental, Inc.
Form 10-Q
May 20, 2008

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

FORM 10 – Q

[mark one]

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

For the quarterly period ended: March 31, 2008

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

For the transition period from ______________ to ______________

Commission File Number: 000-26673

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

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

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

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

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

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

with a copy to:

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

Table of Contents

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.YES x NO o

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. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

The registrant has 39,304,986 shares of common stock outstanding as of May 12, 2008.

Table of Contents

Quarterly Report on FORM 10-Q

For The Period Ended
March 31, 2008

Table of Contents

Ethos Environmental, Inc.

Table of Contents

PART I.
Item 1. FINANCIAL STATEMENTS

ETHOS ENVIRONMENTAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS

	March 31, 2008	December 31, 2007
CURRENT ASSETS		
Cash	200,096	74,176
Accounts Receivable (Net)	6,906,114	5,951,275
Inventory	1,177,031	1,376,030
Other Current Assets	5,000	0
Total Current Assets	$ 8,288,241	$ 7,401,481
Property & Equipment (Net)	225,936	228,452
Other Assets	699,419	699,419
Total Assets	$ 9,213,596	$ 8,329,352

LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31, 2008	December 31, 2007
LIABILITIES:		
CURRENT LIABILITIES		
Accounts Payable	$ 165,867	$ 223,891
Accrued Expenses	130,299	109,300
Notes Payable	$ 1,300,000	$ 350,000
Note Payable Related Party	184,756	246,521
Total Current Liabilities	1,780,922	929,712
SHAREHOLDERS' EQUITY		
Common Stock, $.0001 par value; 100,000,000 shares authorized; 37,347,559 issued and outstanding	3,735	3,687
Additional Paid In Capital	36,233,865	35,615,040
Accumulated Deficit	(28,804,926)	(28,219,087)
Total Shareholders' Equity	7,432,674	7,399,640
Total Liabilities & Shareholders' Equity	$ 9,213,596	$ 8,329,352

See notes to consolidated financial statements.

ETHOS ENVIRONMENTAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months Ended March 31, 2008 and 2007
(Unaudited)

	2008	2007
Revenue	1,104,467	2,697,133
Cost of Goods Sales	347,189	924,725
Gross Profit	757,278	1,772,408
Operating Expenses:		
Depreciation (Other than Cost of Goods Sold)	2,139	4,993
Selling Expenses	88,011	131,340
General & Administrative	1,175,426	2,513,895
Total Operating Expenses	1,265,577	2,650,228
Operating Income (Loss)	(508,299)	(877,820)
Other Income	2,500	0
Gain on Sale of Assets	0	131,073
Interest Expenses	(80,040)	(177,660)
Provision for Income Taxes	0	0
Net Loss	(585,839)	(924,407)

See notes to consolidated financial statements

ETHOS ENVIRONMENTAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Three Months Ended March 31, 2008
(Unaudited)

Balance at December 31, 2007	36,871,687	$3,687	$35,615,040	$(28,219,087)	$7,399,640
Common stock issued for expenses	369,322	37	454,229		454,266
Common stock issued for services	106,550	11	164,596		164,607
Net Loss				(585,839)	(585,839)
Balance at March 31, 2008	37,347,559	$3,735	$36,233,865	$(28,804,926)	$7,432,673

See notes to consolidated financial statements

Table of Contents

ETHOS ENVIRONMENTAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

For the Three Months Ended March 31, 2008 and 2007

	2008	2007
OPERATING ACTIVITIES		
Net Income	(585,839)	(924,407)
Adjustments to reconcile Net Income to net cash provided by operating activities:		
Gain on sale of assets	0	(131,073)
Depreciation	19,679	64,411
Common stock for expenses	454,266	0
Stock Issued for Services	164,607	2,171,460
Changes in operating assets and liabilities:		
Accounts Receivable	(954,839)	(2,360,485)
Inventory	198,999	(34,820)
Other Assets	(5,000)	(20,100)
Accounts Payable & Accrued Expenses	(37,025)	802,693
Net cash used by Operating Activities	(745,152)	(432,321)
INVESTING ACTIVITIES		
Purchase of Property & Equipment	(17,163)	(33,543)
Net Cash used by Investing Activities	(17,163)	0
FINANCING ACTIVITIES		
Proceeds from Sale/Leaseback	0	386,411
Proceeds from Notes Payable	1,300,000	82,181
Payments to Note Payable, Related Party	(61,765)	(19,876)
Repayment of Note Payable	(350,000)	0
Net cash provided by Financing Activities	888,235	448,716
Net cash increase for period	125,920	(17,148)
Cash at beginning of period	74,176	64,867
Cash at end of period	200,096	47,719
SUPPLEMENTAL NON CASH INVESTING AND FINANCING ACTIVITIES:		
Value of equipment sold then leased back Taxes	$ 0	$ 637,075
	$ 0	$ 0

See notes to consolidated financial statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three months ended March 31, 2008

Note 1. Organization and Significant Accounting Policies

Organization

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

Acquisition

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

At a meeting of shareholders of the Company held on October 30, 2006, a majority of shareholders voted in favor of the merger. On November 2, 2006, the merger was consummated. As part of the merger, Victor redomiciled to Nevada, and changed its name to Ethos Environmental, Inc. In addition thereto, and as part of the merger, Victor set a record date of November 16, 2006 for a reverse stock split of 1 for 1,200 of the issued and outstanding shares of Victor. Prior to the reverse stock split and subsequent merger, Victor issued 47,685,805 shares to reduce its liabilities by $257,503 based on the pre-merger stock price of $0.0054 per share. All of the per share data in these consolidated financial statements are presented on a post-split basis.

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

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

The merger is accounted for under the purchase method of accounting as a reverse acquisition in accordance with U.S. generally accepted accounting principles for accounting and financial reporting purposes. Under this method of accounting, Ethos is treated as the “accounting acquirer” for financial reporting purposes. Accordingly the operations of the company are included in these financial statements as of November 2, 2006. In accordance with guidance applicable to these circumstances, the merger was considered to be a capital transaction in substance. Accordingly, for accounting purposes, the merger was treated as a recapitalization of Victor. The assets and liabilities of Victor have been included in these consolidated financial statements at their net book value.

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Going Concern

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

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

Principles of Consolidation

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

Interim Disclosure

The interim period consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such SEC rules and regulations. The interim period consolidated financial statements should be read together with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2007, included in the Company's annual report on Form 10-KSB. In the opinion of the Company, the unaudited consolidated financial statements contained herein contain all adjustments necessary (consisting of a normal recurring nature) to present a fair statement of the results of the interim periods presented.

The results of operations for the three months ended March 31, 2008, are not necessarily indicative of the results to be expected for the entire year ending December 31, 2008.

Table of Contents

Use of Estimates

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

Cash

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

Accounts Receivable

Accounts receivable are stated at their principal balances, do not bear interest and are generally unsecured. Management considers all balances over 30 days old to be past due. However, if credit is extended management conducts a periodic review of the collectability of its accounts receivable. If an account is determined to be uncollectible based on historical experience and the current economic climate, an allowance is established and the account is written off against the allowance. The Company determined that an allowance of $111,362 at March 31, 2008 was necessary. At March31, 2008, 74% of accounts receivable is due from one customer.

Inventory

Inventory consists primarily of the Company's fuel reformulating product and is stated at the lower of cost or market. At March 31, 2008, inventory consisted of $90,621 in finished goods and $1,086,410 in raw materials.

Property and Equipment

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

Fair Value of Financial Instruments

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

Revenue Recognition

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

One U. S. customer accounted for 90% of revenue for the quarter ended March 31, 2008.

Table of Contents

Stock Based Compensation

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

Since the Company did not issue stock options to employees during the year ended December 31, 2007 or 2006, nor during the quarter ended March 31, 2008, there is no effect on net loss or earnings per share had the Company applied the fair value recognition provisions of SFAS No. 123(R) to stock-based employee compensation. When the Company issues shares of common stock to employees and others, the shares of common stock are valued based on the market price at the date the shares of common stock are approved for issuance.

Earnings Per Share

Basic earnings per share is computed by dividing the net income available to common shareholders by the weighted average number of common shares outstanding in the period. Diluted earnings per share takes into consideration common shares outstanding (computed under basic earnings per share) and potentially dilutive common shares. There were 2,900,000 dilutive securities outstanding at March 31, 2008 and at March 31, 2007. The convertible feature of the Notes Payable is not included in the calculation of diluted earnings per share since it would not have an appreciable effect on the earnings per share.

Common Stock

During the three month period ended March 31, 2008, the Company issued 369,322 shares of stock for the payment of expenses, valued at $454,266, and 106,550 shares ofstock for services, valued at $155,607.

Note 2. New Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No.133”. The Statement requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. The statement is effective for interim periods beginning after November 15, 2008 although early adoption is encouraged. The Company has not determined the impact this standard will have on its consolidated operating results or financial position upon adoption.

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

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

Note 3. Subsequent Events

Stock Issuances

Subsequent to the quarter ended March 31, 2008 there were 1,896,106 shares issued for expenses and 61,321 shares issued for services.

Table of Contents

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

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

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

Overview

The mission of Ethos Environmental is to be recognized as the industry standard for high quality, non-toxic cleaning and lubricating products that increase fuel mileage and reduce these ecologically damaging emissions from vehicles, and at a price everyone can afford. The goal of the company is to make the world a better place, “one gallon at a time”. According to the Environmental Protection Agency (EPA), “The burning of fuels releases carbon dioxide (CO_2) into the atmosphere and contributes to climate change [Global Warming], but these emissions can be reduced by improving your car’s fuel efficiency.”