Ethos Environmental, Inc.
Form 10-Q
November 19, 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: September 30, 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:
Carrillo Huettel, LLP
501 W. Broadway, Suite 800
San Diego, CA 92101
Telephone (619) 399-3090
Telecopier (619) 330-1888

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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 38,774,958 shares of common stock outstanding as of November 19, 2008.

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Quarterly Report on FORM 10-Q

For The Period Ended
September 30, 2008

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Ethos Environmental, Inc.

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PART I.
Item 1. FINANCIAL STATEMENTS

Ethos Environmental, Inc.

September 30, 2008

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Ethos Environmental, Inc.
Consolidated Balance Sheets
(expressed in U.S. dollars)

	September 30, 2008 $ (unaudited)	December 31, 2007 $
ASSETS		
Current Assets		
Cash	32,889	74,176
Accounts Receivable, net of allowance of doubtful accounts	50,099	84,248
Inventory (Note 3)	291,441	602,399
Other Current Assets	5,000	–
Total Current Assets	379,439	760,823
Property and Equipment (Note 4)	87,806	118,916
Other Assets	405,417	399,419
Total Assets	872,652	1,279,158
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Accounts Payable	337,343	223,891
Accrued Liabilities	156,772	109,300
Notes Payable (Note 5)	1,100,000	350,000
Demand Loan	–	246,521
Total Liabilities	1,594,115	929,712
Stockholders' Equity (Deficit)		
Common Stock (Note 6) Authorized: 100,000,000 common shares, par value: $0.0001 per common share Issued and outstanding: 41,581,140 and 37,998,562 common shares, respectively	4,158	3,800
Additional Paid-In Capital (Note 6)	47,504,281	44,779,632

Accumulated Deficit	(48,229,902)	(44,433,986)
Total Stockholders' Equity (Deficit)	(721,463)	349,446
Total Liabilities and Stockholders' Equity (Deficit)	872,652	1,279,158

Going Concern (Note 1)
Commitments and Contingencies (Note 8)
Subsequent Event (Note 9)
(The accompanying notes are an integral part of these consolidated financial statements)

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Ethos Environmental, Inc.
Consolidated Statements of Operations
(expressed in U.S. dollars)
(unaudited)

	For the Three Months Ended September 30, 2008 $	For the Three Months Ended September 30, 2007 $	For the Nine Months Ended September 30, 2008 $	For the Nine Months Ended September 30, 2007 $
Revenue	653,765	271,283	2,015,956	1,118,173
Cost of Sales	414,893	78,372	1,203,128	312,634
Gross Profit	238,872	192,911	812,828	805,539
Operating Expenses				
Amortization Expense	2,134	7,924	6,407	18,197
Bad Debt Expense	–	–	205,119	–
General and Administrative	1,151,246	2,342,152	4,214,732	6,409,944
Extinguishment of Debt (Note 5)	–	–	–	6,646,171
Selling Expense	65,152	163,100	238,583	494,666
Total Operating Expenses	1,218,532	2,513,176	4,664,841	13,568,978
Total Operating Income (Loss)	(979,660)	(2,320,265)	(3,852,013)	(12,763,439)
Other Income (Expenses)				
Interest Expense	(24,500)	(120,959)	(142,540)	(499,251)
Other Income	2,500	–	198,637	35
Gain on sale of assets (Note 9)	–	–	–	179,002
Net Loss	(808,023)	(2,441,224)	(3,795,916)	(13,083,653)
Net Loss Per Share – Basic and Diluted				
Net Loss Per Share – Basic and Diluted	(0.02)	(0.09)	(0.10)	(0.51)
Weighted Average Shares Outstanding	41,049,677	26,832,801	39,726,085	25,428,820

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

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Ethos Environmental, Inc.
Consolidated Statements of Cash Flows
(expressed in U.S. dollars)
(unaudited)

	For the Nine Months Ended September 30, 2008 $	For the Nine Months Ended September 30, 2007 $
Operating Activities		
Net Loss	(3,795,916)	(13,083,653)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization Expense	64,101	193,749
Bad Debt Expense	205,119	–
Common Stock Issued for Services	265,836	3,375,710
Common Stock Issued for Registration Rights	1,492,241	–
Gain on sale of property and equipment	–	(179,003)
Extinguishment of Debt	–	6,646,171
Impairment of Property and Equipment	–	1,550,000
Issuance of Share Purchase Warrants	666,930	–
Changes in operating assets and liabilities:		
Accounts Receivable	(170,970)	266,524
Inventory	310,958	(614,648)
Other Assets	(10,998)	(25,435)
Accounts Payable and Accrued Liabilities	160,924	340,064
Net Cash Used In Operating Activities	(811,775)	(2,063,569)
Investing Activities		
Purchase of Property and Equipment	(32,991)	(244,834)
Proceeds from Sale of Equipment	–	368,984
Net Cash Provided By (Used in) Investing Activities	(32,991)	124,150
Financing Activities		
Proceeds from Sale and Leaseback of Property and Equipment	–	–
Proceeds from Issuance of Common Shares	300,000	2,000,000
Proceeds from Issuance of Note Payable	1,100,000	705,334

Proceeds from Related Parties	–	103,444
Repayment of Notes Receivable	–	(36,600)
Repayment of Note Payable	(350,000)	(500,000)
Repayment to Related Parties	(246,521)	(38,320)
Net Cash Provided By Financing Activities	803,479	2,233,858
Increase (Decrease) in Cash	(41,287)	294,439
Cash – Beginning of Period	74,176	64,867
Cash – End of Period	32,889	359,306

Supplemental Disclosures

Interest paid	–	–
Income tax paid	–	–

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

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Ethos Environmental, Inc.
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)

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 outside of the scope of SFAS No. 141, Business Combinations, and the acquisition has been accounted for as a continuation of the Ethos Environmental, Inc. business in accordance with EITF 98-3, Determining Whether a Non-Monetary Transaction Involves a Receipt of Productive Assets or a 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.

In addition, as part of the Merger agreement, the Company agreed to a reverse stock split of its' issued and outstanding common shares at a rate of 1 for 1,200 common shares. This reverse stock split was approved and finalized on November 16, 2006. All common share amounts listed are shown subsequent to the reverse stock split.

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, 2008, the Company recognized sales revenue of $2,015,956 but incurred a net loss of $3,795,916. As at September 30, 2007, the Company had an accumulated deficit of $48,229,902. 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, 2007.

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, 2008, and the results of its operations and cash flows for the three and nine month periods ended September 30, 2008 and 2007. The results of operations for the period ended September 30, 2008 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
(expressed in U.S. dollars)

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, 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, 2008 and December 31, 2007, 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, 2008 and December 31, 2007, the Company recorded an allowance for doubtful accounts of $205,119 and $126,485, respectively.

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 Securities and Exchange Commission Staff Bulletin No. 104 (“SAB 104”), “Revenue Recognition in Financial Statements”. 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.

j) Basic and Diluted Net Income (Loss) Per Share

The Company computes net income (loss) per share in accordance with SFAS No. 128, "Earnings per Share". SFAS No. 128 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.

Ethos Environmental, Inc.
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)

2. Summary of Significant Accounting Policies (continued)

k) Comprehensive Loss

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for the reporting and display of comprehensive loss and its components in the consolidated financial statements. As at September 30, 2007 and December 31, 2006, the Company did not record any comprehensive income or loss.

l) Financial Instruments

The fair value of financial instruments, which include cash, accounts receivable, other current assets, other assets, accounts payable, and accrued liabilities were estimated to approximate their carrying value due to the immediate or relatively short maturity of these instruments.

m) Foreign Currency Translation

The Company's functional and reporting currency is the United States dollar. Monetary assets and liabilities denominated in foreign currencies are translated in accordance with SFAS No. 52 "Foreign Currency Translation" using the exchange rate prevailing at the balance sheet date. Gains and losses arising on translation or settlement of foreign currency denominated transactions or balances are included in the determination of income. Foreign currency transactions are primarily undertaken in Canadian dollars. The Company has not, to the date of these financials statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

n) Advertising Costs

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

o) 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 SFAS No. 109 "Accounting for Income Taxes" as of its inception. Pursuant to SFAS No. 109 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.

p) Stock-Based Compensation

The Company records stock-based compensation in accordance with SFAS No. 123R "Share Based Payments", 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.

q) Recent Accounting Pronouncements

In May 2008, the Financial Accounting Standards Board ("FASB") issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts – An interpretation of FASB Statement No. 60". SFAS No. 163 requires that an insurance enterprise recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. It also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities, and requires expanded disclosures about financial guarantee insurance contracts. It is effective for financial statements issued for fiscal years beginning after December 15, 2008, except for some disclosures about the insurance enterprise's risk-management activities. SFAS No. 163 requires that disclosures about the risk-management activities of the insurance enterprise be effective for the first period beginning after issuance. Except for those disclosures, earlier application is not permitted. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

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Ethos Environmental, Inc.
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)

2. Summary of Significant Accounting Policies (continued)

q) Recent Accounting Pronouncements (continued)

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles”. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. It is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles”. The adoption of this statement is not expected to have a material effect on the Company’s financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an amendment to FASB Statement No. 133”. SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The adoption of this statement is not expected to have a material effect on the Company’s financial statements.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No.51”. SFAS No. 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the non controlling interest. SFAS No. 160 also requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. SAFAS No. 160 also requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent’s owners and the interests of the noncontrolling owners of a subsidiary. SFAS No. 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations”. This statement replaces SFAS 141 and defines the acquirer in a business combination as the entity that obtains control of one or more businesses in a business combination and establishes the acquisition date as the date that the acquirer achieves control. SFAS No. 141 (revised 2007) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. SFAS No. 141 (revised 2007) also requires the acquirer to recognize contingent consideration at the acquisition date, measured at its fair value at that date. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including and amendment of FASB Statement No. 115". SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159

is effective for financial statements issued for fiscal years beginning after November 15, 2007. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending February 28, 2009. The adoption of this standard is not expected to have a significant effect on the Company’s consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending February 28, 2009. The adoption of this standard is not expected to have a significant effect on the Company’s consolidated financial statements.

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Ethos Environmental, Inc.
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)

3. Inventory

	September 30, 2008 $ (unaudited)	December 31, 2007 $
Raw Materials	255,177	267,278
Finished Goods	36,264	335,121
	291,441	602,399

4. Property and Equipment

	Cost $	Accumulated Amortization $	Net Book Value September 30, 2008 $ (unaudited)	Net Book Value December 31, 2007 $
Building	2,712	136	2,576	–
Computers	238,546	162,334	76,212	1,155
Equipment	54,727	48,470	6,257	114,918
Furniture and Fixtures	25,570	22,809	2,761	2,843
	321,555	233,749	87,806	118,916

5. Notes Payable

a) On August 11, 2008, the Company entered into a Promissory Note Agreement (the "Note Agreement") as part of a Stock Purchase Agreement (the "Purchase Agreement") with a third party. Under the terms of the Note Agreement, the Company issued a $300,000 promissory note was convertible into common shares of the Company at a rate of $0.25 per common share, and unsecured, due interest at 10% per annum only in the event if the note is not converted into common shares, and due February 11, 2009.

b) On July 30, 2008, the Company issued a Nonrecourse Loan of $500,000 with the Chief Executive Officer of the Company and the proceeds were used to repay the Secured Promissory Note issued on March 26, 2008, and as disclosed in Note 5(c). Under the terms of the Nonrecourse Loan, the amounts are unsecured, non-interest bearing, and due on demand.

c) On March 31, 2008, the Company issued a promissory note (the "Note") in exchange for cash proceeds of $300,000. Under the terms of the Note, the amount is unsecured, due interest at 12% per annum, and is due on March 31, 2009.

d)

On March 26, 2008, the Company issued a Secured Promissory Note in exchange for cash proceeds of $1,000,000, which was unsecured, non-interest bearing, and due on July 30, 2008. On July 30, 2008, the Secured Promissory Note was fully repaid.

6. Common Shares

a) On August 21, 2008, the Company issued 909,091 common shares of the Company at $0.33 per common share in a Stock Purchase Agreement, as noted in Note 5(a), for cash proceeds of $300,000.

b) On August 15, 2008, the Company issued 25,000 common shares of the Company at $0.29 per common share for consulting services with a fair value of $7,250.

c) On August 1, 2008, the Company issued 35,299 common shares of the Company at $0.32 per common share for services with a fair value of $11,296.

d) On July 10, 2008, the Company issued 34,632 common shares of the Company at $0.38 per common share for services with a fair value of $13,160.

Ethos Environmental, Inc.
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)

6. Common Shares (continued)

e) On June 17, 2008, the Company issued 100,000 common shares of the Company at $0.31 per common share for professional fees with a fair value of $31,000.

f) On June 4, 2008, the Company issued 45,257 common shares of the Company at $0.44 per common share for services with a fair value of $19,913.

g) On May 5, 2008, the Company issued 1,522,630 common shares of the Company at $0.51 per common share as penalty shares due under a Registration Rights Agreement with a fair value of $776,541.

h) On April 22, 2008, the Company issued 61,321 common shares of the Company at $0.60 per common share for services with a fair value of $36,793.

i) On April 1, 2008, the Company issued 373,476 common shares of the Company at $0.70 per common share as penalty shares due under a Registration Rights Agreement with a fair value of $261,433.

j) On March 7, 2008, the Company issued 10,000 common shares of the Company at $0.90 per common share for professional fees with a fair value of $9,000.

k) On February 20, 2008, the Company issued 369,322 common shares of the Company at $1.23 per common share as penalty shares due under a Registration Rights Agreement with a fair value of $454,266.

l) On February 20, 2008, the Company issued 36,050 common shares of the Company at $1.23 per common share for services with a fair value of $44,342.

m) On January 25, 2008, the Company issued 20,500 common shares of the Company at $1.33 per common share for services with a fair value of $27,265.

n) On January 7, 2008, the Company issued 40,000 common shares of the Company at $2.10 per common share for services with a fair value of $84,000.

7. Share Purchase Warrants

In May 2007, the Company issued 1,900,000 share purchase warrants as part of the amendment of the loan agreement, as noted in Note 5(b) above. Each warrant allows the warrant holder to purchase one additional common share of the Company at $2.50 per common share within three years of the signed date. As at September 30, 2007, no share purchase warrants have been exercised.

During the nine months ended September 30, 2008, the Company issued the following share purchase warrants:

	Number of Warrants	Exercise Price
Balance – December 31, 2007	1,900,000	$ 2,50
Issued	1,000,000	$ 0.37
Issued	500,000	$ 0.30

Balance – September 30, 2008 (unaudited)	3,400,000	$	1.55

As at September 30, 2008, the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price		Expiry Date
1,900,000	$	2.50	May 23, 2010
1,000,000	$	0.37	August 1, 2013
500,000	$	0.30	October 1, 2013
3,400,000			

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Ethos Environmental, Inc.
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)

8. 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 nine months ended September 30, 2008, the Company incurred lease expense of $603,122 (December 31, 2007 - $126,000).

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, 2008, the Company incurred lease expense of $273,970 (December 31, 2007 - $246,554).

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

	Amount $
December 31, 2008	1,174,860
December 31, 2009	900,891
December 31, 2010	809,568
December 31, 2011	809,568
December 31, 2012	782,784
Thereafter	7,434,000
	11,911,671

9. Subsequent Event

On October 16, 2008, we entered into a Settlement Agreement and General Mutual Release (the "Settlement Agreement") with GreenBridge Capital Partners, IV, LLC, a Delaware limited liability company, ("GBCP"). In exchange for cancellation of the Registration Rights Agreement executed in August 2007, GBCP has agreed to accept 10,200,000 additional shares of Company common stock.

On September 11, 2008, in exchange for the surrender and cancellation of 13,600,000 shares of the Company's common stock (the "Stock") held by Enrique de Vilmorin, the Company agreed to assume a $500,000 secured promissory note (the "Old Note") payable by Mr. de Vilmorin to Newport Investment Group Ltd ("Newport"). The 13,600,000 shares represented Mr. de Vilmorin's entire position in the Company.

In furtherance of the Assumption Agreement, on October 16, 2008, the Company issued a new promissory note (the "New Note") in the original principal amount of $500,000 to Newport. The New Note is due on October 1, 2009, and bears interest at the rate of 10% per annum. Newport agreed to waive all of its rights under the Old Note, including all rights to the Stock.

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 (CO2) into the atmosphere and contributes to climate change [Global Warming], but these emissions can be reduced by improving your car’s fuel efficiency.” Air pollution caused by cars, trucks and other vehicles burning petroleum-based fuels is one of the most harmful and ubiquitous environmental problems. Furthermore, local accumulation in heavy traffic is the greatest source of community ambient exposure, largely because carbon monoxide is formed by incomplete combustion of carbon containing fuels.

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

Esters

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

Esters 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.

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

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

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

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

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

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

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

Typical Specifications

Tests	Results
Viscosity @ 37.8º C,CS	10.39
Viscosity @ 100º F, SSU	60.2
Specific Gravity @ 15.6/15.6ºC	0.93
API Gravity, Degrees	26.6
Flash Point, COC, ºC (ºF)	149ºC (300ºF)

Color and Appearance	Light, bright and clear
Sediment	None

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

Fuel and Maintenance Costs Savings:

• Customers report on average increases in Miles-Per-Gallon between 7% and 19% Fleet-Wide
• Enhances Engine Performance by Reducing Heat Produced by Friction

Fines and Downtime are Reduced Due To Air Pollution:

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

Repairs:

• Improves Combustion
• Cleans Fuel System
• Lubricates Moving Components
• Extends Engine Life by Reducing Friction
• Increases lubricity in engine oil by 10% when properly applied

How Do Ethos Products Work?

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

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

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

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

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

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

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

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

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

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

Our Corporate History

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

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

Reverse Acquisition of Ethos

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

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Additional Corporate History

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

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

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

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

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

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

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

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

A summary of the merger follows:

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

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

- The officers and directors of Ethos became the officers and directors of the Company,

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

Ethos FR® has been proven through many thousands of miles of on-the-road testing. On average, customers report that they have achieved a 7% to 19% increase in fuel mileage, and more than a 30% reduction in emissions.

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Ethos seeks both a cleaner environment and economic success. The Company's approach is to sell Ethos FR® "one gallon at a time", earning the trust and loyalty of each customer by providing products that perform as promised and make a positive difference in the world.

Products

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

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

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

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

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

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

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

Trademarks

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

Air Quality Standards

It is believed that with the increased worldwide focus on the greenhouse effects of petroleum products, the ability of Ethos to reduce emissions by 30% can only increase the Company's market presence. Political and media pressures are causing more people to become concerned about our environment and the effects of global warming. 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.

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

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

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

Market Research

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

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

To combat this problem the U.S. Environmental Protection Agency developed a two-step plan to significantly reduce pollution from new diesel engines. (New Emission Standards for Heavy-Duty Diesel Engines Used In Trucks and Buses) (October 1997, EPA 420-F-97-016). The first step set new emissions standards for diesel engines beginning in 2000. The second step sets even more stringent emission standards that became effective on January 1, 2007, combined with mandated reductions in the sulfur levels of all diesel fuel.

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

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

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

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

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

The U.S. Department of Energy, Energy Information Administration (“EIA”) estimates that U.S. annual consumption of fuel will continue to escalate through the year 2030.

A breakdown of this estimate is summarized as follows:

Based o further EIA published data, the following table* depicts domestic distillate fuel oil consumption by energy use for 2006.

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

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

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

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

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

Competition

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

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

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

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

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

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

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

Marketing Strategy

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

From its earliest days, Ethos has focused on the product demonstration as the most effective means of introducing Ethos FR® to potential users. Through this demonstration process, we prove to each customer that they can realize the benefits of reduced emissions, smoother-running vehicles and lower maintenance costs at virtually no risk, because the reduction in fuel usage will more than cover the expense of using Ethos FR®. In fact, the addition of Ethos FR® will result in fuel savings beyond the cost of treatment, resulting in monetary gain to the user by extending the life of any particular vehicle.

Commercial fleets vary in size from a few to thousands of vehicles. Usually a fleet’s oldest and dirtiest vehicles, or vehicles out of warranty, are included in the demonstration. Such vehicles amplify the effectiveness of the products and help to ease any initial client objections regarding manufacturer warranties. Once the demonstration is underway, Ethos FR® products sell themselves, increasing fuel mileage between 7% and 19% and reducing emissions by more than 30% as reported by tests performed by our customers. Once the effectiveness of the product has been established, a conscientious customer-service program ensures continued use.

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

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

Ethos FR – Proof of Performance

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

The results below are test results of customer experiences using Ethos FR®. The 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, they have reported a 7% to 19% cost saving, and an over 30% reduction in emissions.

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

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MANAGEMENT REPORT

Testing of Ethos Fuel Reformulator
Allied Waste Services, Southwestern Region

Overview

Ethos FR has been used, without interruption, at multiple Allied Waste locations in Southern California since the year 2001.

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

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

Testing Procedures and Data Compilation & Reporting Methodology

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

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

Most common among these "anomalies" are:

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

Raw Data vs. Comparable Data

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

The procedures utilized by Green Fleet Associates were as follows:

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

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Verification of Ethos Use

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

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

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Ethos FR – Proof of Performance Demonstrations

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

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

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®.

Testing Data

In October 2008, the Company completed an SAE J1321 Type II fuel consumption test of Ethos FR performed by FERIC, a private, non-profit research and development organization and a division of FP Innovations, has verified that Ethos FR increases fuel efficiency and significantly reduces emissions.

When compared to a control vehicle following the rigorous testing protocol, the results concluded that Ethos FR successfully improved fuel efficiency and reduced harmful diesel emissions, as measured in opacity. In fact, the Ethos FR treated engine reduced emissions by 29.1% when compared to the baseline test.

The test results verify that the Ethos FR treated engine reduced fuel consumption, though the length and duration of the test did not provide the Ethos FR product sufficient mileage to achieve maximum results. In actual field results conducted by freight carriers, fuel efficiency improved by 7% to 19%, on average, as documented by fleet drivers. These actual field test periods have included a more typical mix of travel for heavy duty trucks, including longer runs, partial and/or lighter roads, and a higher amount of engine idling time -- all conditions where friction reduction has a direct relation to reducing fuel consumption.

As part of their Energotest 2008, a project which conducts controlled test-track studies of products for achieving higher fuel efficiency and lowering emissions in the transportation industry, FERIC tested Ethos FR. The testing protocol was based on the SAE J1321 Joint TMC/SAE Fuel Consumption Test Procedure - Type II. The vehicles used in the test were identical low-mileage 2006 Freightliner tractors, with Mercedes Benz 4000 engines. The tests were performed on a high speed test track, and the length of the test run was approximately 60 miles.

Also in October 2008, a test performed according to the listed ASTM (American Society of Testing & Materials) procedures with no modifications or deviations confirmed that Ethos FR increases lubricity in engine oil by 10% thereby allowing engines to run cooler and reduce friction, 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. The facility that performed the test is an EPA approved laboratory.

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 five (5) 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.

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Revenue and Fixed Assets

The Company's revenue is generated in the United States and abroad through our San Diego, California office, which at present is our only operating office. All of the fixed assets are located in the San Diego, California office. In February, 2007, the Company entered into a sale and leaseback arrangement as outlined below under Loan Facilities. In October 2007, the Company completed the Commercial Property Purchase Agreement executed in August 2007, as reported on Form 8-K on August 13, 2007.

Governmental Regulation

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

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

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

Notwithstanding the above, the Company is presently engaged in attempting to qualify its products, as necessary, with the California Air Resources Board ("CARB"), and obtain other testing and certifications as necessary to further establish the quality of our products.

Research and Development Costs

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

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

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Employees

As of November 18, we had seven (7) full time employees, we have five (5) consultants that dedicate a significant amount of time to our Company, and we hire part time employees on an as needed basis to assist in the production of our products.

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.

Critical Accounting Policies and Estimates

We believe that there are several accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management's judgments and estimates. These significant accounting policies relate to revenue recognition, research and development costs, valuation of inventory, valuation of long-lived assets and income taxes. For a summary of our significant accounting policies (which have not changed from December 31, 2007), see our annual report on Form 10-KSB for the period ended December 31, 2007.

PLAN OF OPERATIONS FOR THE NEXT TWELVE MONTHS

Since inception in 2000, Ethos Environmental has grown its customer base on a world-wide basis. In addition to an effective and desirable product, the Company's success also derives from the careful development and tenacious implementation of a structured marketing strategy.

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

The management of Ethos Environmental is excited by the enthusiastic acceptance that Ethos FR® products have received - domestically and all around the world. We are proud to provide a product that is part of the solution to the high cost of fuel and the health costs of environmental pollutants.

During the 3rd quarter of 2008, the Company underwent a significant change in management as its former CEO and directors resigned, and new individuals were appointed in their place. As a result, the Company is in the process of re-developing its marketing plans and strategy for the future.

Ethos anticipates being able to fully detail its new marketing plan and structure in its Form 10-K for the year ended 2008.

In the meantime, Ethos will continue to generate sales from existing revenue sources.

Results of Operations

The following financial data compares the balances as relates to the Company for the three and nine month periods ended September 30, 2008 and 2007. The following discussion has been updated using the restated financial statement balances.

Revenues

During the three month period ended September 30, 2008, the Company recognized revenues of $653,765 compared with $271, 283 for the three months ended September 30, 2007, an increase of 141 %. The Company’s primary source of revenue is from the sale of Ethos FR®. Other components of revenue include freight and service.

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

Gross Profit

Gross profit for the three months ended September 30, 2008, defined as revenues less cost of goods sold, was $238,872 or 36.5% of sales compared with $192,911 or 71.1% for the three months ended September 30, 2007. Gross profit for the nine months ended September 30, 2008 was $812,828 or 40.3% compared with $805,539 or 72.0% for the nine months ended September 30, 2007. The decrease in the gross profit margin in fiscal 2008 compared to fiscal 2007 was attributed to increases in the cost of material, freight, and labour.

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.

Depreciation Expense

For the nine months ended September 30, 2008, the Company incurred depreciation expense of $64,101, of which $56,177 is included in cost of goods sold, compared to $193,749 of which $175,552 is included in cost of goods sold for the nine months ended September 30, 2007. The decrease in depreciation expense is attributed to the sale leaseback of the Company’s manufacturing facility and approximately $737,000 of manufacturing equipment during fiscal 2007. The Company’s amortization policy is to amortize production and office equipment on a straight-line basis over a 5-year period, and amortize building costs straight-line basis over a 25-year period.

General and Administrative

For the three months ended September 30, 2008, the Company incurred general and administrative expense of $1,151,246 compared with $2,342,152 for the three months ended September 30, 2007. The decrease in general and administrative expense is attributed to business consulting fees that were settled by the issuance of common shares with a fair value of $1,908,250 in fiscal 2007 compared with $31,706, with the remaining difference attributed to professional fees, office expenses, wages and salaries, directors fees, and outside services.

Selling Expense

For the three months ended September 30, 2008, the Company incurred selling expense of $65,152 compared with $163,100 for the three months ended September 30, 2007 and is related to marketing and business development expenditures that were settled by the issuance of common shares. The decrease in selling expenses is attributed to the fact that the Company had limited cash flows during the period ended September 30, 2008.

Research and Development Costs

Research and development costs are charged to operations when incurred and are included in operating expenses as general and administrative expense or selling expense. For the three months ended September 30, 2008, research and development costs were $24,804 compared to $7,500 for the three months ended September 30, 2007.

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

Other Income (Expenses)

Interest Expense

For the three months ended September 30, 2008, the Company incurred interest expense of $24,500 compared to $142,540 for the three months ended September 30, 2007. The interest expense is associated with an interest-only loan of $4,750,000 that was used to finance the purchase of the Company's building in fiscal 2007 that was paid off before fiscal 2008.

Net Loss

For the three months ended September 30, 2008, the Company incurred a net loss of $808,023 compared with a net loss of $2,441,224 for the three months ended September 30, 2007. The decrease in the net loss is attributed to settlement of consulting services with common shares with a fair value of $31,706 in fiscal 2008 compared with $1,908,523 in fiscal 2007. .

Common Shares

During the three months ended September 30, 2008, the Company issued 94,931 common shares to settle services incurred on behalf of the Company. 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). Issuances during the three month period ranged from $0.29 – $0.38 per common share and the aggregate fair value of common shares issued during the three months ended September 30, 2008 was $31,706 which has been charged to operations as general and administrative expense.

Furthermore, during the three months ended September 30, 2008, the Company issued 909,091 common shares in a Stock Purchase Agreement for gross proceeds of $300,000.

Liquidity and Capital Resources

At September 30, 2008, we had cash of $32,889, current assets of $379,439, total assets of $872,652, total liabilities of $1,594,115, and stockholders' deficit of $721,463.

As at September 30, 2008, we had a working capital deficit of $1,214,676 compared with a working capital deficit of $168,889 for the year ended December 31, 2007. The decrease in the working capital is attributed to the net issuance of $750,000 of promissory notes that were classified as a current liability given the fact that the terms of the notes were due on demand.

As at September 30, 2008, the Company had three outstanding promissory note of $1,100,000.

Cash Flows from Operating Activities

For the nine months ended September 30, 2008, the Company used $811,775 of cash flows for operating activities compared with $2,063,569 for the nine months ended September 30, 2007. The increase in cash flows used for operations is attributed to net cash loss from operations of $1,101,689, normalized for non-cash items, compared with net cash loss from operations of $1,497,026 for the nine months ended September 30, 2007. Furthermore, the Company had lower collection times on its accounts receivable, but was offset by net positive cash flows of $925,606 for inventory.

Cash Flows from Investing Activities

For the nine months ended September 30, 2008, the Company used $32,991 of cash flows for investing activities compared with net cash inflows of $124,150 for the nine months ended September 30, 2007. The decrease in cash flows for investing activities is attributed to the proceeds received from the sale leaseback of the Company's manufacturing facility.

Cash Flows from Financing Activities

During the nine months ended September 30, 2008, the Company received proceeds of $803,479 from cash flows from financing activities compared with $2,233,858 for the nine months ended September 30, 2007. The decrease in cash flows received from financing activities is attributed to proceeds received from issuance of common shares of $300,000 in fiscal 2008 compared with $2,000,000 in fiscal 2007 offset by cash flows received from promissory notes of $1,100,000 in fiscal 2008 compare with $705,334 in fiscal 2007.

Loan Facilities

On August 11, 2008, the Company entered into a Promissory Note Agreement (the “Note Agreement”) as part of a Stock Purchase Agreement (the “Purchase Agreement”) with a third party for proceeds of $300,000. Under the terms of the Note Agreement, the note is unsecured, due interest at 10% per annum only in the event if the note is not converted into common shares, and due February 11, 2009.

In exchange for an aggregate amount of $1,000,000 cash investment received on January 30, 2008, on March 26, 2008, the Company issued a Secured Promissory Note (the “Note”). The Note of $1,000,000 bears interest at 12% per annum. The note matured and became due on July 30, 2008, as of the date of this report the Company has repaid and satisfied the Note in full. In order to do so, the Company received a Nonrecourse Loan in the amount of $500,000 from its Chief Executive Officer in order to satisfy the amount due and owing under the Note.

Additionally, in exchange for an aggregate amount of $300,000 cash investment received on March 31, 2008, the Company issued a promissory note. The promissory note is in the original principal amount of $300,000 and bears interest at 12% per annum, which is payable monthly in arrears. The promissory note is due on March 31, 2009.

Going Concern

As at September 30, 2008, the Company had a cash balance of $32,889. For the nine months ended September 30, 2008 and 2007, the Company recorded sales revenue of $2,015,956 and $1,118,173 and had gross profit of $812,828 and $805,539, respectively. Despite the increase in sales revenue, the Company recorded a net loss of $3,795,916 for the nine months ended September 30, 2008. In addition, as at September 30, 2008, the Company had a working capital deficit of $1,214,676.

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.

Critical Accounting Policies

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.

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Revenue Recognition
The Company will recognize revenue from the sale of its fuel reformulating products in accordance with Securities and Exchange Commission Staff Bulletin No. 104 (“SAB 104”), “Revenue Recognition in Financial Statements”. 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 SFAS No. 123R “Share-Based Payments”, 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.

Recent Accounting Pronouncements

In May 2008, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 163, “Accounting for Financial Guarantee Insurance Contracts – An interpretation of FASB Statement No. 60”. SFAS No. 163 requires that an insurance enterprise recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. It also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities, and requires expanded disclosures about financial guarantee insurance contracts. It is effective for financial statements issued for fiscal years beginning after December 15, 2008, except for some disclosures about the insurance enterprise’s risk-management activities. SFAS No. 163 requires that disclosures about the risk-management activities of the insurance enterprise be effective for the first period beginning after issuance. Except for those disclosures, earlier application is not permitted. The adoption of this statement is not expected to have a material effect on the Company’s financial statements.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles”. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. It is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles”. The adoption of this statement is not expected to have a material effect on the Company’s financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an amendment to FASB Statement No. 133”. SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The adoption of this statement is not expected to have a material effect on the Company’s financial statements.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No.51”. SFAS No. 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the non controlling interest. SFAS No. 160 also requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. SAFAS No. 160 also requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent’s owners and the interests of the noncontrolling owners of a subsidiary. SFAS No. 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations”. This statement replaces SFAS 141 and defines the acquirer in a business combination as the entity that obtains control of one or more businesses in a business combination and establishes the acquisition date as the date that the acquirer achieves control. SFAS No. 141 (revised 2007) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. SFAS No. 141 (revised 2007) also requires the acquirer to recognize contingent consideration at the acquisition date, measured at its fair value at that date. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including and amendment of FASB Statement No. 115". SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending February 28, 2009. The adoption of this standard is not expected to have a significant effect on the Company’s consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending February 28, 2009. The adoption of this standard is not expected to have a significant effect on the Company’s consolidated financial statements.

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ITEM 4(T). CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Our President and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), have concluded that, as of September 30, 2008, our disclosure controls and procedures were not effective in providing reasonable assurance that information we are required to disclose in reports we file is recorded, processed, summarized and reported within the periods specified.

Specifically, we have noted the following material weaknesses and significant deficiencies in our internal controls over financial reporting and disclosure:

• we do not have sufficient segregation of duties in our day-to-day operations and have not implemented compensating controls to offset the material weaknesses noted;
• we have noted material weaknesses with respect to the authorization and posting of general transactions, including transactions relating to sales invoices, general expenditures, and capital transactions;
• we have noted material weaknesses with respect to our financial reporting process, most notably our internal audit functions;
• we have noted material weaknesses with respect to our corporate governance and control environment, as noted by restatements of our financial statements from December 31, 2006 to June 30, 2008 due to material misstatements noted in unsupported sales invoices, property and equipment purchases for personal rather than corporate use, and the accounting treatment of stock sales involving previously issued stock. We have restated all financial statements from December 31, 2006 to June 30, 2008.

(b) Management`s Annual Report on Internal Control Over Financial Reporting

We have noted material weaknesses and significant deficiencies in our internal controls over financial reporting as a result of material misstatements relating to our financial statements from December 31, 2006 to June 30, 2008 as outlined above. For more information on the material weakness, refer to Item 8 of Form 10-K/A for the year ended December 31, 2007 as filed on November 18, 2008.

(c) Changes in Internal Control Over Financial Reporting

Other than the creation of an Audit Committee on September 25, 2008, there were no changes in our internal control over financial reporting during the three and nine months ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Due to the material weaknesses and significant deficiencies noted above, management and the Board of Directors are currently working to remediate all noted weaknesses and deficiencies, as evidenced by the creation of an Audit Committee responsible for financial reporting and oversight. Subsequent to the quarter ended September 30, 2008, the Company retained a financial statement consulting firm specializing in Section 404 of the Sarbanes-Oxley Act to ensure that we implement necessary controls and procedures to mitigate the material weaknesses and significant deficiencies identified.

PART II.

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.

During 2007, the company became a defendant in a lawsuit filed by Accutek, Inc. of Vista, CA for an outstanding balance on equipment purchased in the amount of $43,000. The company has filed a cross-complaint asserting that the contractual obligations of the supplier, Accutek were not fulfilled. The case was still open at September 30, 2008.

During 2007, the company became a defendant in a lawsuit filed by Groovie Like A Movie in the amount of $19,950. This lawsuit has been settleed in October 2008.

During 2008, the Company became a defendant in a lawsuit filed by a shareholder in Arizona State Court. The Company anticipates being able to settle this lawsuit during the fourth quarter of 2008.

ITEM 1(A). RISK FACTORS

Not required.

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

Other than as detailed in the Form 8-Ks filed during the quarter ended September 30, 2008, and in the Form 10-Q for the quarter ended June 30, 2008, the Company entered into the following transactions during the quarter ended September 30, 2008.

On September 25, 2008, MKM Opportunity Master Fund, Limited (the “Subscriber”) purchased from the Company, on the basis of the representations and warranties and subject to the terms and conditions set forth in the Private Placement Subscription Agreement (the “Subscription Agreement”) attached hereto as Exhibit 10.1, 750,000 common shares in the capital of the Company (the “Shares”) at the price of US$0.20 per Share and warrants to purchase 500,000 shares of Common Stock in the Company for a period of five years at a strike price of $0.30 per share (the “September Warrant” attached as Exhibit 10.2) for the total purchase price of $150,000.

In addition, as part of the Private Placement Subscription Agreement, the Subscriber waived its anti-dilution protection that it received as part of its $300,000 Note and $300,000 common stock purchase from August 11, 2008. In exchange for such waiver, the Subscriber’s strike price of its Common Stock Purchase Warrant dated August 11, 2008 for 1,000,000 shares was lowered from $0.75 per share to $0.37 per share.

On August 11, 2008, Ethos Environmental, Inc. (the “Company”) entered into a Stock Purchase Agreement and a Note and Warrant Purchase Agreement (the ‘Purchase Agreements”) with MKM Opportunity Master Fund, Limited, a Cayman Islands corporation (the “Buyer”) a non-affiliated investors pursuant to which, in exchange for an aggregate payment of $600,000 in cash (the “Financing Transaction”).

Pursuant to the terms of the Stock Purchase Agreement the Company sold to Buyer 909,091 shares of the Company’s Common Stock for an aggregate purchase price of $300,000. In connection with the sales of Common Stock pursuant to the Stock Purchase Agreement, the Company entered into a Securities Purchase Agreement with Buyer whereby the Company sold to Buyer one Unit in the aggregate principal amount of $300,000. The Unit included (i) a convertible promissory notes (the “Note”) and (ii) a warrants to purchase in the aggregate 1,000,000 shares of the Company’s common stock (the "Common Stock") at an exercise price of $0.75 (reduced to $0.37 per above) per share (the "Warrants") (collectively the shares underlying the Stock Purchase, Note and Warrant are referred to herein as the "Securities"). Both Purchase Agreements contain standard representations, and warranties and affirmative and negative covenants. The Notes and the Warrants are described in greater detail below.

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The Note carries a six month maturity date and the Buyer holds the right to convert thereafter at a rate of $0.25 per share, upon maturity the Note is equal to 120% of the face value, or $360,000. Thereafter if the Note is not satisfied or converted the Note shall carry 10% interest. The Notes also contain customary events of default. The Warrants are exercisable for an aggregate of 1,000,000 shares of Common Stock at an exercise price of $0.75 (reduced to $0.37 per above) per share prior. The Warrants may be exercised by the Investors by making payment in full of the exercise price either in cash or by written instruction directing the Company to cancel or surrender a portion of the Warrants to satisfy payment of the exercise price. Payment by such cancellation or surrender is deemed a “cashless exercise.”

The respective descriptions of the (i) Subscription Agreement, (ii) the September Warrant, (iii) Stock Purchase Agreement (iv) the Notes, (v) the Warrants and (vi) the Securities Purchase Agreements are brief summaries only and are qualified in their entirety by their respective terms set forth in each document, forms of which are filed as exhibits to the Company’s Form 10-Q filed on August 14, 2008, other than the Subscription Agreement and September Warrant which are filed as exhibits to this report.

The Securities offered in the Financing Transaction, the Subscription Agreement and the September Warrant, have not been registered under the Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold in the United States absent the registration or an applicable exemption from the registration requirements of the Securities Act. The transactions contemplated by the foregoing documents are exempt from the registration requirements of the Securities Act, pursuant to Section 4(2) and/or Regulation D thereunder. Pursuant to the foregoing documents, the buyer made representations to the Company regarding their respective suitability to invest in the private placement, including, without limitation, that each investor qualifies as an “accredited investor” as that term is defined under Rule 501(a) of the Securities Act. The Company did not engage in general solicitation in connection with the sale of the securities.

This report shall not constitute an offer to sell, the solicitation of an offer to buy, nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

The securities of Company common stock issued to the buyer pursuant to the terms of the Financing Transaction, the Subscription Agreement and the September Warrant were issued in reliance on Section 4(2) under the Securities Act and Regulation D promulgated thereunder in a transaction not involving a public offering.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

The Company’s form 8-K filed on October 20, 2008 is incorporated by reference.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

EXHIBIT NUMBER	DESCRIPTION	LOCATION
10.1	Subscription Agreement	Filed herewith.

10.2	Common Stock Purchase Warrant	Filed herewith.
3.1 - 3.2	Articles of Incorporation and Bylaws	Previously Filed.
31.1	Rule 13a-14(a)/15d-14(a) Certification (CEO)	Filed herewith.
31.2	Rule 13a-14(a)/15d-14(a) Certification (CFO)	Filed herewith.
32.1	Section 1350 Certification (CEO)	Filed herewith.
32.2	Section 1350 Certification (CFO)	Filed herewith.

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(b) Reports on Form 8-K.

During the period ended September 30, 2008, we filed the reports on Form 8-K on the following dates:

(1) September 11, 2008

Subsequent to the period ended September 30, 2008, we filed reports on Form 8-K on the following dates:

(1) October 21, 2008

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SIGNATURES

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

ETHOS ENVIRONMENTAL, INC.
(Registrant)

Date: November 19, 2008	By:	/s/ Corey P. Schlossmann Corey P. Schlossmann President and CEO