Ethos Environmental, Inc.
Form 10QSB
August 22, 2007

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

FORM 10 – QSB

[mark one]

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

For the quarterly period ended: June 30, 2007

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

For the transition period from ______________ to ______________

Commission File Number 000-30237

Ethos Environmental, Inc.
(Exact name of registrant as specified in its charter)

Nevada	88-0467241
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

6800 Gateway Park
San Diego, CA 92154
(Address of principal executive offices including zip code)

(619) 575-6800
(*Registrant's telephone number, including area code)*

Paracorp Incorporated
318 N. Carson Street, Suite 208, Carson City, NV 89701
(Name and address of agent for service)

888-972-7273
(Telephone Number, including area code, of agent for service)

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

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Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 o No 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

Number of shares outstanding of the issuer's common stock as of the latest practicable date: 26,309,187 shares of common stock, $.0001 par value per share, as of August 14, 2007.

Transitional Small Business Disclosure Format (check one): Yes o No x

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Quarterly Report on FORM 10-QSB For The Period Ended

June 30, 2007
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Ethos Environmental, Inc.

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PART I.
Item 1. FINANCIAL STATEMENTS

ETHOS ENVIRONMENTAL, INC.
CONSOLIDATED BALANCE SHEET
(Unaudited)

	June 30, 2007
ASSETS	
CURRENT ASSETS:	
Cash	$ 12,857
Restricted Cash	300,000
Accounts Receivable (Net)	3,955,100
Inventory	323,409
Other Current Assets	43,000
Total Current Assets	$ 4,634,366
Property and Equipment, Net	5,817,729
Goodwill	2,411,103
Customer List, Net	1,733,965
Other Assets	368,976
Total Assets	$ 14,966,139

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES:

CURRENT LIABILITIES:	
Accounts Payable	$ 762,595
Accrued Expenses	203,113
Current Portion of Long Term Debt	1,123,153
Note Payable Related Party	115,124
Total Current Liabilities	2,203,985
Long-Term Debt, Net of Current Portion	4,750,000
Total Liabilities	6,953,985
SHAREHOLDERS' EQUITY:	
Common Stock, $.0001 par value; 100,000,000 shares authorized; 23,809,187 issued and outstanding	2,381
Additional Paid-in Capital	23,715,555
Accumulated Deficit	(15,705,782)
Total Shareholders' Equity	8,012,154
Total Liabilities and Shareholders' Equity	$ 14,966,139

See notes to consolidated financial statements.

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ETHOS ENVIRONMENTAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
For the Three Months Ended June 30, 2007 and 2006

	2007	2006
Revenue	2,599,962	1,380,307
Cost of Goods Sales	728,001	469,304
Gross Profit	1,871,961	911,003
Operating Expenses:		
Depreciation & Amortization	100,036	0
Selling Expenses	195,401	241,526
General & Administrative	1,490,489	462,593
Debt Extinguishment (See Note 2)	6,646,171	0
Total Operating Expenses	8,432,097	704,119
Operating Income	(6,560,136)	206,884
Other Income	35	0
Interest Expenses	(231,074)	(157,608)
Net Income (Loss)	**(6,791,175)**	**49,276**
Net Income (Loss) per Common Share (basic & fully diluted)	$ (0.29)	$ 0.12
Weighted average shares used in per share calculation (basic & fully diluted)	23,763,000	415,616

See notes to consolidated financial statements.

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ETHOS ENVIRONMENTAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
For the Six Months Ended June 30, 2007 and 2006

	2007	2006
Revenue	5,297,095	2,697,943
Cost of Goods Sales	1,593,307	809,383
Gross Profit	3,703,788	1,888,560
Operating Expenses:		
Depreciation & Amortization	217,311	0
Selling Expenses	242,634	285,849
General & Administrative	1,961,487	952,857
Debt Extinguishment See Note 2	6,646,171	0
Total Operating Expenses	9,067,603	1,238,706
Operating Income	(5,363,815)	649,854
Other Income	35	9089
Interest Expenses	(408,734)	(223,892)
Net Income (Loss)	**(5,772,514)**	**435,051**
Net Income (Loss) per Common Share (basic & fully diluted)	$ (0.24)	$ 1.21
Weighted average shares used in per share calculation (basic & fully diluted)	23,570,744	360,494

See notes to consolidated financial statements.

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ETHOS ENVIRONMENTAL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
For the Six Months Ended June 30, 2007

	Common Stock Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance at December 31, 2006	23,107,687	$2,311	$15,961,204	($9,933,267)	$6,030,248
Common stock issued for services	468,000	47	49,953		50,000
Net Income				1,018,660	1,018,660
Balance March 31, 2007	23,575,687	$2,358	$16,011,157	($8,914,607)	$7,098,908
4/4/07 Common stock issued for services	156,000	15	662,985		663,000
4/5/07 Cancellation of shares	-50,000	-5	5		0
4/27/07 Common stock issued for services	127,500	13	395,237		395,250
Debt Extinguishment (See Note 2)			6,646,171		6,646,171
Net Income (Loss)				-6,791,175	-6,791,175
Balance June 30, 2007	23,809,187	$2,381	$23,715,555	($15,705,782)	$8,012,154

See notes to consolidated financial statements.

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ETHOS ENVIRONMENTAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
For the Six Months Ended June 30, 2007 and 2006

	2007	2006
OPERATING ACTIVITIES		
Net Income (Loss)	(5,772,514)	435,051
Adjustments to reconcile Net Income to net cash provided by operating activities:		
Depreciation		
Amortization	17,311	0
Loss on Sale of	200,072	0
Equipment	52,912	0
Common Stock issued for Services		
Loss on Debt		
Extinguishment (See	1,108,250	
Note 2)	6,646,171	194,397
Changes in operating assets and liabilities:		
Accounts Receivable	(3,627,776)	(24,183)
Inventory	7,506	56,653
Other Current Assets	(23,100)	30,500
Other Assets	(363,976)	(17,000)
Accounts Payable and Accrued Expenses	360,320	613,605
Net cash provided by Operating Activities	(1,314,824)	1,289,023
CHANGES IN INVESTING ACTIVITIES		
Proceeds from Sale of Equipment	492,356	0
Purchase of Property & Equipment	0	(5,759,942)
Net cash provided by Investing Activities	492,356	(5,759,942)
CHANGES IN FINANCING ACTIVITIES		
Proceeds from long-term debt	770,458	4,750,0000

Loans from shareholders	0	58,930
Payments to shareholders	0	(159,828)
Net cash provided by Financing Activities	770,458	4,649,102
Net cash increase for period	(52,010)	178,181
Cash at beginning of period	364,867	201,200
Cash at end of period	**312,857**	**379,382**

SUPPLEMENTAL NON CASH INVESTING AND FINANCING ACTIVITIES:

Common stock issued for debt		560,106
Common stock issued for prepaid services		135,975
Interest paid	365,284	222,653
Taxes paid	79,650	3,285

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Three months ended June 30, 2007

Note 1. Organization and Significant Accounting Policies

Organization

Ethos Environmental, Inc. ("the Company") manufactures and distributes fuel reformulating products that increase fuel mileage, reduce emissions, and maintain lower fuel costs. The Company is based in Southern California and sells its product to customers on 6 continents.

Acquisition

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

At a meeting of 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. All of the per share data in these consolidated financial statements are presented on a post-split basis.

The merger provided 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. Accordingly, the comparative information presented is that of Ethos Environmental, Inc.

Going Concern

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

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

Principles of Consolidation

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

Interim Disclosure

The interim period consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such SEC rules and regulations. The interim period consolidated financial statements should be read together with the audited consolidated financial statements and accompanying notes for the years ended December 31, 2006 and 2005, included in the Company's annual reports on Form 10-KSB. In the opinion of the Company, the unaudited consolidated financial statements contained herein contain all adjustments necessary (consisting of a normal recurring nature) to present a fair statement of the results of the interim periods presented.

The results of operations for the six months ended June 30, 2007, are not necessarily indicative of the results to be expected for the entire year ending December 31, 2007.

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Use of Estimates

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

Goodwill

Goodwill represents the excess of the purchase price of the estimated fair value of the net identified tangible and intangible assets of the acquired business. Goodwill must be tested for impairment at least on an annual basis, or if an event occurs or circumstances change prior to the annual test of impairment, then the carrying value of goodwill must be tested on an interim basis. The Company has determined there is no impairment at June 30, 2007.

Customer List

As a result of the acquisition, the Company acquired a customer list which has an identifiable defined life. The customer lists is amortized on a straight-line basis over a five-year period. The Company will continue to amortize the identifiable intangible asset over the life of the asset unless an event occurs or circumstances change that indicate that the carrying value of this asset may not be recoverable. The following table reflects the cost of the customer list and the accumulated amortization related to this asset as of June 30, 2007:

Customer list	$2,000,727
Accumulated Amortization	(200,072)
	$1,733,965

For the three months ending June 30, 2007, the Company recorded $100,036 as amortization expense. The Company expects to record annual amortization expense of approximately $400,000 in 2007, $400,000 in 2008, $400,000 in 2009, $400,000 in 2010 and 333,000 in 2011 related to the customer list.

Revenue Recognition

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

One customer accounted for 90% of revenue for the quarter ended June 30, 2007. The same customer accounted for 89% of revenue for the six months ended June 30, 2007.

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Stock Based Compensation

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

Earnings Per Share

Basic earnings per share is computed by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding in the period. There were 1,900,000 dilutive securities outstanding at June 30, 2007 and none in 2006. These were not included in the calculation of basic and fully diluted earnings per share because the effect would be anti-dilutive due to the Company’s net loss.

Note 2. Debt Extinguishment

On May 23, 2007 the Company amended the loan agreement for the financing of its building by extending the maturity date to March 31, 2010, and rescinding the convertible feature. Due to the substantial modification of the agreement, the original loan is considered extinguished and a new note issued. In addition to the new note, the Company issued to the lender as consideration for the modified loan terms a warrant for 1,900,000 shares of its common stock with an exercise price of $2.50 per share. The fair value of the warrant was determined using the Black Scholes valuation model. The assumptions included an estimated term of three (3) years, volatility of 383%, discount rate of 8.25% and a dividend rate of 0%. The resulting fair value of the warrant totaled $6,646,171, which has been included in the loss on debt extinguishment in the Company’s consolidated Statement of Operations for the quarter ended June 30, 2007.

Note 3. Subsequent Events

On or about August 7, 2007, the Company agreed to sell the land and building located at 6800 Gateway Park Drive located in San Diego, CA, as well as 2,500,000 shares of its common stock in exchange for $7,875,000. The Company’s Form 8-K filed on or about August 10, 2007 is incorporated by reference herein and provides additional details regarding this transaction.

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

This discussion and analysis should be read in conjunction with the accompanying Consolidated Financial Statements and related notes. Our discussion and analysis of our financial condition and results of operations are based upon our consolidated 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 emissions.

Ethos' customers exist everywhere that budgets are affected by the rising cost of fuel and where solutions are sought for the pervasive ills of air pollution. Our customers are motivated both by cost savings and environmental concerns, and it is our mission to provide products to meet their needs, risk free, and at an economic gain to every client.

It is our goal to build on our success in the domestic U.S. market and continue to grow internationally, offering the benefits of our products to companies and countries around the world.

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.

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

The proposed merger was submitted to the shareholders of Victor Industries, Inc. pursuant to a Proxy Statement first filed with the Commission on March 25, 2006. As fully described in the Company's Form 8-K filed on November 11, 2006 with the Commission, the shareholders of the Company and Ethos approved the merger, and the merger was legally effected on November 2, 2006.

Pursuant to the agreement of merger between the Company and Ethos,

- The Company was the surviving 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, shall be issued to the Ethos stockholders,
- The shareholders of Concierge 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."

Business Description

Ethos Environmental manufactures and distributes an array of fuel reformulating products under the name *Ethos FR*®, Ethos Fuel Reformulators. *Ethos FR*® is a unique line of fuel reformulators based on a blend of high quality, non-toxic, non-petroleum based esters. When added to any fuel, these specially designed esters add cleaning and lubricating properties. They make engines run more efficiently smoother, cooler and cleaner. *Ethos FR*® improves the formula of commonly used fuels such as gasoline, diesel, methanol, ethanol, CNG or bio-diesel. Only the elements of carbon, hydrogen and oxygen are used in *Ethos FR*® products and are 99.9% clean upon ignition, ashless upon combustion and free of carcinogenic compounds.

Over the last decade, the unmatched value of *Ethos FR*® products has been proven through millions of miles of on-the-road testing. On average, customers have achieved a 7% to 19% increase in fuel mileage, and more than a 30% reduction in emissions.

Ethos seeks both a cleaner environment and economic success. As the name Ethos suggests, we are committed to the highest ethical standards - in the product that we sell, in the relationship with our clients, and in the conduct of our business. The Company's approach is to sell *Ethos FR*®"one gallon at a time", earning the trust and loyalty of each customer by providing products that perform as promised and make a positive difference in the world.

Product

Ethos manufactures a unique line of fuel reformulators that contain a blend of low and high molecular weight esters. *Ethos FR*® 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.

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Ethos fuel reformulating products increase fuel mileage and reduce emissions by burning fuel more completely. Exhaust is essentially unburned fuel - 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, because a more complete combustion process obtains increased power from every engine revolution.

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

1. The use of *Ethos FR*® 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 FR*® 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 FR*® products are added to diesel fuel, the engine runs cleaner, smoother and cooler - significantly reducing sooty exhaust. Engines treated with *Ethos FR*® run with less friction, heat and noise. Fuel and lubricating systems, filters, tanks, and injectors last longer, reducing maintenance costs.

Ethos FR® products provide risk-free benefits with an economic gain to the client. Customers realize a monetary gain on fuel savings alone, with an average improvement in mileage between 7% and 19%, depending on the fuel (gasoline or diesel) and the vehicle used. Even greater savings are achieved with the significant increase in oil prices.

Trademarks

We own the following trademark(s) used in this document: 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

Ethos Environmental began the manufacturing and marketing of Ethos FR® 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 Ethos FR® "one gallon at a time", earning the respect and trust of each user. Over the past decade, the Ethos FR® product has gone though millions of miles in road tests, and test after test has demonstrated the ability of Ethos FR® to significantly reduce emissions while improving gas mileage. Now, at a time of skyrocketing fuel costs, the value of Ethos FR® is paying off for a long list of domestic customers and a growing contingent of international clients.

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Market Research

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

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

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

When blended with fuels, Ethos FR® 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 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 FR® from two types of products in this industry, additives - that are purported to increase fuel mileage and oxygenates - which are mandated to lower emissions. Both provide short-term benefits at the price of long-term engine or environmental problems.

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

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

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

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Marketing Strategy

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

From its earliest days, Ethos has focused on the product demonstration as the most effective means of introducing Ethos FR® to potential users. During this demonstration phase, Ethos supplies product to treat a sample of the fleet at no cost to the client. It is vital that the customer understand and prove the effectiveness of Ethos FR® in their fleets. This demonstration phase will last as long as necessary to quantify the value and projected savings possible once the entire fleet is treated.

Through this demonstration process, we prove to each customer that they can realize the benefits of reduced emissions, smoother-running vehicles and lower maintenance costs at virtually no risk, because the reduction in fuel usage will more than cover the expense of using Ethos FR®. In fact, the addition of Ethos FR® will result in fuel savings beyond the cost of treatment, resulting in monetary gain to the user.

Commercial fleets vary in size from a few to thousands of vehicles. Such fleets generally produce immediate sales results because administrative requirements are minimal and the product demonstration phase is brief. Typically, a sample of the fleet is treated and the potential customer is quickly able to quantify the value and project the savings that the use of Ethos FR® will produce. Usually a fleet's oldest and dirtiest vehicles, or vehicles out of warranty, are included in the demonstration. Such vehicles amplify the effectiveness of the products and help to ease any initial client objections regarding manufacturer warranties. Once the demonstration is underway, Ethos FR® products sell themselves, increasing fuel mileage between 7% and 19% and reducing emissions by more than 30%. Once the effectiveness of the product has been established, a conscientious customer-service program ensures continued use.

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

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

Target Markets

Domestic

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 4%.

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. 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.

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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 a 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 FR®. This vessel would use approximately one drum (55gals.) of Ethos FR® per month. Accordingly, maritime customers represent a large and solid client base.

Like the United States, 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. The Company has found broad and enthusiastic acceptance of its Ethos FR® products globally. During the past three years, the Company has opened markets in Asia, Latin America, Canada and Europe, often dealing directly with government entities that possess the power to implement widespread use of Ethos FR® – whether in citywide public transportation systems or countrywide fuel distribution structures.

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

Customers

We have a diversified customer list. 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. Three customers accounted for 89.3% of our revenues for the period ended June 30, 2007. For the period ended June 30, 2007, we had the following customers account for a significant portion of our revenues:

(1) Petro Industrial, an Ecuadorian company, accounted for 46.14% of revenues;
(2) Electroguayas S.A., an Ecuadorian company, accounted for 29.77% of revenues; and
(3) PetroEcuador, another Ecuadorian company, accounted for 13.4% of revenues.

Supply Arrangements

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

Revenue and Fixed Assets

Most of our revenue is generated in the United States through our San Diego, California office, and all of our fixed assets are located in the San Diego, California office.

Vendors

We maintain strong relationships with all of our vendors. We are not dependent upon any one vendor for our business.

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Quarterly Developments

During the period ended June 30, 2007, the Company had several important developments:

(1) On April 10, 2007, we received an order from Chika Oil and Gas Limited, a Nigerian company, totaling $2,100,000 of Ethos FR product in 12 ounce bottles. This order will be shipped in various stages during 2007.
(2) On June 14, 2007, we received an order from Electroguayas S.A., an Ecuadorian company, for 150 barrels of product per month for 12 months, for a total purchase order value of $4,424,000.
(3) On June 18, 2007, we received an order from Petro Industrial, an Ecuadorian company, for 298 barrels per month of product for 12 months, for a total purchase order value of $10,012,800.

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, 2006), see our annual report on Form 10-KSB for the period ended December 31, 2006.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2007 AS COMPARED WITH THE THREE MONTHS ENDED JUNE 30, 2007

The following analysis of historical financial condition and results of operations are not necessarily reflective of the on-going operations of the Company.

Income Taxes

We have accumulated approximately $15,705,782 of net operating loss carry-forwards as of June 30, 2007, that may be offset against future taxable income. There will be limitations on the amount of net operating loss carry-forwards that can be used due to the change in the control of the management of the Company. No tax benefit has been reported in the financial statements, because we believe there is a 50% or greater chance the carry-forwards will expire unused.

Accordingly, the potential tax benefits of the loss carry-forwards are offset by valuation allowance of the same amount.

Inflation

Our results of operations have not been affected by inflation and we do not expect inflation to have a significant effect on its operations in the future.

Research and Development Costs

Research and development costs are charged to operations when incurred and are included in operating expenses. The amounts charged for period ended June 30, 2007 amounted to $7,500, compared to $82,933 for the same period in the prior year. All of these costs are borne by the Company.

Revenues

We recognized revenues of $ 2,599,962 for the three months ended June 30, 2007 and $5,297,095 for the six months ended June 30, 2007 compared to revenues of $ 1,380,307 and $2,697,943 for the same periods in the prior year. For the six months ended June 30, 2007 this represents an increase of $2,599,152 or 96%. The primary source of revenue for the periods ended March 31, 2007 and June 30, 2007 is from the sale of Ethos FR®.

We expect our growth to continue as sales increase and the sales and marketing strategies are implemented into the targeted markets and we create an understanding and awareness of our technology through proof of performance demonstrations with potential customers.

Our future growth is significantly dependent upon our ability to generate sales. Our main priorities relating to revenue are: (1) increase market awareness of Ethos FR® 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, defined as revenues less cost of goods sold, was $ 1,871,961 or 72% of sales for the three months ended June 30, 2007 and $3,703,788 or 70% for the six months ended June 30, 2007, compared to $ 911,003 or 66% of sales for the three months ended June 30, 2006 and $1,888,560 or 70% for the six months ended June 30, 2006. In terms of absolute dollars, gross profit increased 96% for the six months ended June 30, 2007 compared to same period in the prior year due primarily to the sales of the Ethos FR® product.

Cost of goods sold was $ 728,001 for the three months ended June 30, 2007 and $469,304 for the three months ended June 30, 2006. Cost of Goods Sold represented 28% of revenues for the three months ended June 30, 2007. For the six months ended June 30, 2007, Cost of Goods Sold was $1,593,307, or 30% of Sales versus $809,383 and 30% for the year prior.

Operating Expenses

Our current operating expenses are comprised of costs associated with administrative, salary, marketing, legal and business development. We will have additional operating expenses for additional staff members as they are hired. We have allocated funds in our capital structure for our current expenses.

General & Administrative expenses incurred during the three months ended June 30, 2007 totaled $1,490,489 and $1,961,487 for the six months ended June 30, 2007.

Similar expenses incurred for the three months ended June 30, 2006 were $462,593 and were incurred primarily for expenses of a similar nature.

Also, for comparison purposes, there were 283,500 newly issued shares for the payment of services during the period ended June 30, 2007, compared to nil during the period ended June 30, 2006.

Net Profit

We incurred a net loss for the three months ended June 30, 2007 of $6,791,174 as compared to a net profit of $49,276 for the comparable prior year period. For the six months ended June 30, 2007, we incurred a Net Loss of $5,772,514 as compared to a net profit of $435,051 for the comparable period of the prior year. This net loss for the three months and six months ended June 30, 2007 is a direct result of our issuance of a Common Stock Purchase Warrant to purchase 1,900,000 shares of our common stock at a purchase price of $2.50, as well as the issuance of 283,500 shares of our common stock for services.

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NON-OPERATING INCOME AND EXPENSES

Non-operating income, net of expenses, increased for the six months ended June 30, 2007 versus 2006, due to an increase in sales. Interest expense increased to $408,734 during the 6 months ended June 30, 2007 from $223,892 for the comparable period in 2006. The interest was directly associated with the interest-only loan for $4,750,000, related to the purchase of our new building and an interest-only $500,000 working capital loan.

Liquidity and Capital Resources

During the six months ended June 30, 2007, we had a working capital of $2,430,381 and stockholders' equity of $8,012,154 compared to a working capital deficit of $5,068,449 and stockholders' equity of $1,350,648 during the comparable period in the prior year.

On June 30, 2007, the Company had $312,857 in cash of which $300,000 is restricted, total assets of $14,966,139 and total liabilities of $6,953,985, compared to $367,224 in cash and $300,000 in restricted cash, total assets of $7,355,667 and total liabilities of $6,005,019 on June 30, 2006.

We anticipate, based on currently proposed plans and assumptions relating to our operations, that our current cash and cash equivalents together with projected cash flows from operations and projected revenues will be sufficient to satisfy our contemplated cash requirements for the next 12 months. Our contemplated cash requirements for 2007 and beyond will depend primarily upon the level of sales of our products, inventory levels, product development, sales and marketing expenditures and capital expenditures.

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

Loan Facilities

On February 7, 2007, we entered into an equipment lease agreement with Mazuma Capital Corp. wherein the Company agreed to a 24-month sale and leaseback arrangement for up to $800,000 of its manufacturing equipment. The lease calls for a monthly payment based on a factor of .04125 times the average outstanding loan balance during the month. Through August 20, 2007, the company had placed property valued at $ 740,000 under this lease arrangement with Mazuma Capital Corp.

Inflation has not significantly impacted the Company's operations.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our investors.

PLAN OF OPERATIONS FOR THE NEXT TWELVE MONTHS

Since inception in 2000, Ethos Environmental has grown its customer base to thousands of diverse clients in over 15 countries worldwide In addition to an effective and desirable product, the company's success also derives from the careful development and tenacious implementation of a structured "proof-of-concept" marketing strategy.

Throughout this “proof-of-concept” sales and marketing phase, gross sales for Ethos Environmental have consistently exceeded forecasts, reaching more than $1.78 million by the end of 2005, and $4.77 million by the end of 2006. Even more significant growth is anticipated for 2007, with sales in established markets on six continents expected to top current forecasts. Furthermore, market implementation plans anticipate growth in 2007 and beyond, leading to gross multi million sales in 2008. These projections are based on the product’s proven ability to improve fuel efficiency while reducing emissions, the Company’s proven ability to penetrate new markets and build a solid base of loyal customers, and the world’s increasing costs in the petro-economic markets.

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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.

In addition, we will continue to initiate patents to cover ongoing development of a new engine design that combines past, present and state-of-the-art technologies. This new system generates rotary shaft power using only a fraction of the fuel consumed by today's internal combustion engines, and testing has yielded power output that rivals current technologies with just a fraction of the emissions. We have great hope that this project will revolutionize power generation as we know it, significantly easing pollution from the usage of fossil fuels.

The management of Ethos Environmental is excited by the enthusiastic acceptance that *Ethos FR*® products have received - domestically and all around the world. We are proud to provide a product that is part of the solution to the high cost of fuel and the health costs of environmental pollutants. Since inception management has been focused on the development of a solid infrastructure, building relationships and establishing the foundation of a business that will continue to grow - non-stop - into the future.

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make a wide variety of estimates and assumptions that affect (i) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and (ii) the reported amounts of revenues and expenses during the reporting periods covered by the financial statements. Our management routinely makes judgments and estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the future resolution of the uncertainties increases, these judgments become even more subjective and complex. The most significant accounting policies that are most important to the portrayal of our current financial condition and results of operations are as follows:

Revenue Recognition

The Company recognizes revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104 ("SAB 104"), "Revenue Recognition in Financial Statements". Revenue consists of the sale of products and is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the product is shipped, and collectability is reasonably assured.

Acquired Goodwill

Goodwill represents the excess of the purchase price of acquired assets over the fair values of the identifiable assets acquired and liabilities assumed. Pursuant to SFAS No. 141, "Business Combinations" the Company does not amortize goodwill, but tests for impairment of goodwill on an annual basis and at any other time if events occur or circumstances indicate that the carrying amount of goodwill may not be recoverable. Circumstances that could trigger an impairment test include but are not limited to: a significant adverse change in the business climate or legal factors; an adverse action or assessment by a regulator; unanticipated competition and loss of key personnel. Goodwill is tested for impairment using present value techniques of estimated future cash flows; or using valuation techniques based on multiples of earnings. If the carrying amount of goodwill exceeds the implied fair value of that goodwill, an impairment loss is charged to operations.

Customer Relationships

The Company used the replacement cost approach for accounting for customer relationships. This approach uses an estimate of what a notional purchaser would likely pay for the intangible asset in order to be in the same position of the Company at the date of the closing of the Asset Purchase Agreement described above in “Acquired Goodwill”.

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ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures:

Our President, after evaluating the effectiveness of our “disclosure controls and procedures” (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), has concluded that, as of June 30, 2007 due to the material weaknesses in our internal control over financial reporting identified in our 2006 Form 10-KSB, 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.

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

While we have continued our efforts to address each of the material weaknesses identified in our 2006 Form 10-KSB, there were no material changes in our internal control over financial reporting during the most recently completed quarter. We have not identified any additional material weaknesses during this quarter. We are not planning to report on whether there has been full remediation of the identified material weaknesses until our 2007 report on internal control over financial reporting is complete.

(c) Changes in Internal Control Over Financial Reporting:

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

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PART II.

ITEM 1. LEGAL PROCEEDINGS

In June 2007, the Company was served with a Summons and Complaint by Plaintiff Michael Later, Esq., who formerly provided legal services to the Company. The Company and Mr. Later have agreed to a settlement of all claims, and the lawsuit is anticipated to be dismissed with prejudice in August 2007.

Also, during the quarter ended June 30, 2007, ACCUTEK, Inc. filed a lawsuit against the Company seeking $60,000 in damages. The Company has filed its answer, including various counter claims against ACCUTEK, Inc., including breach of contractual obligations.

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

As a result of a Private Placement that was concluded on August 7, 2007, the Company issued 2,500,000 shares of common stock. The complete details of this transaction are referenced in the Company's Form 8-K filed on August 10, 2007, which is incorporated by reference herein.

Between April 1, 2007 and June 30, 2007, the Company issued 283,500 shares of its common stock to consultants, officers, directors and/or key employees for services rendered.

On April 4, 2007, the Company returned 50,000 shares of its common stock to treasury.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

On or about August 7, 2007, the Company agreed to sell the land and building located at 6800 Gateway Park Drive located in San Diego, CA, as well as 2,500,000 shares of its common stock in exchange for $7,875,000. The Company's Form 8-K filed on or about August 10, 2007 is incorporated by reference herein and provides additional details regarding this transaction.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

EXHIBIT NUMBER	DESCRIPTION	LOCATION
3.1 - 3.2	Articles of Incorporation and Bylaws	Previously Filed.
31.1	Rule 13a-14(a)/15d-14(a)	Filed herewith

	Certification (CEO)	
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

(b) Reports on Form 8-K.

The following reports on Form 8-K are incorporated by reference herein:

(a) Form 8-K filed on or about April 4, 2007; and
(b) Form 8-K filed on or about August 10, 2007.

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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.

DATE: August 21, 2007	E T H O S ENVIRONMENTAL, INC. (Registrant)
	By: /s/ Enrique de Vilmorin Enrique de Vilmorin Director, CEO and CFO

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