

Ethos Environmental, Inc.
Form 10-K
April 15, 2009

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

FORM 10-K

(Mark One)

X .

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

For the Fiscal Year Ended December 31, 2008

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission File Number 000-30237

ETHOS ENVIRONMENTAL, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

88-0467241

(IRS Employer Identification No.)

6800 Gateway Park, San Diego, CA 92154

(Address of principal executive offices)

(619) 575-6800

(Registrant's telephone number, including area code)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes . No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes . No .

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. .

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 126.2 of the Exchange Act). Yes . No .

The aggregate market value of common stock held by non-affiliates of the Registrant on April 13, 2009 based on the closing price on that date of \$0.32 on the Over the Counter Bulletin Board was \$8,758,352. For the purposes of calculating this amount only, all directors, executive officers and shareholders owning in excess of ten percent (10%) of the Registrant's outstanding common stock have been treated as affiliates.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
				(Do not check if a smaller reporting company)			

The number of shares of common stock outstanding as of December 31, 2008 was 43,493,958.

DOCUMENTS INCORPORATED BY REFERENCE:

ETHOS ENVIRONMENTAL

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These forward-looking statements are not historical facts but rather are based on current expectations, estimates and projections. We use words such as anticipate, expect, intend, plan, believe, estimate and variations of these words and similar expressions to identify forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted. These risks and uncertainties include the following:

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The availability and adequacy of our cash flow to meet our requirements;

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Economic, competitive, demographic, business and other conditions in our local and regional markets;

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Changes or developments in laws, regulations or taxes in our industry;

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Actions taken or omitted to be taken by third parties including our suppliers and competitors, as well as legislative, regulatory, judicial and other governmental authorities;

.

Competition in our industry;

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The loss of or failure to obtain any license or permit necessary or desirable in the operation of our business;

.

Changes in our business strategy, capital improvements or development plans;

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The availability of additional capital to support capital improvements and development; and

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Other risks identified in this report and in our other filings with the Securities and Exchange Commission or the SEC.

You should read this report completely and with the understanding that actual future results may be materially different from what we expect. The forward looking statements included in this report are made as of the date of this report and should be evaluated with consideration of any changes occurring after the date of this Report. We will not update forward-looking statements even though our situation may change in the future and we assume no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Use of Term

Except as otherwise indicated by the context, references in this report to Company, ETEV, we, us and our references to Ethos Environmental, Inc. All references to USD or United States Dollars refer to the legal currency of the United States of America.

PART I

ITEM 1. BUSINESS

Item 1. Description of Business

Overview

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

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

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

Ethos products address the problems of wasted fuel, air pollution, and insufficient lubricity. Fuel burns inefficiently in an internal combustion engine and that inefficiency leads to wasted fuel transformed into toxic emissions. Ethos products make fuel burn more efficiently so it significantly improves all three of the aforementioned adverse effects. Most importantly, the use of Ethos products is likely to result in fuel cost savings for most customers.

Our Corporate History

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

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

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 re-domiciling under the laws of the State of Nevada. Concurrently therewith, we completed the merger transaction with Ethos Environmental, Inc., a privately held Nevada corporation (Ethos). The Company was the surviving entity, and changed its name to Ethos Environmental, Inc. to more accurately reflect its new direction and business model.

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 re-organization 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,

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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.”

Organizational Chart

ecoMates, LLC

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

Ethos Scientific LLC

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

Government and Commercial Sales

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

Products

How Do Ethos Products Work?

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

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

The primary task for the Company is to distinguish itself as an industry leader in the reduction of fuel costs and emission problems. Part of the challenge is to differentiate Ethos products from two types of products in this industry, additives - that are purported to increase fuel mileage and oxygenates - which are mandated to lower emissions.

We believe, that both additives and oxygenates provide short-term benefits at the price of long-term engine or environmental problems. Additives contain highly refined petrochemicals or compressed hydrocarbons that promise better fuel mileage and sometimes lower emissions, by cleaning the engine. Used mainly by individual consumers, they are expensive and commonly sold at the auto parts and retail stores. More than five thousand EPA-registered fuel additives compete in the retail market and although the EPA requires that such products be registered, that registration constitutes neither endorsement nor validation of the product's claims. Oxygenates, such as methyl tertiary butyl ether (MTBE) and Ethanol, are intended to lower emissions by adding oxygen to the fuel. Ethos products complement federally mandated oxygenates by lowering emissions. Ethos products are not oxygenates and cannot be used for the purpose of complying with current language federal legislation. In contrast, Ethos products have cleaning properties that contribute to the lubrication of the engine instead of destroying it. The ester-based formula dissolves the gums and residues and adds important lubrication that an engine needs. The engine stays clean and lubricated, allowing it to run smoothly and efficiently.

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

Esters

Esters comprise the primary element of all of the Company's products. In the simplest terms, esters can be defined as the reaction products of acids and alcohols. Thousands of different varieties of esters are produced commercially for a broad range of applications. Within the realm of synthetic lubrication, a relatively limited family of esters has been demonstrated to be useful. Esters as lubricants have already captured certain niches in the industrial market such as reciprocating air compressors and high temperature industrial oven chain lubricants. When one focuses on high temperature extremes and their telltale signs such as smoking, wear, and deposits, the potential applications for the problem solving ester lubricants are virtually endless.

In many ways, esters are very similar to the more commonly known and used synthetic hydrocarbons or PAOs. Like PAOs, esters are synthesized from 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.

Product Line

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

Ethos FR®

Product Benefits: Ethos FR® is a unique combination of high-quality, non-toxic, specially designed esters comprised exclusively of carbon, hydrogen and oxygen. This product reduces emissions, helps maximize fuel efficiency, and lowers engine maintenance costs. Its considerable emissions-reducing capacity renders it an immediate and cost-effective method for countering the air pollution caused by fossil fuels and the internal combustion engine. Ethos FR® is a multi-functional fuel catalyst. It is designed for use in all fuels to increase power and mileage, dissolve gums and varnishes, lubricate upper cylinder components and keep the entire fuel system clean and highly lubricated. This combination of low molecular cleaning esters and the high molecular lubricating esters reformulates any fuel whether it is gasoline, diesel, methanol, ethanol, LNG, compressed natural gas or bio-diesel. When blended with fuels, Ethos FR® reduces the emissions of hydrocarbons (HC), nitrogen oxides (NOx), carbon monoxide (CO), particulate matter (PM) and other harmful products of combustion. Yet, the emission of O₂ is significantly increased.

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

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

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

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

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

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

Ethos FR+

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

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

For additional information, please refer to the below letter:

Regulatory Status: Ethos is in the process of seeking EPA registration for Ethos FR+, and will seek other approvals, registrations or certifications as necessary to fully comply with all regulations.

Ethos BFC

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

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

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

Trademarks

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

Air Quality Standards

It is believed that with the increased worldwide focus on the greenhouse effects of petroleum products, the ability of Ethos to reduce emissions can only increase the Company's market 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.

In recent years most of the improvements in air quality have come through advancements in engine technologies. Through catalytic converters and computer controlled air and fuel injection systems, engineers have designed cars that use fuel much more efficiently and pollute far less than ever before. But as new engine

technologies have reached their limits, the government has turned its attention to the oil companies to produce cleaner-burning fuels.

The approach of The Company is to sell our products one gallon at a time, earning the respect and trust of each user. Over the past decade, our products have gone through extensive miles of road tests, with all such testing verifying the ability of our products to significantly reduce emissions while improving gas mileage.

Market Research

Domestic Vehicle Market

Since our products have been formulated to benefit both passenger and commercial vehicles, its potential market encompasses all such vehicles in the United States (with other countries to be targeted subsequently): As of 2006, there are over 250 million passenger vehicles in active use in the United States alone¹. Of these, roughly 135 million are cars, 100 million are pick-up trucks & sport utility vehicles, roughly 9 million are other types of trucks/trailers, and approximately 7 million are motorcycles. These numbers keep growing steadily, even in an economic downturn: Almost 11 Million new vehicles were sold in the United States in 2008² -- roughly ¼ of total global demand for new vehicles.

However, due to current economic conditions, the rate of growth is expected to stay negative for the immediate future. The 2008 numbers mark a double digit decrease from the previous year and a further year-over-year decline is expected for 2009³. Fortunately, positive growth is expected to resume by the end of 2009 and, by 2010, sales of 14 million new vehicles are projected for the US market⁴. By 2012, that sales figure is projected to exceed 16 million⁵. So, even within the next 3 year period, overall growth estimates are very positive.

1

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

2

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

3

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

4

5

Ibid.

Segment Focus Domestic Fuel & Engine Oil Consumption

According to the latest (2009) energy outlook from the Department of Energy's Energy Information Administration, current domestic consumption of transportation fuel exceeds 14 Million barrels per day⁶. This figure is expected to rise fairly consistently for the foreseeable future (to 2030) but the projected growth rate is tempered by higher CAFE standards and other regulatory and technological factors that are likely to moderate the use of transportation fuel. Nonetheless, with among the most rapidly growing populations in the industrialized world⁷, continued growth in domestic transportation fuel usage is, for the foreseeable future, inevitable.

Sub-Segment Focus The Lubricant Additive Industry

Within the fuel segment of the domestic automotive market, Ethos competes in the sub-segment of Lubricant Additives. Despite the current economic contraction, the lubricant additive market will grow by 0.7% in 2009⁸ not a remarkable growth rate but very strong when most markets are experiencing marked declines. Notably, within this sub-segment, friction modifiers like Ethos FR are enjoying particularly strong growth and are expected to continue outperforming the general lubricant additive market through to 2013⁹.

A recent market study on this sub-segment revealed a number of trends of direct relevance to the Ethos product line. Until 2013, the primary drivers of growth in the lubricant additive industry will be emission control, improving fuel economy in passenger vehicles, use of bio-fuels, use of ultra low sulfur diesel, and maximizing engine life. Our products have been tested successfully with bio-fuels and ultra low sulfur diesel¹⁰. Most importantly, the Company's primary objectives with its products pertain specifically to improved fuel economy, lower emissions, and increasing engine life. These objectives seem to be in perfect alignment with the direction of the market.

A Green Regulatory Environment

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

To combat this problem, the U.S. Environmental Protection Agency developed a two-step plan to significantly reduce pollution from new diesel engines. (New Emission Standards for Heavy-Duty Diesel Engines Used In Trucks and Buses) (October 1997, EPA 420-F-97-016). The first step set new emissions standards for diesel engines beginning in 2000. The second step sets even more stringent emission standards. In March of 2009, the Department of Transportation mandated a significant increase in CAFE (Corporate Average Fuel Economy) standards for 2011 vehicles. These policy initiatives are expected to be continually strengthened throughout the term of the new administration.

Within his first week in office, President Barack Obama issued 2 executive orders of direct relevance to the ongoing growth of the Company: One mandates heightened fuel economy standards while the second strengthens enforcement of greenhouse gas emissions rules. Given that improved fuel economy and lower emissions are the two primary benefits of Ethos products, the direction of the new administration is very positive for Ethos. Moreover, as revealed by its recent budget proposals, the Obama administration is intent on implementing an emissions trading system that will both discourage greenhouse gas emissions and provide an additional source of revenue to the government¹¹.

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

6

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

7

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

8

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

9

Ibid.

10

Ibid.

11

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

Competition

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

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

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

The Company competes with both established companies and a significant number of startup enterprises. We face competition from producers and/or distributors of other diesel fuel additives (such as Lubrizol Corporation, Chevron

Oronite Company, Octel Corp., Clean Diesel Technologies, Inc. and Ethyl Corporation), from producers of alternative mechanical technologies (such as Algae-X International, Dieselcraft, Emission Controls Corp. and JAMS Turbo, Inc.) and from alternative fuels (such as bio-diesel fuel and liquefied natural gas) all targeting the same markets and claiming increased fuel economy, and/or a decrease in toxic emissions and/or a reduction in engine wear.

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

demonstrated that particulate matter circulating in the engine increases friction thereby increasing the wear on the engine and impairing its ability to operate with maximal efficiency and smoothness.

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

Red Line Oil: Friction Modifier -- Red Line's Limited Slip Friction Modifier claims to reduce break-in temperatures by up to 50 degrees Fahrenheit. The product has been formulated for use with both synthetic and petroleum gear lubricants. A four fluid ounce bottle of this product retails for \$6.95¹². Red Line Synthetic Oil Corporation is a privately held company headquartered in Benicia, California.

AMSOIL: Friction Modifier -- Amsoil's Friction Modifier Slip Lock Differential Additive claims to not only reduce but eliminate gear chatter in most cars, trucks, and SUVs. Like Red Line's friction modifier, this product has also been formulated for use with both synthetic and petroleum gear lubricants. A four fluid ounce bottle of this product retails for \$7.70¹³. According to the Goliath business database, AMSOIL Incorporated generated over \$44,000,000 in revenue for 2008. Notably, a successful network marketing system is the primary source of sales for this company. AMSOIL Incorporated is a privately held company based in Superior, Wisconsin.

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Red Line Oil: Gear Lubricants, [Red Line Corporate Website](#), accessed March 23, 2009

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AMSOIL Online Store, [Amsoil Corporate Website](#), accessed March 23, 2009

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

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

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

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

Research and Development

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

Distribution and Marketing

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

ecoMates™

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

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

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

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

Ethos FR Proof of Performance

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

The results below are test results of customer experiences using Ethos FR[®]. The results are for a fleet of trucks for Allied Waste. On our website are results for other customers, which may be viewed by visiting www.ethosfr.com. In most customer tests.

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

MANAGEMENT REPORT

Testing of Ethos Fuel Reformulator

Allied Waste Services, Southwestern Region

Overview

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

Based on the positive results realized at those locations (estimated at a 10% reduction in fuel consumption plus significant reductions in maintenance/repair costs and emissions) an initial test was conducted at one location in the Southwestern Region of Allied Waste during the months of July and August, 2006. The results of this initial 4 week

test showed an estimated reduction in fuel consumption of 10.35%, as measured by gallons per engine hour, compared to a baseline period of the previous 12 months (July 2005 through 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:

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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.

Verification of Ethos Use

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

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

Ethos FR Proof of Performance Demonstrations

Ethos Environmental uses an opacity meter, a detection device for diesel vehicles that measures the percentage of opacity (light obstructed from passage through an exhaust smoke plume), to demonstrate dramatic reductions in emissions. In more than 1,000 heavy-duty diesel vehicles treated (a motor vehicle having a manufacturer's maximum gross vehicle weight rating (GVWR) greater than 6,000 pounds), emissions were lowered by as much as 90%. The

Society of Automotive Engineers (SAE) recommended practice SAE J1667 Snap Acceleration Smoke Test Procedure to be used for heavy-duty diesel powered vehicles. Attached are samples of opacity test sheets, taken from diesel-powered engines, demonstrating the positive results after using Ethos FR®.

Target Markets

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

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

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

Marine vessels run on bunker fuel that is less refined than diesel. A mid-size ship will use more than half a ton per hour of operation, or 125 gallons of fuel per hour. For example, a mid-size vessel running on bunker on a typical trip to Japan from Los Angeles will require a half ton per hour, or 180 tons. This represents a total of 45,000 gallons of

fuel that requires 4,500 oz. (35 gallons) of Ethos BFC. This vessel would use approximately one drum (55gals.) of Ethos BFC per month. Accordingly, maritime customers represent a large and solid client base.

Countries all around the world are endeavoring to deal with the high costs of petroleum products and the detrimental effects of those products on the environment, much like the United States.

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

Customers

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

Supply Arrangements

We presently obtain our raw materials from six (6) suppliers. However, these arrangements are not governed by any formal written contract. Accordingly, either party may terminate the arrangement at any time. If a supplier is not able to provide us with sufficient quantities of the product, or chooses not to provide the product at all (for any reason), business and planned operations could be adversely affected. Although management has identified alternate suppliers of the products, no assurance can be given that the replacement products will be comparable in quality to the product presently supplied to us by current suppliers, or that, if comparable, products can be acquired under acceptable terms and conditions.

Vendors

We are not dependent upon any one vendor for our business.

Governmental Regulation

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

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

Research and Development Costs

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

Employees

As of April 9, 2009, we employed 5 full-time employees and 0 part-time employees. None of our employees is subject to a collective bargaining agreement and we believe that relations with our employees are very good. We also frequently use third party consultants to assist in the completion of various projects. Third parties are instrumental to keep the development of projects on time and on budget.

Available Information

We file electronically with the Securities and Exchange Commission our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, pursuant to Section 13(a) or 15(d) of the Securities Exchange

Act of 1934. You may obtain a free copy of our reports and amendments to those reports on the day of filing with the SEC by going to <http://www.sec.gov>.

ITEM 1A. RISK FACTORS

Risk Factors

Cautionary Statement on Forward-Looking Statements

We have made and will make forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 in our 2006 Annual Report, in this Annual Report on Form 10-K and in other contexts relating to future growth and profitability targets and strategies designed to increase total shareholder value. Forward-looking statements also include, but are not limited to, information regarding our future economic and financial condition, the plans and objectives of our management and our assumptions regarding our performance and these plans and objectives.

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements to encourage companies to provide prospective information, so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the forward-looking statements. We desire to take advantage of the safe harbor provisions of that Act.

Some forward-looking statements that we make in this Annual Report on Form 10-K and in other contexts represent challenging goals for our company, and the achievement of these goals is subject to a variety of risks and assumptions and numerous factors beyond our control. Important factors that could cause actual results to differ materially from the forward-looking statements we make are described below. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in their entirety by the following cautionary statements.

Going Concern

Our auditors have expressed substantial doubt about our ability to continue as a going concern, which may result in the loss of your entire investment. If we discontinue operations, you will lose your entire investment.

Our business is capital intensive and will require additional financing which will result in dilution to existing shareholders which would in turn reduce the share price of earlier issued shares. Our operations are capital intensive and growth will consume a substantial portion of available working capital. We may require additional capital in order to fund our operations. We do not have any commitments for additional financing and there can be no assurance that such additional funding, if required, will be available, or if available, will be available upon favorable terms. With respect to our ability to obtain financing on favorable terms, we do not have significant assets to serve as loan collateral. Still further, we presently do not have a sufficient cash flow to qualify for reasonable debt financing. Insufficient funds may prevent us from implementing our business strategy. In the event we raise additional funds through the issuance of equity securities, dilution to the then existing stockholders will result and future investors may be granted rights superior to those of existing stockholders. Accordingly, such dilution would reduce the share price of the earlier issued shares.

Lack of operations, positive cash flow and profitability may continue which will affect our ability to remain in business

Since the inception of the Company, we have been unable to generate positive cash flow or profits in the industries in which we participate. If we do not generate positive cash flow and hence become profitable, we may not be able to remain in business.

Uncertainty of commercial success may affect our ability to remain in business

With respect to our revenue and profitability prospects, we may not be able to achieve commercial success with our operations. Furthermore, our industry is characterized by rapid change and growth. Accordingly, we may not be able to keep up with the pace of change or fund its growth. If we fail to achieve commercial success, we will continue to suffer net losses and we will have to go out of business.

Competition may have an adverse effect on our business

We are subject to competition from other companies that may try to emulate or compete with similar products or services. These competitors have been in the business longer than us and may have large executive and operating staffs. Our prospects may be adversely affected by competition from these companies. The introduction of similar or superior products by current or future competitors could have a material adverse effect on our business and financial condition.

Dependence on management will affect our profitability

Future success depends on the continued services of the Company's Chief Executive Officer, and Board of Directors. The loss of any of their services would be detrimental and could have a material adverse effect on the business, financial condition and results of operations. Future success is also dependent on our ability to identify, hire, train and retain other qualified managerial and other employees. Competition for these individuals is intense and increasing. We may not be able to attract, assimilate, or retain qualified managerial personnel and our failure to do so could have a material adverse effect on the business, financial condition and results of operations.

Possible Delisting

On November 16, 2005, the Securities and Exchange Commission (SEC) approved the proposed rule change to NASD Rule 6530, also known as the Eligibility Rule. Under the rule change, OTC Bulletin Board (OTCBB) issuers that are cited for filing delinquency three times in a 24-month period and those removed for failure to file two times in a 24-month period will be ineligible for quotation by an NASD member. The new rule will apply to filings for reporting periods ending on and after October 1, 2005.

Since October 1, 2005, the Company has been cited for a filing delinquency two (2) times. If the Company is cited for a filing delinquency for a third time on or before August 21, 2009, then the Company will be ineligible for quotation by an NASD member, which would cause an investor or an existing shareholder to potentially lose all or part of his investment.

This is a highly speculative investment.

Ownership of our common stock is extremely speculative and involves a high degree of economic risk, which may result in a complete loss of your investment. Only persons who have no need for liquidity and who are able to withstand a loss of all or substantially all of their investment should purchase our common stock. There can be no assurance that we will have sufficient economic resources or that such resources will be available to us on terms and at times that are necessary or acceptable, if at all. There is no assurance that future revenues of the Company will ever be significant or that the Company's operations will ever be profitable.

You will be diluted if we issue additional common stock, options to purchase common stock and/or debt or equity securities convertible into common stock.

Future offerings of debt securities, which would be senior to our common stock upon liquidation, or equity securities, which could dilute our existing stockholders and be senior to our common stock for the purposes of distributions, may have an adverse effect on the value of our common stock.

In the future, we may attempt to increase our capital resources by making additional offerings of equity or debt securities, including medium-term notes, senior or subordinated notes and common stock. Upon our liquidation, holders of our debt securities, if any, and shares of stock, if any, and lenders with respect to other borrowings, if any, will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings by us reduce the value of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in the Company.

Results may fluctuate and may not be indicative of future performance.

Our operating results may fluctuate and, therefore, you should not rely on current or historical period results to be indicative of our performance in future reporting periods. Factors that could cause operating results to fluctuate include, but are not limited to, variations in the costs of identifying, negotiating and consummating acquisitions of businesses consistent with our business plan; variations in and the timing of the recognition of net realized gains or losses and changes in unrealized appreciation or depreciation; the degree to which we encounter competition in our markets; and other general economic and operational circumstances.

Our common stock price may be volatile.

The trading price of our common stock may fluctuate substantially. The price of the common stock may be higher or lower than the price you pay for your shares, depending on many factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include, but are not limited to, the following:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of securities of financial services companies;
- volatility resulting from trading in derivative securities related to our common stock including puts, calls, long-term equity anticipation securities (LEAPs), or short trading positions;
- actual or anticipated changes in our earnings or fluctuations in our operating results or changes in the expectations of securities analysts;
- general economic conditions and trends;
- loss of a major funding source; or
- departures of key personnel.

OTC Bulletin Board.

Our common stock is quoted on the OTC Bulletin Board (OTCBB). The OTCBB is an inter-dealer, over-the-counter market that provides significantly less liquidity than the NASDAQ Stock Market or national or regional exchanges. Securities traded on the OTCBB are typically thinly traded, highly volatile, have fewer markets and are not followed by analysts. The SEC's order handling rules, which apply to NASDAQ-listed securities, do not apply to securities quoted on the OTCBB. Quotes for stocks included on the OTCBB are not listed in newspapers. Therefore, prices for securities traded solely on the OTCBB may be difficult to obtain and holders of our common stock may be unable to sell their shares at acceptable prices.

Penny Stock Rules.

Trading in our securities will be subject to the penny stock rules for the foreseeable future. The SEC has adopted regulations that generally define a penny stock to be any equity security that has a market price of less than \$5.00 per share, subject to certain exceptions. These rules require that any broker-dealer who recommends our securities to persons other than prior customers and accredited investors must, prior to the sale, make a special written suitability determination for the purchaser and receive the purchaser's written agreement to execute the transaction. Unless an exception is available, the regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the risks associated with trading in the penny stock market. In addition, broker-dealers must disclose commissions payable to both the broker-dealer and the registered representative and current quotations for the securities they offer. The additional burdens imposed upon broker-dealers by such requirements may discourage broker-dealers from recommending transactions in our securities, which could severely limit the liquidity of our common stock and consequently adversely affect the market price of our common stock.

Changes in the law or regulations that govern us could have a material impact on us or our operations.

Our business operations are subject to various laws and regulations concerning consumer financing. We are also regulated by the SEC and impacted by regulations of certain state regulatory agencies and self-regulatory organizations. Any change in the law or regulations that govern our business could have a material impact on us or our operations. Laws and regulations may be changed from time to time, and the interpretations of the relevant laws and regulations also are subject to change, which may have a material effect on our operations.

No dividends.

Holders of our securities will only be entitled to dividends when, as and if declared by our Board of Directors. We do not expect to generate a sufficient cash surplus which would be available for dividends in the foreseeable future.

ITEM 1B.

UNRESOLVED STAFF COMMENTS

None.

ITEM 2.

PROPERTIES

Our principal executive office is located at 6800 Gateway Park Drive San Diego, CA 92