SEYCHELLE ENVIRONMENTAL TECHNOLOGIES INC /CA
Form 10-Q
July 10, 2008

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

FORM 10-QSB

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

For the quarterly period ending May 31, 2008

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

For the transition period from _______________ to __________________

Commission File No. 0-29373
Seychelle Environmental Technologies, Inc.
(Exact Name of registrant as specified in its charter)

Nevada (State or other jurisdiction Of incorporation)	33-0836954 (IRS Employer File Number)
33012 Calle Perfecto San Juan Capistrano, California (Address of principal executive offices)	92675 (zip code)

(949) 234-1999
(Registrant's telephone number, including area code)

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

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

State the number of shares outstanding of the Registrant's common stock, as of July 1, 2008 was 25,757,003 and the aggregate market value of the voting stock of the Registrant held by non-affiliates as of July 1, 2008 was approximately $1,400,000,

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X]

References in this document to "us," "we," “Seychelle,” “SYEV,” or "the Company" refer to Seychelle Environmental Technologies, Inc., its predecessor and its subsidiary.

FORM 10-QSB

Securities and Exchange Commission
Washington, D.C. 20549

Seychelle Environmental Technology, Inc.

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PART I

ITEM 1. FINANCIAL STATEMENTS

SEYCHELLE ENVIRONMENTAL TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
May 31, 2008
(UNAUDITED)

ASSETS

Current assets:		
Cash and cash equivalents	$	106,726
Accounts receivable, net of allowance for doubtful accounts of $4,816		31,485
Inventory, net		335,752
Prepaid expenses and other current assets		238,490
Asset held for sale		149,111
Total current assets		861,564
Property and equipment, net		105,975
Intangible assets, net		21,946
Other assets		6,624
Total assets	$	996,109

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:		
Accounts payable and accrued expenses	$	83,162
Customer deposits		75,585
Accrued interest due to related party		222,649
Notes payable		237,904
Total current liabilities		619,300
Long-term related party notes payable		471,088
Total liabilities		1,090,388
Commitments and contingencies (Note 10)		
Subsequent events (Note 13)		
Stockholders' deficit:		
Preferred stock, 6,000,000 shares authorized, none issued or outstanding as of May 31, 2008		-
Common stock $0.001 par value, 50,000,000 shares authorized, 25,757,003 issued and outstanding as of May 31, 2008		25,757
Additional paid-in capital		6,689,189
Accumulated deficit		(6,809,225)
Total stockholders' deficit		(94,279)
Total liabilities and stockholders' deficit	$	996,109

See accompanying notes to condensed consolidated financial statements.

SEYCHELLE ENVIRONMENTAL TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended May 31, 2008	Three Months Ended May 31, 2007
Revenues	$ 229,222	$ 410,971
Cost of sales	129,134	180,593
Gross profit	100,088	230,378
Selling and marketing expenses	6,808	13,115
General and administrative expenses	127,411	205,103
Compensation to executive officers	91,205	17,500
Total expenses	225,424	235,718
Loss from operations	(125,336)	(5,340)
Other Income(Expense)		
Claim settlement	14,000	168,000
Interest expense	(12,205)	(28,480)
Miscellaneous expense(income)	-	(3,153)
Interest income	10	2,289
Total other income(expense)	1,805	138,656
Income (loss) before income tax expense	(123,531)	133,316
Provision for income taxes	-	-
Net Income (Loss)	$ (123,531)	$ 133,316
BASIC INCOME (LOSS) PER SHARE	$ (0.00)	$ 0.01
FULLY DILUTED INCOME PER SHARE	$ -	$ 0.00
BASIC WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	25,810,373	25,160,064
FULLY DILUTED AVERAGE NUMBER OF SHARES OUTSTANDING	25,810,373	27,511,415

See accompanying notes to condensed consolidated financial statements.

SEYCHELLE ENVIRONMENTAL TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended May 31, 2008	Three Months Ended May 31, 2007
OPERATING ACTIVITIES:		
Net income (loss)	$ (123,531)	$ 133,316
Adjustments to reconcile net loss to net cash used in operating activities:		
Contributed executive services	135,677	2,500
Common stock issued for services	-	5,910
Depreciation and amortization	12,299	8,863
Changes in operating assets and liabilities:		
(Increase) decrease in prepaid expenses	9,866	3,794
(Increase) decrease in accounts receivable	(10,776)	(9,836)
(Increase) decrease in inventory	47,620	53,148
(Increase) decrease in asset held for sale	-	(11,239)
Increase (decrease) in accrued interest payable	7,479	6,683
Increase (decrease) in customer deposits	8,634	(205,856)
Increase (decrease) in accounts payable and accrued expenses	(50,194)	49,073
Net Cash Provided by Operating Activities	37,074	36,356
INVESTING ACTIVITIES:		
Purchase of property and equipment	(4,332)	(5,645)
Payment for patents	(325)	(1,150)
Net Cash Used in Financing Activities	(4,657)	(6,795)
FINANCING ACTIVITIES:		
Proceeds from related party notes payable	75,000	100,000
Repayment of notes payable	(20,542)	-
Net Cash Provided by Financing Activities	54,458	100,000
NET INCREASE (DECREASE) IN CASH	86,875	129,561
CASH AT BEGINNING OF PERIOD	19,851	36,723
CASH AT END OF PERIOD	$ 106,726	$ 166,284
Supplemental disclosures of cash flow information:		
Common stock issued for debt	$ 6,000	$ 21,315
Common stock issued for services	$ 224,970	$ 5,910
Cash Paid for:		
Interest	$ 2,775	$ 6,797
Income taxes	$ -	$ -

See accompanying notes to condensed consolidated financial statements.

SEYCHELLE ENVIRONMENTAL TECHNOLOGIES, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: CONDENSED FINANCIAL STATEMENTS

The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at May 31, 2008, and for all periods presented herein, have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's February 29, 2008 audited financial statements. The results of operations for the periods ended May 31, 2008 and 2007 are not necessarily indicative of the operating results for the full years.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: GOING CONCERN

The Company has experienced recurring losses from operations and has an accumulated deficit of $6,809,226 as of May 31, 2008. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern.

Recoverability of a major portion of the recorded asset amounts shown in the accompanying condensed consolidated balance sheet is dependent upon continued operations of the Company, which, in turn, is dependent upon the Company's ability to continue to finance its activities and ultimately generate positive cash flows from operations. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classifications of liabilities that might be necessary should the Company be unable to continue its existence.

In order to continue as a going concern, the Company needs to develop a reliable source of revenue, and achieve a profitable level of operation. During the fiscal year ended February 29, 2008 and the three-month period ended May 31, 2008, the Company funded its operations primarily through utilization of customer sales to pay related purchase orders and funds received from a related party (see Note 3). As of May 31, 2008 the Company held $106,726 in cash. It had a backlog of $35,500 in unshipped products and $328,087 available to borrow from a related party. Over the next twelve months, management believes that sufficient working capital may be obtained from a combination of revenues and external financing to meet the Company's liabilities and commitments as they become payable. However, additional funding may still be required from the TAM Irrevocable Trust (TAM Trust), a related entity, or other shareholders. During June 2007, the TAM Trust committed to providing up to $250,000 in additional funding. As of May 31, 2008, $78,087 remained available under this commitment. During April 2008, the TAM Trust committed to providing up to $250,000 in additional funding if necessary. As of May 31, 2008, the TAM Trust has extended $693,737 in financing borrowings plus accrued interest to the Company.

NOTE 3: SIGNIFICANT EVENTS

In March 2008, the Company borrowed an additional $20,000 from its available line of credit (Note 6). After the additional borrowing, the Company has no remaining available borrowings under the line of credit.

In March 2008, the Company borrowed an additional $75,000 from a related party (the TAM Trust), under similar terms as the Company's current outstanding notes payable. In April 2008, the TAM Trust committed to funding up to an additional $250,000 under similar terms as the current amounts outstanding.

In March 2008, the Company issued 133,333 shares of restricted common stock as repayment of a bridge note payable outstanding in the amount of $40,000 (Note 6).

SEYCHELLE ENVIRONMENTAL TECHNOLOGIES, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: SIGNIFICANT EVENTS

In March 2008, the Company issued 15,000 shares of common stock as payment of accrued interest to related party.

In April 2008, the Company issued 1,000,000 warrants with an exercise price of $0.33 in payment of accrued interest. The total grant date fair value of the warrants was $227,000 which was calculated using the Black Scholes option pricing model.

In April 2008, the Company issued 700,000 warrants to two executives with an exercise price of $0.33 for payment of expanded management services. The total grant date fair value of the warrants was $159,000 which was calculated using the Black Scholes option pricing model and will be amortized over the two year exercisable period for which the warrants were granted.

NOTE 4: BASIC INCOME (LOSS) PER SHARE

The computation of basic and diluted income (loss) per common share is based on the weighted average number of shares outstanding during each period.

	May 31, 2008		2007	
NET INCOME (LOSS)	$	(123,531)	$	133,316
BASIC INCOME (LOSS) PER COMMON SHARE	$	(0.00)	$	0.01
BASIC WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		25,810,373		25,160,064

The computation of loss per common share is based on the weighted average number of shares outstanding during the year plus the common stock equivalents which would arise from the exercise of stock options and warrants outstanding using the treasury stock method and the average market price per share during the year. Common stock equivalents, consisting of 19,160,037 in warrants were considered but were not included in the computation of loss per share at May 31, 2008, because they would have been anti-dilutive.

NOTE 5: COMMON STOCK PURCHASE WARRANTS

Warrants
The Company has determined the estimated value of the compensatory warrants granted to non-employees in exchange for services and financing expenses using the Black-Scholes pricing model and the following assumptions: expected term of 1year, a risk free interest rate of 2.37%, a dividend yield of 0% and volatility of 139% in 2008. The

amount of the expense charged to operations for compensatory warrants granted in exchange for services was $46,787 for the three months ended May 31, 2008.

The following table summarizes the changes in warrants outstanding and the related prices for the shares of the Company's common stock issued to non-employees of the Company. These warrants were granted in lieu of cash compensation for services performed or financing expenses.

A summary of warrant activity for the three months ended May 31, 2008 and the year ended February 28, 2008 are as follows.

SEYCHELLE ENVIRONMENTAL TECHNOLOGIES, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: COMMON STOCK PURCHASE WARRANTS (Continued)

	Warrants Outstanding	Weighted-Average Exercise Price
Outstanding at March 1, 2007	6,100,000	$ 0.23
Granted	707,221	0.40
Exercised	-	-
Forfeited	-	-
Outstanding at February 28, 2008	6,807,221	0.23
Granted	1,700,000	0.33
Exercised	-	-
Forfeited	-	-
Outstanding at May 31, 2008	8,507,221	0.25
Vested or expected to vest at May 31, 2008	8,507,221	0.25
Exercisable at May 31, 2008	7,700,000	0.25

The following table summarizes significant ranges of outstanding warrants as of May 31, 2008:

	Warrants Outstanding			Warrants Exercisable	
Exercise	Number	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
$ 0.19	600,000	2.51	$ 0.19	-	$ 0.19
0.23	6,000,000	0.50	0.23	6,000,000	0.23
0.29	107,221	2.51	0.29	-	0.29
0.40	100,000	2.17	0.40	-	0.40
0.33	1,700,000	2.76	0.33	1,700,000	0.33
	8,507,221		$ 0.25	7,700,000	$ 0.25

NOTE 6: LINE OF CREDIT

As of May 31, 2008, the Company has a line of credit agreement, totaling $100,000. The line of credit bears interest at the lending institutions' index rate (6.00% at November 30, 2007) plus two percent and is due June 1, 2008. As of May

31, 2008, the Company has borrowed $100,000 against the line of credit. The line of credit agreement does not include any limitations on borrowings or any restrictive debt covenants and the Company intends to renew the line of credit for another year when it becomes due.

SEYCHELLE ENVIRONMENTAL TECHNOLOGIES, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7: INVENTORY

The Company’s inventory consisted of the following at May 31, 2008:

Raw materials	$	182,880
Work in Progress		6,442
Finished goods		328,821
		518,143
Reserve for obsolete and slow moving inventory		(182,391)
	$	335,752

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

This discussion summarizes the significant factors affecting the operating results, financial condition and liquidity and cash flows of the Company and its subsidiary for the three month period ended May 31, 2008 and 2007. The discussion and analysis that follows should be read together with the consolidated financial statements of Seychelle Environmental Technologies, Inc. and the notes to the consolidated financial statements included in the Company's annual report on Form 10-KSB for the fiscal year ended February 29, 2008. Except for historical information, the matters discussed in this section are forward looking statements that involve risks and uncertainties and are based upon judgments concerning various factors that are beyond the Company's control.

Risk Factors Related to Our Business

THE OWNERSHIP AND INVESTMENT IN OUR SECURITIES INVOLVES SUBSTANTIAL RISKS. OUR COMMON SHARES SHOULD BE PURCHASED ONLY BY PERSONS WHO CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENT. PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER THESE RISKS RELATING TO OUR COMPANY.

Lack of Successful Operating History. Our Company was formed on January 23, 1998 and acquired the operations of a company that had been in existence since 1996. Since beginning operations, we initially sold water filtration products to a number of customers, then during March 2001 entered into a sales marketing agreement with Nikken Global, Inc. and Kenko World, two affiliated multi-level marketing companies (collectively "Nikken"). This agreement allowed Nikken the exclusive rights to distribute our products and technology for a period of ten years, commencing March 1, 2001. During the period of the agreement, the Company continued to promote its products and technologies to non-profit organizations, such as the Red Cross, the U.S. and international militaries, missionaries, charitable and fund-raising groups and other philanthropic organizations, which do not sell to distributors or resell to customers. During the fiscal year ending February 28, 2002, the Company decided to terminate its agreement with Nikken. The Company has continued to expand its product lines, since the Nikken business ended, but have not generated enough revenue to support operations. This has required us to seek both investor capital and financing to buy the time required by new management to reverse the downward trend. Recent sales activity for the fiscal year ended February 29, 2008 has decreased over the past year. Still, we have limited financial results upon which you may judge our potential. The Company is not engaged in enough consistent business activity over a sustained period of time to be said to have a successful operating history. We have experienced in the past and may experience in the future under-capitalization, shortages, setbacks and many of the problems, delays and expenses encountered by any early stage business. These include:

- operating as a public entity, incurring non-cost of sales expenses such as accounting, auditing, financial reporting and compliance, legal and costs to maintain full compliance with rules governing regulated reporting status, including continuing Sarbanes-Oxley requirements,
- unplanned delays and expenses related to research, development and testing of our new products
- production and marketing problems that may be encountered in connection with our existing products and technologies,
- competition from larger and more established companies, and
- under-capitalization to challenge the lack of market acceptance of our new products and technologies.

Lack of Profitability. To date, we have incurred significant losses. For the quarter ended May 31, 2008, our revenue was $229,222 versus $410,971 for the comparative quarter ended May 31, 2007. This decrease was due primarily to sales with two customers (Wellness and Food For Health) as detailed in the Results of Operations section below. Net losses for the quarter ended May 31, 2008 of $123,531 were significantly lower than net income in the comparative quarter ended May 31, 2007 of $133,316 as a result of a one-time, non-reoccurring legal settlement in the quarter ended May 31, 2007. We have a policy of not projecting sales and profits due to:

- lack of consistent sales to maintain profitability,
- significant legal and professional fees associated with regulated business activities and the SEC,
- reporting requirements, including continuing Sarbanes-Oxley requirements.

As a result of our history of operations, it is not possible for us to predict when, if ever, we may achieve profitability. If we continue to be unprofitable, we may eventually go out of business. As a result, investors may lose some or all of their investment.

Inherently Risky-Competition. Because we are a Company with no history of profitability, our operations will be extremely competitive and subject to numerous risks. The water filtration business is highly competitive with many companies having access to the same market. Substantially all of them have greater financial resources and longer operating histories than we have and can be expected to compete within the business in which we engage and intend to engage. There can be no assurance that we will have the necessary resources to be competitive. Therefore, investors should consider an investment in us to be an extremely risky venture.

Delays in the Development of New Products . We have a limited product line, and the development of some of our technologies has taken longer than anticipated and could be additionally delayed. Therefore, there can be no assurance of timely completion and introduction of improved products on a cost-effective basis, or that such products, if introduced, will achieve market acceptance such that, in combination with existing products, they will sustain us or allow us to achieve profitable operations.

Dependence Upon Technology. We are operating in a business that requires extensive and continuing research, development and testing efforts. There can be no assurance that new products will not render our products obsolete or non-competitive at some time in the future.

Protection of Technology. A successful challenge to the ownership of our technology could materially damage our business prospects. We rely principally on trade secrets as well as trade secret laws, two patents, two trademarks, copyrights, confidentiality procedures and licensing arrangements to protect our intellectual property rights. We currently have two U.S. patents issued and a license on two patents. Any issued patent may be challenged and invalidated. Patents may not be issued from any of our future applications. Any claims allowed from existing or future pending patents may not be of sufficient scope or strength to provide significant protection for our products. Patents may not be issued in all countries where our products can be sold so as to provide meaningful protection or any commercial advantage to us. Our competitors may also be able to design around our patents or the patents that we license.

Vigorous protection and pursuit of intellectual property rights or positions characterize our industry, which has resulted in significant and often protracted and expensive litigation. Therefore, our competitors may assert that our technologies or products infringe on their patents or proprietary rights. Problems with patents or other rights could increase the cost of our products or delay or preclude new product development and commercialization by us. If infringement claims against us are deemed valid, we may not be able to obtain appropriate licenses on acceptable terms or at all. Litigation could be costly and time-consuming but may be necessary to protect our future patent and/or technology license positions or to defend against infringement claims.

Competition. Technological competition from larger and more established companies is significant and expected to increase. Most of the companies with which we compete and expect to compete have far greater capital resources and more significant research and development staffs, marketing and distribution programs and facilities, and many of them have substantially greater experience in the production and marketing of products. Our ability to compete effectively may be adversely affected by the ability of these competitors to devote greater resources to the sale and marketing of their products than we can. In addition, one or more of our competitors may succeed or may already have succeeded in developing technologies and products that are more effective than any of those we currently offer or are developing. In addition, there can be no guarantee that we will be able to protect our technology from being copied or infringed upon. Therefore, there are no assurances that we will ever be able to obtain and to maintain a profitable position in the marketplace. However, no company to date has been able to match our technology or our cost.

Success Dependent Upon Management. Our success is dependent upon the decision making of our directors and executive officers. These individuals have made a full commitment to the business. The loss of any or all of these individuals could have a materially adverse impact on our operations. On December 1, 2001, we entered into an employment agreement with our President. During November 2004, the Company entered into consulting agreements with two officers to provide management consulting services.

Dependence on One or a Few Customers. For the quarter ended May 31, 2008, two customers (Emergency Essentials and Giles Butler) individually accounted for greater than 10 percent of total sales. In addition three other customers

(Healthy Directions, K-Ceuticals and Advanced Filtration) individually account for approximately 5% of total sales. Management believes that if the targeted revenues are not achieved within their current marketing and distribution agreements, the revenues can be replaced through the sale of filters and related products to other direct marketing companies. However, there can be no assurance that this will occur which could result in an adverse effect on the Company's financial condition or results of operations in the future.

Our Senior Management's Limited Experience Managing A Publicly Traded Company May Divert Management's Attention From Operations and Harm Our Business. Our management team has relatively limited recent experience managing a publicly traded company and complying with federal securities laws, including compliance with recently adopted disclosure requirements on a timely basis. Our management will be required to design and implement appropriate programs and policies in responding to increased legal, regulatory compliance and reporting requirements, and any failure to do so could lead to the imposition of fines and penalties and harm our business.

The Acquisition of Other Technologies Could Result In Operating Difficulties, Dilution and Other Harmful Consequences. We may selectively pursue strategic acquisitions, any of which could be material to our business, operating results and financial condition. Future acquisitions could divert management's time and focus from operating our business. In addition, integrating an acquired technology is risky and may result in unforeseen operating difficulties and expenditures.

The anticipated benefits of our future acquisitions may not materialize. Future acquisitions or dispositions could result in potentially dilutive issuances of our equity securities, including our common stock, the incurrence of debt, contingent liabilities or amortization expenses, or write-offs of intellectual properties any of which could harm our financial condition. Future acquisitions may also require us to obtain additional financing, which may not be available on favorable terms or at all.

We Face Risks Associated With Currency Exchange Rate Fluctuations. Although we currently transact business primarily in U.S. dollars, a large portion of our revenues and related cost of goods sold may be determined in foreign currencies if we continue to expand our international operations. Conducting business in currencies other than U.S. dollars subject the Company to fluctuations in currency exchange rates that could have a negative impact on our reported operating results. Fluctuations in the value of the U.S. dollar relative to other currencies may impact our revenue, cost of goods sold and operating gross margin and result in foreign currency translation gains and losses. Historically, we have not engaged in exchange rate hedging activities.

Changes to Financial Accounting or Other Standards May Affect Our Operating Results and Cause Us To Change Our Business Practices. We prepare our consolidated financial statements to conform to generally accepted accounting principles, or GAAP, in the United States. These accounting principles are subject to interpretation by the Financial Accounting Standards Board (FASB), the Securities and Exchange Commission, the Public Company Accounting Oversight Board and various other bodies. A change in those policies could have a significant effect on our reported results and may affect our reporting of transactions completed before a change is announced.

For example, the Company has used stock warrants, restricted stock, and other equity incentives as a fundamental component of our executive compensation packages. The Company believes that stock warrants and other equity incentives directly motivate our executives to maximize long-term stockholder value and, through the use of vesting, encourage executives to remain with the Company. In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 123(R), which requires that grants of equity incentives be recognized on the income statement based upon their fair values. In addition, regulations implemented by the NASDAQ National Market generally require stockholder approval for all equity incentives. We may, as a result of these changes, incur increased compensation costs, change our equity compensation strategy or find it difficult to attract, retain and motivate employees, each of which could materially and adversely affect our business, operating results and financial condition.

Our Financial Results Could Vary Significantly From Quarter to Quarter and Are Difficult to Predict. Our revenues and operating results could vary significantly from quarter to quarter because of a variety of factors, many of which are outside of the Company’s control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. In addition, we may not be able to predict our future revenues or results of operations. We base our current and future expense levels on our internal operating plans and anticipated sales levels, and our operating costs are to a large extent fixed. As a result, we may not be able to reduce our costs sufficiently to compensate for an unexpected shortfall in revenues, and even a small shortfall in revenues could disproportionately and adversely affect financial results for that period. In addition, any payments due to us from our customers may be delayed because of changes or issues with those customers’ processes.

If We Continue to Fail in Maintaining Effective Internal Control Over Financial Reporting, The Price of Our Common Stock May be Adversely Affected. We Have Determined That Our Internal Control Over Financial Reporting Have Material Weaknesses and Conditions That Need to Be Addressed, The Disclosure of Which May Have an Adverse Impact on the Price of Our Common Stock. We are required to establish and maintain appropriate internal control over financial reporting. Failure to establish those controls, or any failure of those controls once established, could adversely impact our public disclosure regarding our business, financial condition or results of operations. In addition, our future assessments of internal control over financial reporting may identify additional weaknesses and conditions that need to be addressed in our internal control over financial reporting or other matters that may raise concerns for investors. Any actual of perceived weaknesses and conditions that need to be addressed in our internal control over financial reporting, disclosure of management’s assessment of our internal control over financial reporting or disclosure of our independent registered public accounting firm’s attestation report, when applicable, on management’s assessment of our internal control over financial reporting may have an adverse impact of our common stock.

Standards for Compliance with Section 404 of the Sarbanes-Oxley Act of 2002 are Uncertain, and If We Fail to Comply in a Timely Manner, Our Business Could Be Harmed and Our Stock Price Could Decline. Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require annual assessment of our internal control over financial reporting, and attestation of our assessment by our independent registered public accounting firm. Currently, we believe these two requirements apply to our annual reports for fiscal 2008 and 2009, respectively. The standards that must be met for the management to assess the internal control over financial reporting as effective are evolving and complex, and require significant documentation, testing, and possible remediation to meet the detailed standards. We have incurred, and expect to incur, significant expenses and to devote resources to Section 404 compliance during the remainder of fiscal year 2009 and on an ongoing basis. It is difficult for us to predict how long it will take to complete the assessment of the effectiveness of our internal control over financial reporting for each year and to remediate any deficiencies in our internal control over financial reporting. As a result, we may not be able to complete the assessment and remediation process on a timely basis. In addition, the attestation process by our independent registered public accounting firm is new and we may encounter problems or delays in completing the implementation of any requested improvements and receiving an attestation of our assessment by our independent registered public accounting firm. In the event that our Chief Executive Officer, Chief Financial Officer, or independent registered public accounting firm determine that our internal control over financial reporting is not effective as defined under Section 404, we cannot predict how regulators will react of how the market prices of our shares will be affected, however, we believe that there is a risk that investor confidence and share value may be negatively impacted.

Maintaining and Improving Our Financial Controls and The Requirements Of Being a Public Company May Strain Our Resources, Divert Managements Attention and Affect Our Ability to Attract and Retain Qualified Members For Our Board of Directors. As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934 and the Sarbanes-Oxley Act of 2002. The requirements of these rules and regulations increase our legal, accounting, and financial compliance costs, make some activities more difficult, time-consuming and costly and may also place undue strain on our personnel, systems, and resources. The Sarbanes-Oxley Act of 2002 requires, among other things, that we maintain effective disclosure controls and procedures and internal controls over financial reporting. Fulfilling this requirement can be difficult to achieve and maintain.

We have a substantial effort ahead of us to remediate our control deficiencies and material weaknesses we have identified during the fiscal year 2008. As a result, management’s attention may be diverted from other business concerns, which could harm our business, operating results and financial condition. These efforts will also involve substantial accounting related costs.

Description of the Business.

We were incorporated under the laws of the State of Nevada on January 23, 1998 as a change of domicile to Royal Net, Inc., a Utah corporation that was originally incorporated on January 24, 1986. Royal Net, Inc. changed its state of domicile to Nevada and its name to Seychelle Environmental Technologies, Inc. effective in January 1998.

On January 30, 1998, we entered into an Exchange Agreement with Seychelle Water Technologies, Inc., a Nevada corporation (SWT), whereby we exchanged our issued and outstanding capital shares with the shareholders of SWT on a one share for one share basis. We became the parent company and SWT became a wholly owned subsidiary. SWT had been formed in 1997 to market water filtration systems of Aqua Vision International.

Our Company is presently comprised of Seychelle Environmental Technologies, Inc., a Nevada corporation, with one wholly-owned subsidiary, Seychelle Water Technologies, Inc., also a Nevada corporation (collectively, the Company or Seychelle). We use the trade name "Seychelle Water Filtration Products, Inc." in our commercial operations.

Seychelle designs and manufactures unique, state-of-the-art ionic adsorption micron filters that remove up to 99.99% of all pollutants and contaminants found in any fresh water source. Patents or trade secrets cover all proprietary products.

Our principal business address is 33012 Calle Perfecto, San Juan Capistrano, California 92675. Our telephone number at this address is 949-234-1999.

Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations

Results of Operations

Our summary historical financial data is presented in the following table to aid in your analysis. You should read this data in conjunction with this section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations, our condensed consolidated financial statements and the related notes to the condensed consolidated financial statements included elsewhere in this report. The selected condensed consolidated statements of operations data for the three months ended May 31, 2008 and 2007 are derived from our condensed consolidated financial statements included elsewhere in this report.

Three-month period ended May 31, 2008 compared to the corresponding period in 2007

Selected Financial Data	2007	2008	Year over year change	%
Sales	$ 410,971	$ 229,222	$ (181,749)	(44)
Cost of sales	$ 180,593	$ 129,134	$ (51,459)	(29)
Gross profit	$ 230,378	$ 100,088	$ (130,290)	(57)
Gross profit percentage	56%	44%	(12)%	
Selling expenses	13,115	6,808	(6,307)	(48)
General and administrative expenses	$ 205,103	$ 127,411	$ (77,692)	(38)
Compensation to executive officers	$ 17,500	$ 91,205	$ 73,705	421
Interest expense to related parties	$ 21,683	$ 8,660	$ (13,023)	(60)
Net income (loss)	$ 133,616	$ (123,531)	$ (257,147)	(192)

Sales. The decrease in sales is primarily due to decreases in sales to two of our main customers. We had approximately $157,000 in sales of 18 ounce bottles and related accessories to Food for Health in the three month period ended May 31, 2007 compared to $ 2,250 in sales in the three month period ended May 31, 2008.. This decrease in sales was further decreased by normal fluctuation of sales with a significant distributor. Sales to Wellness Enterprises decreased from approximately $176,000 in 2007 to $100 in 2008. An increase in additional sales took place in the quarter ended 2008 due to a discounted price on a bottle remaining from an abandoned sale. Overall, the number of bottles sold with or without filters decreased by approximately 51% (59,200 bottles during 2007 to 28,900 in 2008). The average sales price per bottle decreased by 26% from approximately $6.45 during 2007 to $4.79 during 2008.

Cost of sales and gross profit percentage. The decrease in cost of sales is primarily due to decreased sales as well as lower raw material cost. The average sales price per bottle decreased; however, the actual average cost per bottle decreased 32% from $2.56 as of May 31, 2007 to $1.75 as of May 31, 2008. This decrease is cost is primarily due to a majority of the sales during the three month period ended May 31, 2008 being sales of the remaining bottles from a failed sale that were completed and in inventory for over twelve months. As a percentage of sales, the gross profit margin during the three months ended May 31, 2008 decreased to 44% from 56% for the three months ended May 31, 2007.

Selling expenses. Selling expenses consist primarily of commissions paid to salespeople. The decrease in 2008 versus 2007 is a direct result of the decrease in sales with an increase in the amount of sales related to commissions.

General and administrative expenses. The decrease in general and administrative expenses was primarily due to a decrease in accounting fees of over $55,000 followed by a decrease in legal fees of approximately $6,000. The additional decrease was due to a decrease in allocated general and administrative expense.

Compensation to executive officers. The increase in compensation to executive officers for the three-month period ended May 31, 2008, compared to the three-month period ended May 31, 2007, is due to an additional 700,000 warrants being issued to two executive officers in April 2008. The warrants issued in April 2008 have a nine-month vesting period which valued $74,000 in the period. There was an additional value of $16,700 recognized due to warrants issued in December 2007 which will also vest in December This difference in compensation was partially offset by the Company paying a monthly stipend, commencing October 2006 of $2,500 to Messrs. Parsons and Place. The stipend to Mr. Place was reduced to $750 in July 2007 and subsequently reduced to $375 in November 2007. The stipend to Mr. Parson was reduced to $1,250 in November 2007. Total stipends paid during the three-month period ended May 31, 2007 were $15,000 while no stipends were paid during the three month period ended May 31, 2008.

Interest expense to related parties. The decrease in interest expense for the three-month period ended May 31, 2008, compared to the three-month period ended May 31, 2007, is due to the Company commencing to pay a monthly monitoring fee of $2,500 in the three month period ended May 31, 2007.

Net Income (loss). Net Loss for the three-month period ended May 31, 2008 was $123,531 compared to a net income of $133,616 for the three-month period ended May 31, 2007. This was primarily due to a legal settlement being received in the prior year and additional warrants being issued in the three month period ended May 31, 2008 which were booked as expense.

Liquidity and Capital Resources

Net cash used in operating activities. During the three-month period ended May 31, 2008, the Company funded its operations primarily through proceeds from financing through the TAM Trust while in the prior fiscal year, the Company primarily funded its operations by utilization of customer deposits to purchase raw materials and other production costs. During the three-month period ended May 31, 2008, the net loss of approximately $123,500 was offset by approximately $150,000 non-cash expenditures. These non-cash expenses relate primarily to approximately $135,000 in contributed executive services, and depreciation and amortization of approximately $16,000.

Net cash used in investing activities. During the three-month period ended May 31, 2008, the decrease in cash provided by investing activities was primarily due to the reduction of patents fees in the period and a reduction in property and equipment purchased.

Net cash provided by financing activities. The decrease in cash provided by financing activities during the three-month period ended May 31, 2007 was due to the decreased borrowing from the TAM Trust and a repayment of notes payable of approximately $22,000.

Our principal sources of liquidity have historically been funds generated from operating activities and borrowings from the TAM Trust, one of our principal shareholders. As of November 30, 2007, the TAM Trust has loaned the Company $396,088 under two financing arrangements structured as notes payable and a credit facility. The notes bear interest at 10% simple rate, and are repayable after March 1, 2011. The Company believes that despite the increase in sales experienced during the fiscal years ended February 28, 2006 and 2007 and the nine-month period ended November 30, 2007, additional funding may still be required from the TAM Trust or other shareholders. During June 2007, the TAM Trust committed to providing up to $250,000 in additional funding. Prior to September 2007, the TAM Trust has advanced the Company $175,000, which was subsequently reduced to approximately $96,900 with the restructuring of the airplane loan in September 2007, leaving $78,087 available from the TAM Trust if needed during fiscal year 2009. plus an additional $250,000 committed for in April 2008 by the TAM Trust.

As of May 31, 2008, the Company had $106,726 in cash and $-0- available borrowing under its line of credit. The line of credit does not contain any limitations on borrowing or any restrictive debt covenants. The Company believes it has liquidity and committed funds to meet its operating needs through the balance of fiscal 2008.

Critical Accounting Policies and Estimates

The Company’s discussion and analysis of its financial condition and results of operations are based upon its condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these condensed consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

The Company believes that the estimates, assumptions and judgments involved in the accounting policies described in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of its most recent fiscal 2008 Annual Report on Form 10-KSB have the greatest potential impact on its consolidated financial statements, so it considers these to be its critical accounting policies. Because of the uncertainty inherent in these matters, actual results could differ from the estimates the Company uses in applying the critical accounting policies. Certain of these critical accounting policies affect working capital account balances, including the policies for inventory reserves, impairment of long-lived assets and intangible assets, accounting for transactions which potentially could be settled in a company’s own stock and stock-based compensation. These policies require that the Company make estimates in the preparation of its consolidated financial statements as of a given date.

Within the context of these critical accounting policies, the Company is not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

Forward-Looking Statements

Certain statements contained herein are “forward-looking” statements. Forward-looking statements include statements which are predictive in nature; which depend upon or refer to future events or conditions; or which include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates”, or variations or negatives thereof or by similar or comparable words or phrases. In addition, any statement concerning future financial performance, ongoing business strategies or prospects, and possible future Company actions that may be provided by management are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties, and assumptions about the Company; and economic and market factors in the countries in which the Company does business, among other things. These statements are not guarantees of future performance, and the Company has no specific intentions to update these statements. Actual events and results may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors including, among others:

(1) the portable water filtration industry is in a state of rapid technological change, which can render the Company’s products obsolete or unmarketable;

(2) any failure by the Company to anticipate or respond to technological developments or changes in industry standards or customer requirements, or any significant delays in product development or introduction, could have a material adverse effect on the Company’s business, operating results and financial condition;

(3) the Company’s cost of sales may be materially affected by increases in the market prices of the raw materials used in the Company’s manufacturing processes;

(4) the Company’s water related product sales could be materially affected by weather conditions and government regulations;

(5) the Company is subject to the risks of conducting business internationally; and

(6) the industries in which the Company operates are highly competitive. Additional risks and uncertainties are outlined in the Company’s filings with the Securities and Exchange Commission, including its most recent fiscal 2008 Annual Report on Form 10-KSB.

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ITEM 3. CONTROLS AND PROCEDURES

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of February 29, 2008. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of February 29, 2008, our disclosure controls and procedures are not effective. During the quarter ended May 31, 2008 we initiated the process to engage a firm to design and implement a system of internal controls based upon the work recently completed for the Company in this area. The internal control system has not been in place for a sufficient period of time for our Chief Executive Officer and Chief Financial Officer to evaluate it's effectiveness. Accordingly, we will consider our controls and procedures inadequate until such an evaluation is completed.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Limitations on the Effectiveness of Internal Controls

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving our objectives and our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at that reasonable assurance level. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of May 31, 2008, we know of no legal proceedings pending or threatened or judgments entered against the Company or any of our directors or officers in his capacity as such.

ITEM 2. CHANGES IN SECURITIES

During the three-month period ended May 31, 2008, the Company issued 183,333 restricted shares to individuals as payment for notes payable with an approximate total value of $55,000. The Company also issued 15,000 restricted shares to the TAM Trust as payment for accrued interest with an approximate value of $6,000.

In April 2008, 55,000 shares of common stock were returned to the treasury.

In all of the transactions shown above, we have issued stop transfer orders concerning the transfer of certificates representing all the common stock issued and outstanding as reported in this section.

There have been no further issuances of securities through the date of this filing.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

We did not submit any matter to a vote of security holders through solicitation of proxies during the third quarter of the fiscal year covered by this report.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS IN FORM 8-K

(a) Exhibits

31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002)

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002)

32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C.ss.1350 Section 906 of the Sarbanes-Oxley Act of 2002)

32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C.ss.1350 Section 906 of the Sarbanes-Oxley Act of 2002)

(b) Reports on Form 8-K

Changes in Registrant's Certifying Accountant filed June 3, 2008

(a) Previous Independent Registered Public Accounting Firm

(i) On May 30, 2008, our Board of Directors voted to dismiss our independent registered public accounting firm, Windes & McClaughry Accountancy Corporation and to replace them with Moore & Associates, CHTD, of Las Vegas, Nevada. As of that date, Moore & Associates, CHTD formally accepted us as a client for the fiscal 2009 audit. Windes & McClaughry Accountancy Corporation has rendered opinions on our consolidated financial statements for the past two years.

(ii) The reports from Windes & McClaughry Accountancy Corporation for the year ended February 29, 2008 was modified to indicate:

1) Effective March 1, 2006, the Company adopted the fair value method of accounting for stock-based compensation as required by Statement of Financial Accounting Standards No. 123R, Share-Based Payment; and

2) Effective March 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, and interpretation of FASB Statement No. 109.

(iii) The dismissal of Windes & McClaughry Accountancy Corporation was approved by our Board of Directors.

(iv) During the years ended February 28, 2007, February 29, 2008 and through May 30, 2008, there were no disagreements between us and Windes & McClaughry Accountancy Corporation with respect to our accounting principles or practices, financial statement disclosure or audit scope or procedure, which, if not resolved to the satisfaction of Windes & McClaughry Accountancy Corporation, would have caused them to make reference to the subject matter of the disagreement in connection with their report. Further, the reports of Windes & McClaughry Accountancy Corporation for the past two years did not contain an adverse opinion or disclaimer of opinion, nor were they modified as to uncertainty, audit scope, or accounting principles, except as noted above.

(v) During the years ended February 28, 2007, February 29, 2008 and through May 30, 2008, other than as described below, there have been no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K other than the following material weaknesses:

1. The Company has a shortage of qualified information technology and financial reporting personnel due to limited financial resources and number of locations created an adjustment to our consolidated financial statements for fiscal 2008, which was not detected initially by management.

2. The Company did not maintain effective controls to ensure there is timely analysis and review of accounting records, spreadsheets, and supporting data. This control deficiency did not result in audit adjustments to the fiscal 2008 interim or annual consolidated financial statements. However, this control deficiency could result in a material misstatement of significant accounts or disclosures that would result in a material misstatement to the Company's interim or annual consolidated financial statements that would not be prevented or detected by employees in the normal course of their assigned functions. Accordingly, management has determined that this control deficiency constitutes a material weakness.

3. The Company did not effectively monitor access, maintain effective controls over change management and operational controls related to certain financial application data and operating systems. These control deficiencies did not result in audit adjustments to the fiscal 2008 interim or annual consolidated financial statements. However, these control deficiencies could result in a material misstatement of significant accounts or disclosures that would result in a material misstatement to the Company's interim or annual consolidated financial statements that would not be prevented or detected by employees in the normal course of their assigned functions. Accordingly, management has determined that these control deficiencies constitutes a material weakness.

4. The Company does not maintain a sufficient level of IT personnel to execute general computing controls over our information technology structure, which include the implementation and assessment of information technology policies and procedures. This control deficiency did not result in an audit adjustment to the fiscal 2008 interim or annual consolidated financial statements, but could result in a material misstatement of significant accounts or disclosures, which would not be prevented or detected by employees in the normal course of their assigned functions. Accordingly, management has determined that this control deficiency constitutes a material weakness.

The Company furnished Windes & McClaughry Accountancy Corporation with a copy of this Report on Form 8-K prior to filing with the U.S. Securities and Exchange Commission (SEC). The Company also requested that Windes & McClaughry Accountancy Corporation furnish it with a letter addressed to the SEC stating whether or not it agrees with the above statements. A copy of the letter furnished by Windes & McClaughry Accountancy Corporation in response to that request dated June 3, 2008 is filed as Exhibit 16.1 to this Report on Form 8-K.

We have authorized Windes & McClaughry Accountancy Corporation to respond fully to inquiries of Moore & Associates, CHTD concerning our financial statements.

(b) New Independent Registered Public Accounting Firm

We engaged Moore & Associates, CHTD as our new independent registered public accounting firm as of May 30, 2008. During the two most recent fiscal years and through May 30, 2008, the Company has not consulted with Moore & Associates, CHTD regarding any of the following:

(1) The application of accounting principles to a specific transaction, either completed or proposed or the type of audit opinion that might be rendered on the Company's consolidated financial statements, and neither a written report nor oral advice was provided to the Company by Moore & Associates, CHTD that Moore & Associates, CHTD concluded was an important factor considered by the Company in reaching a decision as to an accounting, auditing or financial reporting issue;

(2) Any matter that was the subject of a disagreement, as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K; or

(3) Any matter that was a reportable event, as that item is defined in Item 304(a)(1)(v) of Regulation S-K.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act OF 1934, the Registrant has duly caused this Form 10-QSB to be signed on its behalf by the undersigned, thereunto duly authorized.

	Seychelle Environmental Technologies, Inc.	
Date: July 10, 2008	By:	/s/ Carl Palmer Director, Chief Executive Officer and President
Date: July 10, 2008	By:	/s/ Jim Place Director and Chief Financial Officer and Chief Operating Officer

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