

Regeneca, Inc.  
Form 10-K  
June 29, 2011

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

**FORM 10-K**

X .

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

**For the Fiscal Year Ended December 31, 2009**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 000-30237**

**REGENECA, 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.)

**1 Technology Dr., Suite C-515**

**Irvine, CA 92618**

(Address of principal executive offices)

**(886) 925-9553**

(Registrant's telephone number, including area code)

with a copy to:

**Christopher A. Wilson, Esq.**

Wilson, Haglund & Paulsen, P.C.

9110 Irvine Center Drive

Irvine 92618

Telephone: (949) 752-1100 ext. 302

Facsimile (949) 752-1144

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. ☐ .



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

The aggregate market value of common stock held by non-affiliates of the Registrant on June 30, 2009 based on the closing price on that date of \$0.22 on the Over the Counter Bulletin Board was \$6,855,078. 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 ☐ . Accelerated filer ☐ .  
Non-accelerated filer ☐ . (Do not check if a smaller reporting company) ☒ X .

The number of shares of common stock outstanding as of December 31, 2009 was 102,150,306.

Documents incorporated by reference: None.

**REGENECA, INC.**

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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 may use words such as anticipate, expect, intend, plan, believe, foresee, 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;*

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*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;*

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*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*

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

*This report should be read 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, RGNA Ethos Environmental, Inc. , Ethos we, us and our are references to Regeneca, 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**

#### ***Subsequent Events***

This Annual Report on Form 10-K for the fiscal year ended December 31, 2009 is being filed with the Securities and Exchange Commission on or about June 28, 2011. Due to the delay in filing this report, a number of material subsequent events have occurred since December 31, 2009. These events include:

Regeneca International, Inc. ( Regeneca ) has merged into a subsidiary of the Company and the former shareholders of Regeneca were issued shares of Company common stock representing a majority of the outstanding shares (see Current Report on Form 8-K filed on January 4, 2011);

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In connection with the merger, the Company has adopted the business plan and product offerings of Regeneca as its primary business focus. Although the products offered and sold by Ethos prior to the merger have not been abandoned, the Company does not expect sales of the products described in this report to be material to the sales and revenue of the Company in the foreseeable future.

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The former officers and directors of Regeneca became the officers and directors of the Company.

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The Company has adopted the 2010 Incentive Plan and the Distributor Stock Incentive Plan (see the Definitive Information Statement on Form 14C filed on May 24, 2011).



On March 2009, a lawsuit was filed in the United States District Court, District of Utah, Central Division, against Ethos Environmental, Inc. by Republic Bank. The lawsuit alleges that the Company breached the terms of a Lease Agreement involving Mazuma Capital Corp. and Ethos. Republic Bank is seeking monetary damages and return of certain equipment. On February 9, 2011, Summary Judgment was entered in favor of Republic Bank. The Company and Republic Bank are finalizing the terms of a settlement agreement and anticipate it will be completed during the 2<sup>nd</sup> quarter of 2011.

This report describes the products and business strategy of the Company as at December 31, 2009, and does not reflect any of the material changes that have occurred since such date. This report was prepared by the former officers and directors of the Company and contain descriptions of, and statements of fact regarding, products, strategies and projections of which the current officers and directors have no personal knowledge. The Company believes that much of the contents of this report have been superseded by subsequent events, and readers should no place undue emphasis on the disclosure and information contained herein.

### ***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.

### ***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.

### **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 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 O<sub>2</sub> 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.

#### 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.

### 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 any pay the requisite renewal fees. We also have two pending Trademark registrations for ecoMates™ and Ethos Scientific™.

### *Competition*

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

### ***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 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.

### ***Offices***

As of December 31, 2009, our offices were located at 6800 Gateway Park Drive San Diego, CA 92154 and our telephone number was (619) 575-6800. Since December 31, 2009, we have moved our office to 1 Technology Drive, Suite C515, Irvine, CA 92618.

### ***Employees***

As of December 31, 2009, we employed 5 full-time employees and 0 part-time employees. None of our employees are 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.

## **WHERE YOU CAN GET ADDITIONAL INFORMATION**

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy our reports or other filings made with the SEC at the SEC's Public Reference Room, located at 100 F Street, N.W., Washington, DC 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You can also access these reports and other filings electronically on the SEC's web site, [www.sec.gov](http://www.sec.gov).

## **ITEM 1A. RISK FACTORS**

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

We do not own any real estate. At December 31, 2009, we rented, on a monthly basis, approximately 65,000 square feet of industrial/office space for \$63,000 per month. Since December 31, 2009, we have moved our office to 1 Technology Drive, Suite C515, Irvine, CA 92618, and rent approximately 8,700 square feet of space for \$11,000 per month, for general office purposes. It is our belief that the space is adequate for our immediate needs. Additional space may be required as we expand our operations. We do not foresee any significant difficulties in obtaining any required additional space.

## **ITEM 3. LEGAL PROCEEDINGS**

From time to time, we are involved in routine legal matters incidental to our business. In the opinion of management, the ultimate resolution of such matters will not have a material adverse effect on our financial position, results of operations or liquidity.

Consistent with Item 103 of Regulation S-K, we are presently involved in the following material pending legal proceedings not incidental to the business of the Company:

On May 21, 2008, a lawsuit was filed in Superior Court of Arizona, Maricopa County, by the Bedrock Group (a shareholder) naming the Company as a defendant. As of December 31, 2009, this lawsuit has been settled.

On November 19, 2008, the Company filed a lawsuit in Superior Court of California, San Diego County, against Enrique de Vilmorin, the Company's former Chief Executive Officer, and Sonia Dominguez, Mr. de Vilmorin's spouse. However, the Company dismissed this action without prejudicing the right to pursue this action in the future. The Company does not anticipate refiling as Mr. de Vilmorin is now deceased.

On March 2009, a lawsuit was filed in the United States District Court, District of Utah, Central Division, against Ethos Environmental, Inc. by Republic Bank. The lawsuit alleges that the Company breached the terms of a Lease Agreement involving Mazuma Capital Corp. and Ethos. Republic Bank is seeking monetary damages and return of certain equipment. On February 9, 2011, Summary Judgment was entered in favor of Republic Bank. The Company and Republic Bank are finalizing the terms of a settlement agreement and anticipate it will be completed during the 2<sup>nd</sup> quarter of 2011.

**ITEM 4. [REMOVED AND RESERVED]**

**PART II**

**ITEM 5.**

**MARKET FOR THE COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our shares of common stock are currently trading on the OTC Bulletin Board (OTCBB). Prior to November 16, 2006, our trading symbol was VICI. On November 16, 2006, to reflect our new name and the 1 for 1,200 stock split, our trading symbol was changed to ETEV. The OTCBB is a regulated quotation service that displays real-time quotes, last-sale prices, and volume information in over-the-counter equity securities. An OTCBB equity security generally is any equity that is not listed or traded on NASDAQ or a national securities exchange. The reported high and low bid and ask prices for the common stock are shown below for the period from January 1, 2008 through December 31, 2009.

**2008 Fiscal Year**

|  | <b>High<br/>Bid</b> | <b>Low<br/>Bid</b> |
|--|---------------------|--------------------|
| Fourth Quarter: 10/1/08 to<br>12/31/08 | \$ 0.27             | \$ 0.05            |
| Third Quarter: 7/1/08 to 9/30/08       | \$ 0.45             | \$ 0.13            |
| Second Quarter: 4/1/08 to 6/30/08      | \$ 0.71             | \$ 0.26            |
| First Quarter: 1/1/08 to 3/31/08       | \$ 2.14             | \$ 0.55            |

| <b>2009 Fiscal Year</b>                | <b>High<br/>Bid</b> | <b>Low<br/>Bid</b> |
|--|---------------------|--------------------|
| Fourth Quarter: 10/1/09 to<br>12/31/09 | \$ 0.26             | \$ 0.08            |
| Third Quarter: 7/1/09 to 9/30/09       | \$ 0.44             | \$ 0.10            |
| Second Quarter: 4/1/09 to 6/30/09      | \$ 0.59             | \$ 0.18            |
| First Quarter: 1/1/09 to 3/31/09       | \$ 0.21             | \$ 0.08            |

\*All of the prices indicated in the table above reflect the reverse stock split, which became effective November 16, 2006.

Our common stock is subject to rules adopted by the Commission regulating broker dealer practices in connection with transactions in penny stocks. Those disclosure rules applicable to penny stocks require a broker dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized list disclosure document prepared by the Securities and Exchange Commission. That disclosure document advises an investor that investment in penny stocks can be very risky and that the investor's salesperson or broker is not an impartial advisor but rather paid to sell the shares. The disclosure contains further warnings for the investor to exercise caution in connection with an investment in penny stocks, to independently investigate the security, as well as the salesperson with whom the investor is working and to understand the risky nature of an investment in this security. The broker dealer must also provide the customer with certain other information and must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. Further, the rules require that, following the proposed transaction, the broker provide the customer with monthly account statements containing market information about the prices of the securities.

These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for our common stock. Many brokers may be unwilling to engage in transactions in our common stock because of the added disclosure requirements, thereby making it more difficult for stockholders to dispose of their shares.

### ***Holders***





As of December 31, 2009, there were 762 holders of record of our common stock.

### ***Dividends***

We have not paid any cash dividends on our common stock since inception and presently anticipate that all earnings, if any, will be retained for development of our business and that no dividends on our common stock will be declared in the foreseeable future. Any future dividends will be subject to the discretion of our Board of Directors and will depend upon, among other things, future earnings, operating and financial condition, capital requirements, general business conditions and other pertinent facts. Therefore, there can be no assurance that any dividends on our common stock will be paid in the future.

### ***Securities Authorized for Issuance Under Equity Compensation Plans***

On November 20, 2006, the board of directors adopted the 2006 Stock Incentive Plan or the 2006 Plan. The 2006 Plan reserves 3,500,000 shares of our common stock for issuance in connection with stock options, stock awards and other equity-based awards.

### ***Recent Sales of Unregistered Securities***

None, other than those set forth in the Form 8-Ks filed during the year ended December 31, 2009, those set forth elsewhere in this Report, and those filed on Form 8-Ks subsequent to December 31, 2009 and through the date of this Report.

## **ITEM 6.**

### **SELECTED FINANCIAL DATA**

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

## **ITEM 7.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.**

*The following discussion should be read in conjunction with our audited financial statements and notes thereto included herein. In connection with, and because we desire to take advantage of, the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we caution readers regarding certain forward looking statements in the following discussion and elsewhere in this report and in any other statement made by, or on our behalf, whether or not in future filings with the Securities and Exchange Commission. Forward-looking statements are statements not based on historical information and which relate to future operations, strategies, financial results or other developments. Forward looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward looking statements made by, or our behalf. We disclaim any obligation to update forward-looking statements.*

## **Results of Operations and Analysis of Financial Condition**

### ***Working Capital***

|                           | December 31,<br>2009 | December 31,<br>2008 |
|---------------------------|----------------------|----------------------|
|                           | \$                   | \$                   |
| Current Assets            | 452,225              | 371,328              |
| Current Liabilities       | 4,076,707            | 2,610,449            |
| Working Capital (Deficit) | (3,624,482)          | (2,239,121)          |

### ***Cash Flows***

|  | December 31,<br>2009 | December 31,<br>2008 |
|--|----------------------|----------------------|
|  | \$                   | \$                   |
| Cash Flows from (used in) Operating Activities | (2,208,963)          | (1,420,039)          |
| Cash Flows from (used in) Investing Activities | -                    | (32,962)             |
| Cash Flows from (used in) Financing Activities | 2,484,685            | 1,451,057            |
| Net Increase (decrease) in Cash During Period  | 275,722              | (1,944)              |



### ***Operating Revenues***

During the year ended December 31, 2009, the Company recognized revenues of \$1,187,605 compared with \$2,357,553 for the year ended December 31, 2008, a decrease of 49.6%. The decrease in overall sales revenue was a result of the cancellation of a sales agreement with Ethos East that was not extended and no new sales agreement with vendors were signed by the Company during the year. The Company's primary source of revenue is from the sale of *Ethos FR*®. Other components of revenue include freight and service.

### ***Gross Profit***

Gross profit for the year ended December 31, 2009, defined as revenues less cost of goods sold, was \$681,220 or 57.4% of sales compared with \$934,795 or 39.7% for the year ended December 31, 2008. The increase in gross profit margin was attributed to the fact that the Company cancelled its sales agreement with Ethos East in 2009, as the sales agreement provided lower margins on the Company's product. The cancellation of the agreement resulted in lower sales revenue, lower gross profit, but a higher gross margin in fiscal 2009 compared with fiscal 2008.

### ***Operating Expenses***

The Company's current operating expenses are comprised of costs associated with general and administrative costs such as staff salaries, consulting, marketing, and legal and accounting, and selling expenses such as marketing and business development.

### ***Depreciation Expense***

For the year ended December 31, 2009, the Company incurred depreciation expense of \$35,709 compared to \$81,326 for the year ended December 31, 2008. The decrease in depreciation expense was attributed to the full amortization of a significant number of office equipment and furniture of the Company. The Company's amortization policy is to amortize production and office equipment on a straight-line basis over a 5-year period, and amortize building costs straight-line basis over a 25-year period.

### ***General and Administrative***

For the year ended December 31, 2009, the Company incurred general and administrative expense of \$13,138,062 compared with \$8,177,162 for the year ended December 31, 2008. The increase in general and administrative expense is attributed to issuance of \$9,478,316 of common shares for services, settlement of debt, and repayment of registration rights compared with \$4,308,248 during the year ended December 31, 2008. This was offset by a decrease in stock-based compensation expense from \$775,184 during the year ended December 31, 2008 to \$666,664 during the year ended December 31, 2009.

#### *Selling Expense*

For the year ended December 31, 2009, the Company incurred selling expense of \$345,854 compared with \$273,960 for the year ended December 31, 2008 and is related to marketing and business development expenditures that were settled by the issuance of common shares. The increase in selling expense was attributed to increased marketing and advertising costs incurred by the Company in its efforts to obtain new sales agreements in fiscal 2009.

#### *Other Income (Expenses)*

#### *Interest Expense*

For the year ended December 31, 2009, the Company incurred interest expense of \$347,309 compared with \$199,119 for the year ended December 31, 2008. The increase in interest expense is attributed to the fact that the Company issued \$1,125,000 of 12% and 10% units and \$483,420 of promissory notes payable during the year which resulted in a higher base for interest expense for the year ended December 31, 2009.

#### *Net Loss*

For the year ended December 31, 2009, the Company incurred a net loss of \$13,049,479, or a loss per share of \$0.24 per share, compared with a net loss of \$7,595,635 or loss per share of \$0.19 per share for the year ended December 31, 2008. The increase in net loss and loss per share was attributed to an increase in the fair value of stock-based compensation expense as the Company issued \$5,170,068 more stock-based compensation due to the settlement of outstanding rent, interest payment, and services owing in November 2009.



### ***Liquidity and Capital Resources***

As at December 31, 2009, the Company's cash balance was \$347,954 and total assets were \$893,134 compared to cash of \$72,232 and total assets of \$835,446 as at December 31, 2008. The increase in cash was attributed to additional proceeds of \$2,484,685 from the issuance of promissory notes and convertible debentures that were unused, as the Company settled a significant portion of its outstanding obligations and amounts owing through the issuance of common shares as settlement. The net increase in total assets were attributed to an increase of \$275,722 in the cash balance offset by the decrease of \$133,466 in inventory as the Company did not have its sales agreement with Ethos East and lowered its overall inventory holdings, decrease of \$61,359 due to collection of outstanding accounts receivable and write-off of uncollectible items, and decrease of \$35,709 in property and equipment due to annual amortization as the Company did not purchase any new capital assets during fiscal 2009.

As at December 31, 2009, the Company had total liabilities of \$4,076,707 compared with total liabilities of \$2,610,449 as at December 31, 2008. The increase in total liabilities of \$1,466,258 was due to an increase in promissory notes of \$483,420 and \$740,924 from the issuance of \$1,125,000 12% and 10% units of convertible notes, of which a portion of the face value was discounted to recognize the fair value of the convertibility feature of the notes. Furthermore, accounts payable and accrued liabilities increased by \$241,914 due to timing differences between the incurrence of operating expenditures and the payment of the outstanding obligations.

As at December 31, 2009, the Company has a working capital deficit of \$3,624,482 compared with \$2,239,121 at December 31, 2008 and the decrease in working capital is due to use of proceeds received from the issuance of promissory notes and convertible notes to be used to repay outstanding general operating expenses, which deflates the current assets while the debt remains outstanding. The Company's outstanding promissory notes and convertible debentures do not carry any debt covenants that may impact the Company's current or future operating and strategic objectives.

### ***Cashflow from Operating Activities***

During the year ended December 31, 2009, the Company used \$2,208,963 of cash for operating activities compared to the use of \$1,420,039 of cash for operating activities during the year ended December 31, 2008. The increase in the use of cash for operating activities was attributed to the fact that the Company paid for outstanding and current obligations with existing cash raised from debt financing received during the year.

### ***Cashflow from Investing Activities***

During the year ended December 31, 2009, the Company used \$nil of cash for investing activities compared to the use of \$32,962 of cash for investing activities during the year ended December 31, 2008. The use of cash for investing

activities was related to the purchase of property and equipment.

### ***Cashflow from Financing Activities***

During the year ended December 31, 2009, the Company raised proceeds of \$2,484,685 from financing activities compared to receipt of \$1,451,057 of financing from financing activities during the year ended December 31, 2008. In 2009, the Company raised \$2,484,685 from the issuance of promissory notes and convertible debentures whereas in prior year, the Company raised \$1,431,580 from promissory notes and convertible debentures, \$420,000 from common shares, and repaid \$350,000 of promissory notes, and \$50,523 to related parties.

### **Loan Facilities**

On February 7, 2007, the Company entered into an equipment lease agreement with Mazuma Capital Corp. wherein the Company agreed to a 24-month sale and leaseback arrangement for up to \$800,000 of its manufacturing equipment. The lease calls for a monthly payment based on a factor of .04125 times the average outstanding loan balance during the month.

The contract for this sale and leaseback of equipment should be accounted for as an operating lease per SFAS 13 and 28, and will be shown as such as at December 31, 2008. There is no bargain purchase option at the end of the lease, and neither the 75% nor the 90% test has been met. The title may pass back to the Company at the end of the lease; however, the lease may also be continued at the end of the 24 month period.



### **Going Concern**

The consolidated financial statements have been prepared on a going concern basis, which implies that the Company will continue to realize its assets and discharge its liabilities in the normal course of business. During the year ended December 31, 2009, the Company recognized sales revenue of \$1,187,605 but incurred a net loss of \$13,049,479. At December 31, 2009, the Company had a working capital deficit of \$3,624,482 and an accumulated deficit of \$65,211,877. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability to raise equity or debt financing, and the attainment of profitable operations from the Company's future business. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

### **Off-Balance Sheet Arrangements**

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

### **Critical Accounting Policies**

#### ***Use of Estimates***

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to valuation allowances on accounts receivable and inventory, valuation and amortization policies on property and equipment, and valuation allowances on deferred income tax losses. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

#### ***Revenue Recognition***

The Company will recognize revenue from the sale of its fuel reformulating products in accordance with ASC 605, *Revenue Recognition*. Revenue will be recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is provided, and collectibility is assured.

### ***Stock-Based Compensation***

The Company records stock-based compensation in accordance with ASC 718, *Share-Based Payments*, using the fair value method. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. Equity instruments issued to employees and the cost of the services received as consideration are measured and recognized based on the fair value of the equity instruments issued.

### **Recent Accounting Pronouncements**

In March 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-11 (ASU 2010-11), *Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives*. The amendments in this Update are effective for each reporting entity at the beginning of its first fiscal quarter beginning after June 15, 2010. Early adoption is permitted at the beginning of each entity's first fiscal quarter beginning after issuance of this Update. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

In February 2010, the FASB Accounting Standards Update 2010-10 (ASU 2010-10), *Consolidation (Topic 810): Amendments for Certain Investment Funds*. The amendments in this Update are effective as of the beginning of a reporting entity's first annual period that begins after November 15, 2009 and for interim periods within that first reporting period. Early application is not permitted. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-09 Subsequent Events (ASC Topic 855) Amendments to Certain Recognition and Disclosure Requirements (ASU No. 2010-09). ASU No. 2010-09 requires an entity that is an SEC filer to evaluate subsequent events through the date that the financial statements are issued and removes the requirement for an SEC filer to disclose a date, in both issued and revised financial statements, through which the filer had evaluated subsequent events. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

In January 2010, the FASB issued an amendment to ASC 820, Fair Value Measurements and Disclosure, to require reporting entities to separately disclose the amounts and business rationale for significant transfers in and out of Level 1 and Level 2 fair value measurements and separately present information regarding purchase, sale, issuance, and settlement of Level 3 fair value measures on a gross basis. This standard is effective for interim and annual reporting periods beginning after December 15, 2009 with the exception of disclosures regarding the purchase, sale, issuance, and settlement of Level 3 fair value measures which are effective for fiscal years beginning after December 15, 2010. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

In October 2009, FASB issued an amendment to the accounting standards related to the accounting for revenue in arrangements with multiple deliverables including how the arrangement consideration is allocated among delivered and undelivered items of the arrangement. Among the amendments, this standard eliminated the use of the residual method for allocating arrangement considerations and requires an entity to allocate the overall consideration to each deliverable based on an estimated selling price of each individual deliverable in the arrangement in the absence of having vendor-specific objective evidence or other third party evidence of fair value of the undelivered items. This standard also provides further guidance on how to determine a separate unit of accounting in a multiple-deliverable revenue arrangement and expands the disclosure requirements about the judgments made in applying the estimated selling price method and how those judgments affect the timing or amount of revenue recognition. This standard, for which the Company is currently assessing the impact, will become effective on January 1, 2011.

The Company has implemented all new accounting pronouncements that are in effect. These pronouncements did not have any material impact on the financial statements unless otherwise disclosed, and the Company does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

#### **ITEM 7A.**

#### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.



**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Ethos Environmental Inc.**

Consolidated Financial Statements

For the Years Ended December 31, 2009 and 2008

Report of Independent Registered Public Accounting Firm

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Consolidated Balance Sheets

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Consolidated Statements of Operations

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Consolidated Statements of Cash Flows

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Consolidated Statements of Stockholders' Equity (Deficit)

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors

Ethos Environmental, Inc.

We have audited the accompanying balance sheets Ethos Environmental, Inc. as of December 31, 2009 and 2008, and the related statements of operations, stockholders' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ethos Environmental, Inc. as of December 31, 2009 and 2008, and the results of its operations and cash flows for the periods described above in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*/s/M&K CPAS, PLLC*

www.mkacpas.com

Houston, Texas

June 24, 2011

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**Ethos Environmental Inc.**

## Consolidated Balance Sheets

(expressed in US dollars)

|  | December 31,<br>2009<br>\$ | December 31,<br>2008<br>\$(Restated Note<br>14) |
|--|----------------------------|---|
| <b>ASSETS</b>  |                            |   |
| Cash   | 347,954                    | 72,232  |
| Accounts receivable  | 14,593                     | 75,952  |
| Inventory  | 89,678                     | 223,144   |
| Total Current Assets   | 452,225                    | 371,328   |
| Property and equipment   | 22,992                     | 58,701  |
| Other assets   | 417,917                    | 405,417   |
| Total Assets   | 893,134                    | 835,446   |
| <b>LIABILITIES</b>   |                            |   |
| Current liabilities  |                            |   |
| Accounts payable   | 1,003,374                  | 899,816   |
| Accrued liabilities  | 464,231                    | 325,875   |
| Note payable - current   | 1,750,000                  | 1,266,580                                       |
| Convertible debenture  | 859,102                    | 118,178   |
| Total Liabilities  | 4,076,707                  | 2,610,449                                       |
| <b>STOCKHOLDERS' EQUITY (DEFICIT)</b>  |                            |   |
| Common stock   |                            |   |
| Authorized: 100,000,000 shares, par value of \$0.001                           |                            |   |
| Issued and outstanding: 102,150,306 and 43,493,958 common shares, respectively | 10,215                     | 4,349   |
| Additional paid-in capital   | 61,986,314                 | 50,229,296                                      |
| Common stock issuable  | 31,775                     | 153,750   |
| Accumulated deficit  | (65,211,877)               | (52,162,398)                                    |

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|   |             |             |
|---|-------------|-------------|
| Total Stockholders Equity (Deficit)                 | (3,183,573) | (1,775,003) |
| Total Liabilities and Stockholders Equity (Deficit) | 893,134     | 835,446     |

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

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**Ethos Environmental Inc.**

## Consolidated Statements of Operations

(expressed in US dollars)

|                              | For the<br>Year Ended<br>December 31,<br>2009 | For the Year<br>Ended December<br>31,<br>2008 |
|------------------------------|---|---|
|                              | \$  | \$  |
|                              |   | (Restated Note<br>14)                         |
| Revenue                      | 1,187,605                                     | 2,357,553                                     |
| Cost of sales                | 506,385                                       | 1,422,758                                     |
| Gross profit                 | 681,220                                       | 934,795                                       |
| Operating Expenses           |   |   |
| Depreciation                 | 35,709  | 81,326  |
| General and administrative   | 13,138,062                                    | 8,177,162                                     |
| Selling expense              | 345,854                                       | 273,960                                       |
| Total Operating Expenses     | 13,519,625                                    | 8,532,448                                     |
| Net Operating Loss           | (12,838,405)                                  | (7,597,653)                                   |
| Other income (expense)       |   |   |
| Interest expense             | (347,309)                                     | (199,119)                                     |
| Gain on forgiveness of debt  |   | 195,998                                       |
| Other income                 | 136,235                                       | 5,139   |
| Total Other Income (Expense) | (211,074)                                     | 2,018   |
| Net Loss                     | (13,049,479)                                  | (7,595,635)                                   |

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|                                     |                   |            |            |
|-------------------------------------|-------------------|------------|------------|
| Net Loss per Share                  | Basic and Diluted | (0.24)     | (0.19)     |
| Weighted Average Shares Outstanding | Basic and Diluted | 53,774,484 | 39,397,310 |

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

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**Ethos Environmental Inc.**

## Consolidated Statements of Cash Flows

(expressed in US dollars)

|   | For the<br>Year Ended<br>December 31,<br>2009<br>\$ | For the Year<br>Ended<br>December 31,<br>2008<br>\$<br>(Restated<br>Note 14) |
|---|---|--|
| Operating Activities  |   |  |
| Net loss for the year   | (13,049,479)  | (7,595,635)  |
| Adjustments to net loss relating to non-cash operating items: |   |  |
| Accretion of discounts on convertible debt                    | 235,588   | 53,709   |
| Bad debt expense  |   | 18,942   |
| Depreciation  | 35,709  | 81,326   |
| Gain on forgiveness of debt                                   |   | (195,998)  |
| Shares issued for services                                    | 9,063,392   | 1,286,007  |
| Shares issued for incentive purposes                          | 227,271   |  |
| Shares issued for settlement and conversion of debt           | 187,653   |  |
| Shares issued for registration rights                         |   | 3,022,241  |
| Stock-based compensation                                      | 666,664   | 775,184  |
| Changes in operating assets and liabilities:                  |   |  |
| Accounts receivable   | 61,359  | (94,894)   |
| Inventory   | 133,466   | 379,255  |
| Other assets  | (12,500)  | (5,998)  |
| Accounts payable and accrued liabilities                      | 241,914   | 855,822  |
| Net Cash Used In Operating Activities                         | (2,208,963)   | (1,420,039)  |
| Investing Activities  |   |  |
| Purchase of property and equipment                            |   | (32,962)   |

|   |           |           |
|---|-----------|-----------|
| Net Cash Used In Investing Activities                       |           | (32,962)  |
| Financing Activities  |           |           |
| Proceeds from issuance of common shares and shares issuable |           | 420,000   |
| Proceeds from issuance of notes payable                     | 2,484,685 | 1,431,580 |
| Repayment of notes payable                                  |           | (350,000) |
| Repayment of notes payable related party                    |           | (50,523)  |
| Net Cash Provided By Financing Activities                   | 2,484,685 | 1,451,057 |
| Increase (decrease) in cash                                 | 275,722   | (1,944)   |
| Cash beginning of period                                    | 72,232    | 74,176    |
| Cash end of period  | 347,954   | 72,232    |
| Supplemental disclosures                                    |           |           |
| Interest paid   |           |           |
| Income tax paid   |           |           |
| Non-cash investing and financing activities                 |           |           |
| Shares issued for settlement of debt                        | 691,265   |           |
| Cancellation of common shares                               | (21)      | (1,360)   |

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

**Ethos Environmental Inc.**

## Consolidated Statement of Stockholders Equity (Deficit)

For the Period from January 1, 2008 to December 31, 2009

|  | Common Stock<br># | Amount<br>\$ | Additional<br>Paid-in<br>Capital<br>\$ | Common<br>Stock<br>Issuable<br>\$ | Accumulated<br>Deficit<br>\$ | Total<br>\$ |
|--|-------------------|--------------|--|-----------------------------------|------------------------------|-------------|
| Balance, December 31, 2007<br>(Restated Note 14)   | 37,998,562        | 3,800        | 44,779,632                             |                                   | (44,566,763)                 | 216,669     |
| Issuance of shares for cash at \$0.33<br>per share | 909,091           | 91           | 299,909                                |                                   |                              | 300,000     |
| Issuance of shares for services                    | 5,720,877         | 572          | 1,251,685                              |                                   |                              | 1,252,257   |
| Issuance of shares for registration<br>rights      | 12,465,428        | 1,246        | 3,020,995                              |                                   |                              | 3,022,241   |
| Cancellation of shares                             | (13,600,000)      | (1,360)      | 1,360                                  |                                   |                              |             |
| Common shares issuable                             |                   |              |  | 153,750                           |                              | 153,750     |
| Fair value of stock options granted                |                   |              | 403,047                                |                                   |                              | 403,047     |
| Fair value of warrants granted                     |                   |              | 372,137                                |                                   |                              | 372,137     |
| Beneficial conversion of convertible<br>debt       |                   |              | 100,531                                |                                   |                              | 100,531     |
| Net loss for the year                              |                   |              |  |                                   | (7,595,635)                  | (7,595,635) |
| Balance, December 31, 2008<br>(Restated Note 14)   | 43,493,958        | 4,349        | 50,229,296                             | 153,750                           | (52,162,398)                 | (1,775,003) |
| Issuance of shares for cash at \$0.20<br>per share | 600,000           | 60           | 119,940                                | (120,000)                         |                              |             |
| Issuance of shares for services                    | 52,559,401        | 5,256        | 9,060,111                              | (33,750)                          |                              | 9,031,617   |
| Issuance of incentive shares                       | 571,500           | 57           | 227,214                                |                                   |                              | 227,271     |

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|   |             |        |            |              |              |             |
|---|-------------|--------|------------|--------------|--------------|-------------|
| Issuance of shares for conversion of debt | 4,135,447   | 414    | 748,504    |              |              | 748,918     |
| Issuance of shares for settlement of debt | 1,000,000   | 100    | 129,900    |              |              | 130,000     |
| Cancellation of shares                    | (210,000)   | (21)   | 21         |              |              |             |
| Common shares issuable                    |             |        |            | 31,775       |              | 31,775      |
| Fair value of stock options granted       |             |        | 183,398    |              |              | 183,398     |
| Fair value of warrants granted            |             |        | 453,541    |              |              | 453,541     |
| Beneficial conversion of convertible debt |             |        | 834,389    |              |              | 834,389     |
| Net loss for the year                     |             |        |            | (13,049,479) | (13,049,479) |             |
| Balance, December 31, 2009                | 102,150,306 | 10,215 | 61,986,314 | 31,775       | (65,211,877) | (3,183,573) |

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



**Ethos Environmental Inc.**

Notes to the Consolidated Financial Statements

(expressed in US dollars)

**1.**

**Nature of Operations and Continuance of Business**

Ethos Environmental, Inc. (the Company) was incorporated under the laws of the State of Nevada on January 19, 1926 as Omo Mining and Leasing Corporation. On January 19, 1929, the Company changed its name to Omo Mines Corporation. On November 14, 1936, the Company changed its name to Kaslo Mines Corporation. On December 24, 1977, the Company changed its name to Victor Industries, Inc., focused on the development, manufacturing, and marketing of products related to zeolite, a metal used for the production of toxic chemical absorbents, water softeners, gas absorbents, radiation absorbents and soil and fertilizer amendments. On November 2, 2006, the Company acquired 100% of the issued and outstanding common shares of Ethos Environmental, Inc, a Nevada company specializing in the manufacturing and distribution of fuel reformulating products.

*Going Concern*

These consolidated financial statements have been prepared on a going concern basis, which implies that the Company will continue to realize its assets and discharge its liabilities in the normal course of business. During the year ended December 31, 2009, the Company recognized sales revenue of \$1,187,605 but incurred a net loss of \$13,049,479. At December 31, 2009, the Company had a working capital deficit of \$3,624,482 and an accumulated deficit of \$65,211,877. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability to raise equity or debt financing, and the attainment of profitable operations from the Company's future business. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

**2.**

**Summary of Significant Accounting Policies**

a)

#### Basis of Presentation and Principles of Consolidation

These consolidated financial statements and related notes are presented in accordance with accounting principles generally accepted in the United States, and are expressed in US dollars. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Ethos Environmental Inc. All intercompany transactions have been eliminated. The Company's fiscal year-end is December 31.

b)

#### Use of Estimates

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to valuation allowances on accounts receivable and inventory, valuation and amortization policies on property and equipment, and valuation allowances on deferred income tax losses. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

c)

#### Cash and Cash Equivalents

The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents. As of December 31, 2009 and 2008, the Company had no cash equivalents.

**Ethos Environmental Inc.**

Notes to the Consolidated Financial Statements

(expressed in US dollars)

**2.**

**Summary of Significant Accounting Policies** (continued)

d)

Accounts Receivable

Accounts receivable are stated at their principal balances and are non-interest bearing and unsecured. Management conducts a periodic review of the collectability of accounts receivable and deems all unpaid amounts greater than 30 days to be past due. If uncertainty exists with respect to the recoverability of certain amounts based on historical experience or economic climate, management will establish an allowance against the outstanding receivables. At December 31, 2009 and 2008, the Company recorded an allowance for doubtful accounts of \$nil and \$18,942, respectively.

e)

Inventory

Inventory is comprised of raw materials, work-in-progress, and finished goods of its fuel reformulating products and is recorded at the lower of cost or net realizable value on a first in first out (FIFO) basis. The Company establishes inventory reserves for estimated obsolete or unmarketable inventory equal to the differences between the cost of inventory and the estimated realizable value based upon assumptions about future and market conditions. Shipping and handling costs are classified as a component of cost of sales in the statement of operations.

f)

Property and Equipment

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the anticipated lease term or the estimated useful life. The Company's policy is to capitalize items with a cost greater than \$4,000 and an estimated useful life greater than one year. The Company reviews all property and equipment for impairment at least annually. Typically, the company amortizes its assets over a 5-year period , with the exception of building which is amortized on a 25-year basis.

g)

#### Revenue Recognition

The Company will recognize revenue from the sale of its fuel reformulating products in accordance with ASC 605, *Revenue Recognition*. Revenue will be recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is provided, and collectibility is assured.

h)

#### Basic and Diluted Net Loss Per Share

The Company computes net loss per share in accordance with ASC 260, *Earnings Per Share*, which requires presentation of both basic and diluted earnings per share (EPS) on the face of the income statement. Basic EPS is computed by dividing net loss available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti dilutive. As at December 31, 2009 and 2008, the Company had no potentially dilutive shares as net income per share was negative.

i)

#### Comprehensive Loss

ASC 220, *Comprehensive Income*, establishes standards for the reporting and display of comprehensive loss and its components in the financial statements. As at December 31, 2009 and 2008, the Company has no items that represent comprehensive loss and, therefore, has not included a schedule of comprehensive loss in the financial statements.

j)

#### Financial Instruments

ASC 820, *Fair Value Measurements*, requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. It prioritizes the inputs into three levels that may be used to measure fair value:

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**Ethos Environmental Inc.**

Notes to the Consolidated Financial Statements

(expressed in US dollars)

**2.**

**Summary of Significant Accounting Policies** (continued)

*Level 1*

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

*Level 2*

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

*Level 3*

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company's financial instruments consist principally of cash, accounts receivable, other assets, accounts payable, and accrued liabilities. Pursuant to ASC 820, the fair value of cash is determined based on Level 1 inputs, which consist of quoted prices in active markets for identical assets. The recorded values of all other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

k)

#### Foreign Currency Translation

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

l)

#### Advertising Costs

Advertising costs are expensed as incurred and are recorded in the consolidated financial statements as selling expense. For the years ended December 31, 2009 and 2008, the Company recorded advertising costs of \$36,627 and \$152,260, respectively.

m)

#### Stock-based Compensation

The Company records stock-based compensation in accordance with ASC 718, *Share-Based Payments*, using the fair value method. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. Equity instruments issued to employees and the cost of the services received as consideration are measured and recognized based on the fair value of the equity instruments issued.

n)

#### Impairment of Long-lived Assets

The Company evaluates the recoverability of long-lived assets and the related estimated remaining lives at each balance sheet date. The Company records an impairment or change in useful life whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed.

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**Ethos Environmental Inc.**

Notes to the Consolidated Financial Statements

(expressed in US dollars)

**2.**

**Summary of Significant Accounting Policies** (continued)

o)

**Income Taxes**

The Company accounts for income taxes using the asset and liability method in accordance with ASC 740, *Income Taxes*. The asset and liability method provides that deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company records a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

As of December 31, 2009 and 2008, the Company did not have any amounts recorded pertaining to uncertain tax positions.

The Company files federal and provincial income tax returns in Canada. The Company may be subject to a reassessment of federal and provincial income taxes by Canadian tax authorities for a period of three years from the date of the original notice of assessment in respect of any particular taxation year. For Canadian and U.S. income tax returns, the open taxation years range from 2002 to 2011. Tax authorities of Canada have not audited any of the Company's income tax returns for the open taxation years noted above.

The Company recognizes interest and penalties related to uncertain tax positions in tax expense. During the years ended December 31, 2009 and 2008, there were no charges for interest or penalties.

p)

## Recent Accounting Pronouncements

In March 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-11 (ASU 2010-11), Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives. The amendments in this Update are effective for each reporting entity at the beginning of its first fiscal quarter beginning after June 15, 2010. Early adoption is permitted at the beginning of each entity's first fiscal quarter beginning after issuance of this Update. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

In February 2010, the FASB Accounting Standards Update 2010-10 (ASU 2010-10), Consolidation (Topic 810): Amendments for Certain Investment Funds. The amendments in this Update are effective as of the beginning of a reporting entity's first annual period that begins after November 15, 2009 and for interim periods within that first reporting period. Early application is not permitted. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-09 Subsequent Events (ASC Topic 855) Amendments to Certain Recognition and Disclosure Requirements (ASU No. 2010-09). ASU No. 2010-09 requires an entity that is an SEC filer to evaluate subsequent events through the date that the financial statements are issued and removes the requirement for an SEC filer to disclose a date, in both issued and revised financial statements, through which the filer had evaluated subsequent events. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

In January 2010, the FASB issued an amendment to ASC 820, Fair Value Measurements and Disclosure, to require reporting entities to separately disclose the amounts and business rationale for significant transfers in and out of Level 1 and Level 2 fair value measurements and separately present information regarding purchase, sale, issuance, and settlement of Level 3 fair value measures on a gross basis. This standard is effective for interim and annual reporting periods beginning after December 15, 2009 with the exception of disclosures regarding the purchase, sale, issuance, and settlement of Level 3 fair value measures which are effective for fiscal years beginning after December 15, 2010. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

**Ethos Environmental Inc.**

Notes to the Consolidated Financial Statements

(expressed in US dollars)

**2.**

**Summary of Significant Accounting Policies** (continued)

p)

Recent Accounting Pronouncements (continued)

In October 2009, FASB issued an amendment to the accounting standards related to the accounting for revenue in arrangements with multiple deliverables including how the arrangement consideration is allocated among delivered and undelivered items of the arrangement. Among the amendments, this standard eliminated the use of the residual method for allocating arrangement considerations and requires an entity to allocate the overall consideration to each deliverable based on an estimated selling price of each individual deliverable in the arrangement in the absence of having vendor-specific objective evidence or other third party evidence of fair value of the undelivered items. This standard also provides further guidance on how to determine a separate unit of accounting in a multiple-deliverable revenue arrangement and expands the disclosure requirements about the judgments made in applying the estimated selling price method and how those judgments affect the timing or amount of revenue recognition. This standard, for which the Company is currently assessing the impact, will become effective on January 1, 2011.

The Company has implemented all new accounting pronouncements that are in effect. These pronouncements did not have any material impact on the financial statements unless otherwise disclosed, and the Company does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

**3.**

**Inventory**

December 31, December 31,

2009

2008

|                |        |         |
|----------------|--------|---------|
|                | \$     | \$      |
| Raw Materials  | 61,883 | 161,211 |
| Finished Goods | 27,795 | 61,933  |
|                | 89,678 | 223,144 |

**4.****Property and Equipment**

|                        |         |                             | <u>Net Book Value</u> |                      |
|------------------------|---------|-----------------------------|-----------------------|----------------------|
|                        | Cost    | Accumulated<br>Amortization | December 31,<br>2009  | December 31,<br>2008 |
|                        | \$      | \$                          | \$                    | \$                   |
| Building               | 2,712   | 814                         | 1,898                 | 2,441                |
| Computers              | 54,726  | 54,552                      | 174                   | 820                  |
| Equipment              | 226,694 | 206,745                     | 19,949                | 48,793               |
| Furniture and Fixtures | 25,570  | 24,599                      | 971                   | 6,647                |
|                        | 309,702 | 286,710                     | 22,992                | 58,701               |

**5.****Other Assets**

As at December 31, 2009, the Company made security deposits of \$417,917 (2008 - \$405,417) relating to the Company's property and equipment.

**6.****Notes Payable****a)**

As at December 31, 2009, the Company owed \$nil (2008 - \$31,580) to an investor for funding of the Company's operations. The amount owing is unsecured, due interest at 10% per annum, and due on demand. As at December 31, 2009, the Company owed \$nil (2008 - \$750) of accrued interest, which has been recorded in accrued liabilities.

b)

As at December 31, 2009, the Company owed \$950,000 (2008 - \$150,000) in a Promissory Note Agreement (the Agreement ) with a third party. Under the terms of the Agreement, the amounts owing are unsecured, due interest at 10% per annum, and due on demand. As at December 31, 2008, the Company owed \$35,000 (2008 - \$1,250) of accrued interest, which has been recorded in accrued liabilities.

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**Ethos Environmental Inc.**

Notes to the Consolidated Financial Statements

(expressed in US dollars)

**6.**

**Notes Payable** (continued)

c)

As at December 31, 2009, the Company owed \$500,000 (2008 - \$500,000) in a Nonrecourse Loan (the Loan ) to a third party. Under the terms of the Loan, the amounts are unsecured, due interest at 10% per annum, and due on October 1, 2009. Subsequent to October 1, 2009, the Loan was continued under the same terms, with the exception of payment being due on demand. As at December 31, 2009, the Company owed \$50,000 (2008 - \$10,417) of accrued interest, which is recorded in accrued liabilities.

d)

As at December 31, 2009, the Company owed \$250,000 (2008 - \$300,000) to a third party. The amount owing is unsecured, due interest at 12% per annum, and due on demand. On January 8, 2009, the Company replaced \$50,000 of 12% note payable with one \$50,000 unit of convertible debenture (refer to Note 7(b)). As at December 31, 2009, the Company owed \$29,342 (2008 - \$27,000) of accrued interest, which is recorded in accrued liabilities.

e)

As at December 31, 2009, the Company owed \$50,000 (2008 - \$nil) to a third party. The amount owing is unsecured, due interest at 10% per annum, and due on demand. As at December 31, 2009, the Company owed \$2,055 (2008 - \$nil) of accrued interest, which is recorded in accrued liabilities.

f)

As at December 31, 2009, the Company owed \$nil (2008 - \$285,000) to a third party, net of discount of \$nil (2008 - \$15,000). The amount owing is unsecured, due interest at 10% per annum, and due on demand. As at December 31, 2009, the Company owed \$nil (2008 - \$12,500) of accrued interest, which is recorded in accrued liabilities. Refer to Note 7(d).

7.

**Convertible Debentures**

a)

On August 3, 2009, the Company issued units (the August Units ) of convertible promissory notes. Under the terms of the note agreement, each August Unit is comprised of a \$100,000 convertible note, due interest at 12% per annum, secured by the Company's assets, and due in two years from the date of issuance, and convertible into common shares of the Company at the option of the note holder at a conversion rate of \$0.225 per common share. Furthermore, each August Unit includes 100,000 share purchase warrants, where each warrant allows the warrant holder to purchase one additional common share of the Company at \$0.30 per common share for a period of three years from the date of issuance. During the year ended December 31, 2009, the Company issued two units for cash proceeds of \$200,000.

In accordance with ASC 470, *Debt Debt with Conversions and Other Options*, the Company determined that the multiple financial instruments issued in the convertible promissory notes resulted in an allocation of the fair value between the convertible note and the share purchase warrants which resulted in a discount on the convertible notes of \$146,258 that was recorded against the note payable and a corresponding credit to additional paid-in capital. As at December 31, 2009, the Company has recognized accretion expense of \$21,198 (2008 - \$nil), which increased the carrying value of the August Units to \$74,940 (2008 - \$nil).

b)

From November 2008 to June 2009, the Company issued units (the 12% Units ) of convertible promissory notes.

Under the terms of the note agreement, each 12% Unit is comprised of a \$50,000 convertible note due interest at 12% per annum, secured by the Company's assets, and due in two years from the date of issuance, and convertible into common shares of the Company at the option of the note holder at a conversion rate of \$0.25 per common share.

Furthermore, each 12% Unit includes 100,000 share purchase warrants, where each warrant allows the warrant holder to purchase one additional common share of the Company at \$0.25 per common share for a period of three years from the date of issuance. During the year ended December 31, 2009, the Company issued seventeen units (2008 two units) for cash proceeds of \$850,000 (2008 - \$100,000), and issued one unit (2008 nil units) to settle a promissory note with a carrying value of \$50,000 (2008 - \$nil) (refer to Note 6(d)). In accordance with ASC 470, *Debt Debt with Conversions and Other Options*, the Company determined that the multiple financial instruments issued in the convertible promissory notes resulted in an allocation of the fair value between the convertible note and the share purchase warrants which resulted in a discount on the convertible notes of \$644,284 that was recorded against the note payable and a corresponding credit to additional paid-in capital. During the year ended December 31, 2009, three units (\$150,000) were converted into common shares at \$0.25 per common share, and one unit (\$50,000) was repaid.

As at December 31, 2009, the Company has recognized accretion expense of \$167,199 (2008 - \$1,378), which increased the carrying value of the remaining 12% Units to \$324,293.

**Ethos Environmental Inc.**

Notes to the Consolidated Financial Statements

(expressed in US dollars)

7.

**Convertible Debentures** (continued)

c)

On May 11, 2009, the Company issued units (the 10% Units ) of convertible promissory notes. Under the terms of the note agreement, each 10% Unit is comprised of a \$25,000 convertible note due interest at 10% per annum, secured by the Company's assets, and due in two years from the date of issuance, and convertible into common shares of the Company at the option of the note holder at a conversion rate of \$0.40 per common share. Furthermore, each 10% Unit includes 50,000 share purchase warrants, where each warrant allows the warrant holder to purchase one additional common share of the Company at \$0.40 per common share for a period of three years from the date of issuance. During the period ended June 30, 2009, the Company issued one unit for cash proceeds of \$25,000. In accordance with ASC 470, *Debt - Debt with Conversions and Other Options*, the Company determined that the multiple financial instruments issued in the convertible promissory notes resulted in an allocation of the fair value between the convertible note and the share purchase warrants which resulted in a discount on the convertible notes of \$19,196 that was recorded against the note payable and a corresponding credit to additional paid-in capital. As at December 31, 2009, the Company has recognized accretion expense of \$4,065, which increased the carrying value of the 10% Units to \$9,869.

d)

On January 9, 2009, the Company terminated a \$300,000 unsecured promissory note that was due interest at 10% per annum and due on February 11, 2009 and replaced it with a new \$550,000 promissory note that is unsecured, due interest at 10% per annum, and due on September 30, 2009. The promissory note is also convertible into common shares of the Company, at the option of the note holder, at \$0.40 per common share. In addition, the Company terminated 1,000,000 and 500,000 share purchase warrants that were issued in August and September 2008 respectively, which allowed the warrant holder to purchase one additional common share of the Company at \$0.37 and \$0.30, respectively, and replaced it with 1,500,000 share purchase warrants which allows the warrant holder to purchase one additional common share of the Company at \$0.25 per common share for a period of five years from the date of issuance. In May 2009, the note holder converted \$100,000 of promissory note into 400,000 common shares of the Company. As at December 31, 2009, the Company has recognized accretion expense of \$31,669 (2008 - \$52,331) and owes \$44,753 (2008 - \$12,500) of accrued interest, which is recorded in accrued liabilities.

e)



On January 1, 2009, the Company issued a convertible promissory note to settle professional services with a fair value of \$50,000. Each promissory note is comprised of a \$50,000, 12% unsecured convertible promissory note due two years from the date of issuance and convertible into common shares of the Company at the option of the note holder at a conversion rate of \$0.25 per common share, and 100,000 share purchase warrants, where each warrant allows the warrant holder to purchase one additional common share of the Company at \$0.25 per common share for a period of three years from the date of issuance. In accordance with ASC 470, *Debt - Debt with Conversions and Other Options*, the Company determined that the multiple financial instruments issued in the convertible promissory notes resulted in an allocation of the fair value between the convertible note and the share purchase warrants which resulted in a discount on the convertible notes of \$11,457 that was recorded against the note payable and a corresponding credit to additional paid-in capital. During the year ended December 31, 2009, the promissory note was converted into common shares and resulted in the recognition of the unaccreted portion of the discount of \$8,116. As at December 31, 2009, the Company has recognized accretion expense of \$11,457.

**8.**

**Common Shares**

All common shares issued for non-cash purposes have been valued using the end-of-day market price on the date of issuance.

*For the Fiscal Year ended December 31, 2009*

a)

As at December 31, 2009, the Company authorized the issuance of 220,000 common shares with a fair value of \$31,775 for services rendered. The common shares have not been issued and are recorded as common stock issuable.

b)

On December 31, 2009, the Company issued 50,000 common shares with a fair value of \$5,500 for services rendered.

c)

On December 16, 2009, the Company issued 2,523,125 common shares with a fair value of \$328,006 for the settlement of debt.

d)

On December 14, 2009, the Company issued 345,800 common shares with a fair value of \$38,038 to settle note payable.

e)

On November 25, 2009, the Company issued 50,000 common shares with a fair value of \$6,500 for services rendered.

f)

On November 24, 2009, the Company issued 100,000 common shares with a fair value of \$15,000 for services rendered.

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**Ethos Environmental Inc.**

Notes to the Consolidated Financial Statements

(expressed in US dollars)

**8.**

**Common Shares** (continued)

g)

On November 20, 2009, the Company issued 4,953,665 with a fair value of \$842,123 for services rendered.

*For the Fiscal Year ended December 31, 2009*

h)

On November 20, 2009, the Company issued 43,312,543 with a fair value of \$7,363,132 to a company controlled by directors of the Company for past services and interest payments.

i)

On October 30, 2009, the Company issued 1,000,000 common shares with a fair value of \$130,000 for the settlement of debt.

j)

On October 14, 2009, the Company issued 300,000 common shares with a fair value of \$30,000 for services rendered.

k)

On October 6, 2009, the Company issued 120,868 common shares with a fair value of \$13,295 for services rendered.

l)

On September 4, 2009, the Company issued 70,147 common shares of the Company at \$0.13 per share for consulting services with a fair value of \$9,119.

m)

On August 13, 2009, the Company issued 100,000 common shares of the Company at \$0.20 per share for consulting services with a fair value of \$20,000.

n)

On August 6, 2009, the Company issued 23,894 common shares of the Company at \$0.24 per share for consulting services with a fair value of \$5,735.

o)

On August 5, 2009, the Company issued 30,000 common shares of the Company at \$0.22 per common share for consulting services with a fair value of \$6,600.

p)

On August 5, 2009, the Company issued 325,000 common shares of the Company to settle legal services with a fair value of \$45,000. The common shares were valued at \$71,500 resulting in a loss on settlement of debt of \$26,500.

q)

On August 5, 2009, the Company granted 60,000 common shares of the Company at \$0.30 per common share for incentive shares with a fair value of \$18,000. The common shares were issued on October 30, 2009.

r)

On August 4, 2009, the Company issued 63,143 common shares of the Company at \$0.25 per share for consulting services with a fair value of \$15,786.

s)

On July 31, 2009, the Company issued 800,000 common shares at \$0.25 per share to convert \$200,000 of convertible promissory notes and issued 42,389 to settle accrued interest of \$9,220.

t)

On July 24, 2009, the Company issued 60,000 common shares at \$0.17 per share for consulting services with a fair value of \$10,200.

u)

On July 8, 2009, the Company issued 50,891 common shares at \$0.19 per share for consulting services with a fair value of \$9,669.

v)

On July 1, 2009, the Company issued 300,000 common shares at \$0.23 per share to settle professional services with a fair value of \$22,100. The common shares were valued at \$69,000 resulting in a loss on settlement of debt of \$46,900 and were issued on October 30, 2009.

w)

On June 4, 2009, the Company issued 51,000 common shares of the Company with a fair value of \$0.294 per share to settle professional fees with a fair value of \$15,000.

x)

On May 29, 2009, the Company issued 15,000 common shares at \$0.36 per common share to settle debt with a fair value of \$5,400.

y)

On May 29, 2009, the Company issued 250,000 common shares at \$0.36 per common share to settle debt with a fair value of \$90,000.



**Ethos Environmental Inc.**

Notes to the Consolidated Financial Statements

(expressed in US dollars)

**8.**

**Common Shares** (continued)

z)

On May 14, 2009, the Company issued 14,133 common shares at \$0.40 per common share to settle accrued interest charges of \$5,651 from outstanding promissory notes.

*For the Fiscal Year ended December 31, 2009*

aa)

On May 14, 2009, the Company issued 10,000 common shares at \$0.40 per common share, or \$4,000 as incentive shares for the purchase of convertible promissory notes.

bb)

On May 12, 2009, the Company issued 400,000 common shares at \$0.41 per common share, or \$164,000, to settle outstanding promissory notes of \$100,000. The Company recorded \$64,000 as a loss on settlement of debt.

cc)

On April 22, 2009, the Company issued 15,000 common shares at \$0.57 to settle debt with a fair value of \$8,550.

dd)

On April 21, 2009, the Company issued 363,000 common shares at \$0.57 per common share, or \$206,640, as incentive shares for the purchase of convertible promissory notes.

ee)

On April 1, 2009, the Company issued 33,000 common shares at \$0.19 per common share, or \$6,270, as incentive shares for the purchase of convertible promissory notes.

ff)

On March 25, 2009, the Company issued 60,750 common shares of the Company with a fair value of \$7,898 as a settlement agreement for outstanding obligations owing by the Company.

gg)

On March 18, 2009, the Company issued 33,000 common shares of the Company with a fair value of \$4,950 as incentive shares for the purchase of convertible promissory notes.

hh)

On February 9, 2009, the Company issued 66,000 common shares of the Company with a fair value of \$13,200 as incentive shares for the purchase of convertible promissory notes.

ii)

On February 8, 2009, the Company issued 100,000 common shares of the Company with a fair value of \$20,000 for marketing services incurred by a consultant to the Company.

jj)

On January 28, 2009, the Company cancelled 210,000 common shares of the Company that were previously issued and returned the common shares to treasury.

kk)

On January 26, 2009, the Company issued 400,000 common shares of the Company with a fair value of \$76,000 as a settlement agreement for outstanding obligations owing by the Company.



ll)

On January 15, 2009, the Company issued 150,000 common shares of the Company with a fair value of \$30,000 for consulting services.

mm)

On January 14, 2009, the Company issued 600,000 common shares of the Company for cash proceeds of \$120,000 that were received during the year ended December 31, 2008.

nn)

On January 8, 2009, the Company issued 66,000 common shares of the Company with a fair value of \$11,880 as incentive shares for the purchase of convertible promissory notes.

oo)

On January 8, 2009, the Company issued 25,000 common shares with a fair value of \$3,750 for services rendered.

pp)

On January 6, 2009, the Company issued 200,000 common shares of the Company for consulting services to June 2009 with a fair value of \$30,000.

qq)

On January 1, 2009, the Company issued 1,000,000 common shares of the Company for consulting services to December 2009 with a fair value of \$180,000.

**Ethos Environmental Inc.**

Notes to the Consolidated Financial Statements

(expressed in US dollars)

**8.**

**Common Shares (continued)**

rr)

On January 1, 2009, the Company issued 33,000 common shares of the Company with a fair value of \$5,940 as incentive shares for the purchase of convertible promissory notes.

ss)

On January 1, 2009, the Company issued 300,000 common shares of the Company with a fair value of \$54,000 for consulting services.

*For the Fiscal Year ended December 31, 2008*

a)

For the year ended December 31, 2008, the Company authorized the issuance of 600,000 common shares at \$0.20 per share for proceeds of \$120,000 and 175,000 common shares for services with a fair value of \$33,750. As at December 31, 2008, these common shares have not been issued.

b)

On December 31, 2008, the Company issued 1,000,000 common shares of the Company at \$0.18 per common share for consulting services with a fair value of \$180,000.

c)

On December 31, 2008, the Company issued 500,000 common shares of the Company at \$0.18 per common share with a fair value of \$90,000.

d)

On December 31, 2008, the Company issued 33,000 common shares of the Company at \$0.18 per common share with a fair value of \$5,940 for incentive shares as part of the issuance of a private placement.

e)

On December 31, 2008, the Company issued 3,066,000 common shares of the Company at \$0.18 per common share for compensation and incentive shares for a private placement with a fair value of \$551,880.

f)

On December 30, 2008, the Company issued 20,000 common shares of the Company at \$0.16 per common share for consulting services with a fair value of \$3,200.

g)

On December 16, 2008, the Company issued 100,000 common shares of the Company at \$0.15 per common share for settlement of debt with a fair value of \$15,000 and had another 25,000 common shares issuable with a fair value of \$3,750.

h)

On November 3, 2008, the Company issued 10,200,000 common shares of the Company at \$0.15 per common share as penalty shares due under a Registration Rights Agreement as full and final settlement of all rights under the Registration Rights Agreement executed in October 2007 with a fair value of \$1,530,000.

i)

On November 3, 2008, the Company issued 200,000 common shares with a fair value of \$26,000 for services rendered.

j)

On November 3, 2008, the Company cancelled 13,600,000 common shares of the Company and returned the common shares to treasury.

k)

On October 1, 2008, the Company issued 393,818 common shares of the Company at \$0.22 per common share for consulting services with a fair value of \$84,947.

l)

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

m)

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

n)

On August 1, 2008, the Company issued 35,299 common shares of the Company at \$0.32 per common share for services with a fair value of \$10,000. The value of the common shares on the date of issuance was \$11,296, resulting in a loss on settlement of debt of \$1,296.

o)

On July 10, 2008, the Company issued 34,632 common shares of the Company at \$0.38 per common share for services with a fair value of \$10,000. The value of the common shares on the date of issuance was \$13,160, resulting in a loss on settlement of debt of \$3,160.

**Ethos Environmental Inc.**

Notes to the Consolidated Financial Statements

(expressed in US dollars)

**8.**

**Common Shares** (continued)

*For the Fiscal Year ended December 31, 2008*

p)

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

q)

On June 4, 2008, the Company issued 45,257 common shares of the Company at \$0.44 per common share for services with a fair value of \$20,000. The value of the common shares on the date of issuance was \$19,913, resulting in a gain on settlement of debt of \$87.

r)

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

s)

On April 22, 2008, the Company issued 61,321 common shares of the Company at \$0.60 per common share for services with a fair value of \$41,000. The value of the common shares on the date of issuance was \$36,793, resulting in a gain on settlement of debt of \$4,207.

t)

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

u)

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

v)

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

w)

On February 20, 2008, the Company issued 36,050 common shares of the Company at \$1.23 per common share for services with a fair value of \$44,600. The value of the common shares on the date of issuance was \$44,342 resulting in a gain on settlement of debt of \$258.

x)

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

y)

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

**9.**

#### **Share Purchase Warrants**

On August 1, 2008, the Company issued 1,000,000 share purchase warrants at an exercise price of \$0.37 per share for a period of five years from the date of issuance. On September 30, 2008, the Company issued 500,000 share purchase warrants at an exercise price of \$0.30 per share for a period of five years from the date of issuance. On January 8, 2009, the Company cancelled the 1,500,000 share purchase warrants issued in August and September 2008, and

replaced them with 1,500,000 new share purchase warrants with an exercise price of \$0.25 for a period of five years from the date of issuance. This resulted in an additional stock-based compensation expense of \$28,379 calculated using the Black-Scholes option pricing model.

On January 1, 2009, the Company issued 400,000 share purchase warrants as part of the 12% Units. Each warrant grants the holder the option to purchase one additional common share of the Company at \$0.25 per share for a period of three years from the date of issuance.

On February 9, 2009, the Company issued 200,000 share purchase warrants as part of the 12% Units. Each warrant grants the holder the option to purchase one additional common share of the Company at \$0.25 per share for a period of three years from the date of issuance.

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**Ethos Environmental Inc.**

Notes to the Consolidated Financial Statements

(expressed in US dollars)

**9.**

**Share Purchase Warrants** (continued)

On March 18, 2009, the Company issued 100,000 share purchase warrants as part of the 12% Units. Each warrant grants the holder the option to purchase one additional common share of the Company at \$0.25 per share for a period of three years from the date of issuance.

On April 1, 2009, the Company issued 100,000 share purchase warrants as part of the 12% Units. Each warrant grants the holder the option to purchase one additional common share of the Company at \$0.25 per share for a period of three years from the date of issuance.

On April 21, 2009, the Company issued 625,000 share purchase warrants as part of the 12% Units. Each warrant grants the holder the option to purchase one additional common share of the Company at \$0.25 per share for a period of three years from the date of issuance.

On May 11, 2009, the Company issued 50,000 share purchase warrants as part of the 10% Units. Each warrant grants the holder the option to purchase one additional common share of the Company at \$0.40 per share for a period of three years from the date of issuance.

On May 14, 2009, the Company issued 100,000 share purchase warrants with an exercise price of \$0.40 per warrant for a period of three years, as part of the demand loan received from an investor.

In August 2009, the Company issued 200,000 share purchase warrants with an exercise price of \$0.30 per warrant for a period of three years, as part of the convertible loan received from investors.

During the year ended December 31, 2009, the Company issued the following share purchase warrants:



|         |                   | Number of   | Weighted Average<br>Exercise Price | Weighted Average<br>Contractual Life<br>(years) | Aggregate<br>Intrinsic<br>Value |
|---------|-------------------|-------------|------------------------------------|---|---------------------------------|
|         |                   | Warrants    | \$                                 |   |                                 |
| Balance | December 31, 2007 | 1,900,000   | 2.50                               |   |                                 |
|         | Granted           | 1,500,000   | 0.35                               |   |                                 |
| Balance | December 31, 2008 | 3,400,000   | 1.55                               |   |                                 |
|         | Granted           | 3,125,000   | 0.25                               |   |                                 |
|         | Granted           | 150,000     | 0.40                               |   |                                 |
|         | Granted           | 200,000     | 0.30                               |   |                                 |
|         | Cancelled         | (1,500,000) | (0.35)                             |   |                                 |
| Balance | December 31, 2009 | 5,375,000   | 1.05                               | 1.94  |                                 |

During the year ended December 31, 2009, the Company recorded stock-based compensation expense relating to the fair value of share purchase warrants using the Black-Scholes Option Pricing Model:

|                | 2009    | 2008    |
|----------------|---------|---------|
| Risk-Free Rate | 3.44%   | 2.88%   |
| Expected Life  | 5 years | 5 years |
| Volatility     | 161%    | 134%    |

**Ethos Environmental Inc.**

## Notes to the Consolidated Financial Statements

(expressed in US dollars)

**9.****Share Purchase Warrants** (continued)

As at December 31, 2009, the following share purchase warrants were outstanding:

| <u>Number of Warrants</u> | <u>Exercise Price</u> | <u>Expiry Date</u> |
|---------------------------|-----------------------|--------------------|
| 1,900,000                 | \$2.50                | May 23, 2010       |
| 400,000                   | \$0.25                | January 1, 2012    |
| 200,000                   | \$0.25                | January 8, 2012    |
| 200,000                   | \$0.25                | February 19, 2012  |
| 100,000                   | \$0.25                | March 9, 2012      |
| 100,000                   | \$0.25                | April 1, 2012      |
| 625,000                   | \$0.25                | April 21, 2012     |
| 50,000                    | \$0.40                | May 11, 2012       |
| 100,000                   | \$0.40                | May 14, 2012       |
| 200,000                   | \$0.30                | August 5, 2012     |
| 1,500,000                 | \$0.25                | January 9, 2014    |
| 5,375,000                 |                       |                    |

**10.****Stock Options**

In February 2009, the Company issued 7,500,000 incentive stock options to Thrive Worldwide LLC ( Thrive ) in accordance with the Outsource Agreement (the Agreement ) for marketing and consulting services. As at March 31, 2009, 2,500,000 incentive stock options were vested and the remaining 5,000,000 incentive stock options are unvested and are not obligated by the Company until Thrive achieves certain sales and marketing targets over the next 24-month and 36-month periods of the Agreement. The fair value of the stock options of \$452,111 was determined using the Black-Scholes Option Pricing model using an exercise price of \$0.25, expected life of five years, expected volatility of 147.7%, and a risk-free rate of 1.87%. On November 20, 2009, the Thrive stock options were cancelled.

On August 31, 2008, the Company issued 2,400,000 stock options to management, consultants, and directors of the Company. Each option allows the option holder to purchase one common share of the Company at \$0.22 per common share over a five-year period and fully vested at December 31, 2008. The fair value of the stock options of \$463,586 was calculated using the Black-Scholes Option Pricing Model using a risk-free rate of 3.44%, expected life of 5 years, with an exercise price and closing value on the grant date of \$0.22 per common share, and volatility of 134%.

|         |                   |             | Weighted Average<br>Exercise Price<br>\$ | Weighted Average<br>Contractual Life<br>(years) | Aggregate<br>Intrinsic<br>Value |
|---------|-------------------|-------------|--|---|---------------------------------|
| Balance | December 31, 2007 |             |  |   |                                 |
|         | Granted           | 2,400,000   | 0.22                                     |   |                                 |
| Balance | December 31, 2008 | 2,400,000   | 0.22                                     |   |                                 |
|         | Granted           | 7,500,000   | 0.25                                     |   |                                 |
|         | Cancelled         | (7,500,000) | (0.25)                                   |   |                                 |
| Balance | December 31, 2009 | 2,400,000   | 0.22                                     | 3.67  |                                 |

As at December 31, 2009, the outstanding stock options expire on August 31, 2013. During the year ended December 31, 2009, the weighted average fair value of the stock options granted during 2009 was \$0.18 (2008 - \$0.17), and there were no unrecognized compensation expense related to unvested options.

## 11.

### Related Party Transactions

a)

During the year ended December 31, 2009, the Company issued 43,312,543 (2008 15,531,428) common shares of the Company to GreenBridge Capital Partners, IV, LLC ( GreenBridge ), a company controlled by directors and officers of the Company, for final settlement of outstanding rent and unpaid interest, liquidated damages under a Registration Rights Agreement signed in August 2007, and incentive shares relating to issuance of 12% Units and 10% Units.

**Ethos Environmental Inc.**

Notes to the Consolidated Financial Statements

(expressed in US dollars)

b)

As at December 31, 2009, the Company owes \$100,000 (2008 - \$100,000) of convertible notes to a company managed by the Chief Executive Officer of the Company. Under the terms of the note agreement, the amounts are unsecured, due interest at 12% per annum, due two years from the date of issuance, and convertible into common shares of the Company at a rate of \$0.25 per common share at the election of the note holder.

**12.**

**Commitments and Contingencies**

a)

In October 2007, the Company completed a sale and leaseback agreement with respect to its building. Commencing November 1, 2007, the Company entered into a 15-year lease agreement, with monthly lease payments of \$63,000, to a company controlled by directors of the Company. During the year ended December 31, 2009, the Company incurred lease payments of \$756,000 (2008 - \$756,000).

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

|            | Amount    |
|------------|-----------|
|            | \$        |
| 2010       | 756,000   |
| 2011       | 756,000   |
| 2012       | 756,000   |
| 2013       | 756,000   |
| Thereafter | 6,804,000 |
|            | 9,828,000 |

b)

In February 2007, the Company entered into various lease agreements with respect to its manufacturing equipment, including sale leaseback agreements of manufacturing equipment of approximately \$737,968. Under the lease terms, the monthly payment is based on a factor of 0.04125 times the average outstanding loan balance for the month. During the year ended December 31, 2009, the Company incurred lease expense of \$365,294 (2008 - \$365,294).

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

|      | Amount     |
|------|------------|
| 2010 | \$ 304,412 |

c)

In January 2009, the Company entered into a consulting service agreement with a consultant through April 30, 2010. Under the terms of the consulting agreement, the Company is committed to monthly payments of \$7,500 to June 2009, and monthly payments of \$10,000 until April 30, 2010.

d)

In February 2009, the Company entered into a consulting agreement for investor relations with a consulting firm. Under the terms of the consulting agreement, the Company is committed to pay \$4,000 per month for the first three months of the agreement, and \$6,000 per month for the remaining term of the agreement.

e)

In February 2009, the Company entered into an Outsource Agreement (the "Thrive Agreement") with Thrive Worldwide LLC ("Thrive") for a three-year term in exchange for business plan, promotion, and marketing services. Under the terms of the Thrive Agreement, the Company is committed to issuing 7,500,000 stock options to Thrive, with each option allowing the holder to purchase one common share of the Company at \$0.25 per common share over a five-year period. The Company issued 2,500,000 stock options, vested immediately, upon the date of the Agreement. The remaining 5,000,000 stock options are contingent on Thrive achieving certain future sales and marketing targets, with 2,500,000 stock options due 24-months from the date of the Agreement if Thrive creates new revenue to the Company exceeding \$20 million for the entire trailing 12-month period, and a further 2,500,000 stock options due 36-months from the date of the Agreement if Thrive creates new revenue to the Company for any 12-month period exceeding \$50 million.



**Ethos Environmental Inc.**

## Notes to the Consolidated Financial Statements

(expressed in US dollars)

**13.****Income Taxes**

The Company has a net operating loss carried forward of \$19,282,832 available to offset taxable income in future years which commence expiring in fiscal 2020. The Company is subject to United States federal and state income taxes at an approximate rate of 34%. As at December 31, 2009 and 2008, the Company had no uncertain tax positions.

|                                       | 2009        | 2008        |
|---------------------------------------|-------------|-------------|
|                                       | \$          | \$          |
| Income tax recovery at statutory rate | 4,436,823   | 2,582,516   |
| Permanent differences and other       | (306,766)   | (321,619)   |
| Valuation allowance change            | (4,130,057) | (2,260,897) |
| Provision for income taxes            |             |             |

The significant components of deferred income tax assets and liabilities at December 31, 2009 and 2008 are as follows:

|                                    | 2009         | 2008         |
|------------------------------------|--------------|--------------|
|                                    | \$           | \$           |
| Net operating loss carried forward | 19,282,832   | 15,152,775   |
| Valuation allowance                | (19,282,832) | (15,152,775) |
| Net deferred income tax asset      |              |              |

**14.**

## Restatement

The Company has restated its consolidated financial statements as at and for the year ended December 31, 2008. The consolidated financial statements have been restated to reflect the following transactions:

.  
reclassification of common shares that were authorized by management, but not formally issued as at December 31, 2008;

.  
recording of accretion expense and discount on beneficial conversion feature of convertible debentures;

.  
cut-off errors relating to collectability of accounts receivable, and recording of accounts payable and accrued liabilities relating to opening balance sheet items;

.  
write-off of uncollectible accounts receivable, and property and equipment for unsupported purchases and assets no longer in use;

.  
accrual of sales taxes based on results of audit by Board of Equalization; and

.  
revise fair value of common stock issued for non-cash purposes to reflect end-of-day market prices on the date of issuance, and fair value of stock options and share purchase warrants.

The effect of the restatement decreased total assets by \$30,793, increased total liabilities by \$210,410, increased the opening accumulated deficit by \$132,777, and increased net loss for the year ended December 31, 2008 by \$417,816.



**Ethos Environmental Inc.**

## Notes to the Consolidated Financial Statements

(expressed in US dollars)

**14.****Restatement** (continued)

a)

## Balance Sheet

|  | As at December 31, 2008 |            |              |
|--|-------------------------|------------|--------------|
|  | As Reported             | Adjustment | Restated     |
|  | \$                      | \$         | \$           |
| <b>Assets</b>                              |                         |            |              |
| Accounts receivable                        | 94,894                  | (18,942)   | 75,952       |
| Total Current Assets                       | 390,270                 | (18,942)   | 371,328      |
| Property and equipment                     | 70,552                  | (11,851)   | 58,701       |
| Total Assets                               | 866,239                 | (30,793)   | 835,446      |
| <b>Liabilities</b>                         |                         |            |              |
| Accounts payable                           | 681,583                 | 218,233    | 899,816      |
| Accrued liabilities                        | 301,876                 | 23,999     | 325,875      |
| Convertible debenture                      | 150,000                 | (31,822)   | 118,178      |
| Total Liabilities                          | 2,400,039               | 210,410    | 2,610,449    |
| <b>Stockholders' Equity</b>                |                         |            |              |
| Common Stock                               | 4,352                   | (3)        | 4,349        |
| Additional Paid-In Capital                 | 50,073,653              | 155,643    | 50,229,296   |
| Common stock issuable                      |                         | 153,750    | 153,750      |
| Accumulated Deficit                        | (51,611,805)            | (550,593)  | (52,162,398) |
| Total Stockholders' Equity                 | (1,533,800)             | (241,203)  | (1,775,003)  |
| Total Liabilities and Stockholders' Equity | 866,239                 | (30,793)   | 835,446      |

b)

## Statement of Operations

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|                              | For the Year Ended December 31, 2008 |            |             |
|------------------------------|--------------------------------------|------------|-------------|
|                              | As Reported                          | Adjustment | Restated    |
|                              | \$                                   | \$         | \$          |
| Total Operating Expenses     |                                      |            |             |
| General and administrative   | 7,776,472                            | 400,690    | 8,177,162   |
| Total Operating Expenses     | 8,131,758                            | 400,690    | 8,532,448   |
| Other Income (Expense)       |                                      |            |             |
| Interest expense             | (181,993)                            | (17,126)   | (199,119)   |
| Total Other Income (Expense) | 19,144                               | (17,126)   | 2,018       |
| Net Loss                     | (7,177,819)                          | (417,816)  | (7,595,635) |
| Net Loss per Share           | (0.18)                               | (0.01)     | (0.19)      |

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**Ethos Environmental Inc.**

## Notes to the Consolidated Financial Statements

(expressed in US dollars)

**14.****Restatement** (continued)

c)

## Statement of Cashflows

|   | For the Year Ended December 31, 2008 |            |             |
|---|--------------------------------------|------------|-------------|
|   | As Reported                          | Adjustment | Restated    |
|   | \$                                   | \$         | \$          |
| Operating Activities                        |                                      |            |             |
| Net Loss                                    | (7,177,819)                          | (417,816)  | (7,595,635) |
| Amortization expense                        | 81,355                               | (29)       | 81,326      |
| Accretion of discounts on convertible debt  | 45,000                               | 8,709      | 53,709      |
| Bad debt expense                            | 294,102                              | 18,942     | 313,044     |
| Common stock issued for services            | 1,280,610                            | 5,397      | 1,286,007   |
| Common stock issued for registration rights | 2,818,240                            | 204,001    | 3,022,241   |
| Gain on forgiveness of debt                 |                                      | (195,998)  | (195,998)   |
| Stock-based compensation                    | 835,723                              | (60,539)   | 775,184     |
| Change in operating assets and liabilities: |                                      |            |             |
| Accounts receivable                         | (304,748)                            | (84,248)   | (388,996)   |
| Accounts payable and accrued liabilities    | 650,268                              | 205,554    | 855,822     |
| Cashflows Used In Operating Activities      | (1,104,012)                          | (316,027)  | (1,420,039) |
| Investing Activities                        |                                      |            |             |
| Purchase of property and equipment          | (32,991)                             | 29         | (32,962)    |
| Cashflows Used in Investing Activities      | (32,991)                             | 29         | (32,962)    |
| Financing Activities                        |                                      |            |             |
| Proceeds from related party                 | (246,521)                            | 246,521    |             |
| Proceeds from common stock issuable         |                                      | 120,000    | 120,000     |
| Repayment of note payable                   | (350,000)                            | (50,523)   | (400,523)   |
| Cashflows Provided by Financing Activities  | 1,135,059                            | 315,998    | 1,451,057   |

d)

## Statement of Stockholders Deficit

|                                  | Balance      | December 31, 2008 |              |
|----------------------------------|--------------|-------------------|--------------|
|                                  | As Reported  | Adjustment        | Restated     |
|                                  | \$           | \$                | \$           |
| Common Stock                     | 4,352        | (3)               | 4,349        |
| Additional Paid-In Capital       | 50,073,653   | 155,643           | 50,229,296   |
| Common stock issuable            |              | 153,750           | 153,750      |
| Accumulated deficit              | (51,611,805) | (550,593)         | (52,162,398) |
| Total                            | (1,533,800)  | (241,203)         | (1,775,003)  |
| Number of Shares of Common Stock | 43,518,958   | (25,000)          | 43,493,458   |

**15.****Subsequent Events**

Subsequent to December 31, 2009, the Company issued 846,693,731 shares of our common stock in the aggregate for consulting services, to settle outstanding debt, and pursuant to various agreements, including the transaction with Regeneca as more specifically reported on the Company's current report on Form 8-K as filed with the SEC on January 4, 2011.

Effective February 9, 2010, the Company accepted the resignation of Thomas W. Maher as Chief Financial Officer and Treasurer.

**Ethos Environmental Inc.**

Notes to the Consolidated Financial Statements

(expressed in US dollars)

On May 31, 2010, the Company and AL Global Corporation, a California corporation (d.b.a. Youngevity) ("Youngevity") agreed to terminate the Agreement and Plan of Merger entered into on November 21, 2009 providing for the acquisition of Youngevity by the Company.

Effective May 31, 2010, the Company accepted the resignations of both Mr. Joel D. Wallach as Chairman of the Board of Directors and Mr. Stephan R. Wallach as the Chief Executive Officer, President and Secretary.

On December 31, 2010, the Company and Regeneca International, Inc. ( Regeneca ) entered into an Agreement and Plan of Merger ( Merger Agreement ), pursuant to which EEI Acquisition Corporation, Inc., a wholly-owned subsidiary of the Company, shall merge with and into Regeneca. As a result of the Merger between Regeneca and the Company, all of Regeneca's common stock shall be converted into a number of shares of the Company's common stock that will represent fifty-one percent (51%) of the outstanding shares of the Company, on a fully diluted basis.

As of December 31, 2010, Bruce Tackmann resigned as the only officer and director of the Company. Matthew Nicosia, Adam Vincent Gilmer, Jan Hall, Francis Chen and James C. Short were appointed as directors of the Company (with Francis Chen being the Chairman of the Board). Matthew Nicosia, Adam Vincent Gilmer, Daniel R. Kerker and Christopher A. Wilson were appointed as the Chief Executive Officer, President, Chief Financial Officer/Treasurer and Secretary, respectively.

On December 31, 2010, the Company entered into an Employment Agreement with Matthew Nicosia who shall serve as the Chief Executive Officer of the Company for a term of two (2) years in exchange for a base salary of two hundred seventy-five thousand dollars (\$275,000).

On December 31, 2010, the Company entered into an Employment Agreement with Adam Vincent Gilmer who shall serve as the President of the Company for a term of two (2) years in exchange for a base salary of two hundred seventy thousand dollars (\$270,000).

On December 31, 2010, the Company entered into an Employment Agreement with James C. Short who shall serve as the Vice President of Investor Relations for the Company for a term of two (2) years in exchange for a base salary of

one hundred twenty thousand dollars (\$120,000).

On December 31, 2010, the Company entered into an Employment Agreement with Daniel R. Kerker who shall serve as the Chief Financial Officer of the Company in exchange for a monthly salary of five thousand dollars (\$5,000).

On December 31, 2010, the Company adopted the 2010 Equity Incentive Plan, pursuant to which the Company is authorized to issue up to 20% of its outstanding shares of common stock to its employees, executives and consultants.

On March 2, 2011, the Company entered into a License Agreement with Mitch Huhem and One Step Millionaire, LLC (collectively, "Licensor"), whereby the Licensor granted to the Company a perpetual, royalty-bearing, exclusive, worldwide, transferable, sublicensable license to the One Step Millionaire program ("Licensed Product") to formulate, design, develop, improve, produce, distribute, sell and use and exploit the Licensed Product for a period of twenty (20) years.

On May 6, 2011, each of Francis W. Chen and Jan Hall, directors of the Company, resigned from their position on the Board of Directors.

## ITEM 9.

### **CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

On June 15, 2009, M&K CPAS, PLLC ( MKC ) was appointed as the registered independent public accountant for the Company. On June 15, 2009, Moore & Associates, Chartered ( Moore ), was dismissed as the registered independent public accountant for the Company. The decisions to appoint MKC and dismiss Moore were approved by the Board of Directors of the Company on June 15, 2009.

During the fiscal years ended December 31, 2008 and 2007 and the subsequent interim period up through the date of dismissal (June 15, 2009), there were no disagreements with Moore on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Moore, would have caused Moore to make reference thereto in its report on the Companys financial statements for such years. Further, there were no reportable events as described in Item 304(a)(1)(iv)(B) of Regulation S-B occurring within the Company's two most recent fiscal years and the subsequent interim period up through the date of dismissal (June 15, 2009).

The audit report of Moore for the financial statements of the Company as of December 31, 2008, which audit report also includes the financial statements as of December 31, 2007, contained a separate paragraph stating:

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred an accumulated deficit of \$51,029,259, which raises substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

During the Company's two most recent fiscal years and the subsequent interim period up through the date of engagement of MKC (June 15, 2009), neither the Company nor anyone on its behalf consulted MKC regarding the application of accounting principles to a specific completed or contemplated transaction, or the type of audit opinion that might be rendered on the Company's financial statements. Further, MKC has not provided written or oral advice to the Company that was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issues.

In addition to the above, the PCAOB revoked the registration of Moore on August 27, 2009 because of violations of PCAOB rules and auditing standards in auditing financial statements, PCAOB rules and quality control standards, and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, and non-cooperation with the PCAOB investigation.

The Company has requested that Moore and Associates, Chartered furnish it with a letter addressed to the Securities and Exchange Commission stating whether it agrees with the above statements in this amended report. As of the date of filing, Moore has not responded to such request.

## **ITEM 9A(T).**

### **CONTROLS AND PROCEDURES.**

#### **Evaluation of Disclosure Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were not effective to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. 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. Due to 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, have been detected. To address the material weaknesses, we performed additional analysis and other post-closing procedures in an effort to ensure our consolidated financial statements included in this annual report have been prepared in accordance with generally accepted accounting principles. Accordingly, management believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.





## **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2009 using the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. In its assessment of the effectiveness of internal control over financial reporting as of December 31, 2009, the Company determined that there were control deficiencies that constituted material weaknesses, as described below.

1.

*We identified fraudulent activities during the prior period*

During the fiscal year ended December 31, 2008, we became aware of fraudulent activities conducted by our former Chief Executive Officer, Enrique de Vilimorin ( deVilimorin ). Upon notice of the fraudulent activities, we forced the resignation of de Vilimorin on September 5, 2008 and filed a Form 8-K indicating that the previous financial statements dating back to the year ended December 31, 2006 were materially misstated due to fraudulent financial reporting and management override of internal controls and operations by de Vilimorin.

In addition, we also asked for the resignation of the Company's Board of Directors, Jose Manuel Escobedo and Luis Willars, for their failure to act as an appropriate oversight over management in identifying and addressing the fraudulent activities conducted by de Vilimorin.

The restated audited financial statements for the years ended December 31, 2007 and 2006 were filed in a Form 10-K/A with the SEC on November 20, 2008. The Company is currently pursuing legal action against the former Chief Executive Officer for losses relating to the inappropriate use of Company assets, including cash, and is seeking necessary remedies to minimize our losses.

2.

*We do not have sufficient segregation of duties.*

The Company has limited resources to hire appropriate personnel for accounting and financial reporting. As of December 31, 2009, the Company does not have appropriate segregation of duties between those who have access and ability to post journal entries in the Company's general ledger and between those who have cash handling abilities.

3.

*We do not have sufficient controls surrounding management and independent review of transactions.*

As of December 31, 2009, we have not implemented sufficient internal controls surrounding independent management review of material documents and transactions such as review of sales invoices prior to issuance to the customers, and review and authorization of monthly bank reconciliations. However these material weaknesses have been mitigated by the fact that the Chief Executive Officer reviews the daily sales invoice report and the daily cash transactions report commencing in September 2008.

4.

*We do not have appropriate controls over cash*

As of December 31, 2009, the Company has not maintained sufficient internal controls over financial reporting over our cash management process, including the fact that the Company's bank accounts do not require dual signature. However, this material weakness has been mitigated commencing in September 2008 with the mandatory review and approval of all expenditures by the Chief Executive Officer and the review of daily cash transaction information by the Chief Executive Officer.

5.

*We do not have a financial expert on the Audit Committee*

We did not have a formal Audit Committee until September 2008 subsequent to the resignation of our former Chief Executive Officer and the Board of Directors. With the appointment of new Board of Directors, we also created an Audit Committee to oversee the financial reporting requirements of the Company as well as providing necessary oversight over the Company's financial reporting process. Although an Audit Committee is not required, the Company has taken the initiative to implement appropriate oversight controls to prevent future fraudulent financial reporting

activities and to ensure that the Company maintains compliance with generally accepted accounting principles. As such, the Company's Audit Committee currently does not have a financial expert.

Accordingly, the Company concluded that these control deficiencies resulted in a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by the company's internal controls.

As a result of the material weaknesses described above, management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2009 based on criteria established in Internal Control - Integrated Framework issued by COSO.

### **Continuing Remediation Efforts to address deficiencies in Company's Internal Control over Financial Reporting**

Our Board of Directors, in particular and in connection with the aforementioned deficiencies, anticipates undertaking the following remediation measures:

1. Our Board of Directors will nominate additional members to our Audit Committee, including at least one Audit Committee member who has the capabilities of being a financial expert for the purpose of fully developing our internal controls over financial reporting in accordance with COSO and to provide the necessary oversight of management relating to financial reporting.
2. We will address the lack of segregation of duties between personnel who have access to posting and editing journal entries on the Company's general ledger and also having cash handling responsibilities.
3. We will address the issue of management review of significant transactions including a formal process to review and approve sales transactions and formal controls over the review and approval of monthly bank reconciliations.

### **ITEM 9B.**

### **OTHER INFORMATION**

None.

### **PART III**

#### **ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The following sets forth the names and ages, as of December 31, 2009, of the members of the Board of Directors, their respective positions and offices with the Company, the period during which each has served as a director of the Company and their principal occupations or employment during the past five years.

| <b>Name</b>         | <b>Age</b> | <b>Position</b>                          | <b>Director/Officer Since</b> |
|---------------------|------------|--|-------------------------------|
| Corey P. Schlossman | 54         | Director                                 | 2008 <sup>(1)</sup>           |
| Joel D. Wallach     | 69         | Director                                 | 2009 <sup>(2)</sup>           |
| Stephan R. Wallach  | 42         | CEO, President, Secretary                | 2009 <sup>(3)</sup>           |
| Thomas W. Maher     | 66         | Chief Financial Officer and<br>Treasurer | 2006 <sup>(4)</sup>           |
| Bruce Tackman       | 59         | Director                                 | 2008 <sup>(5)</sup>           |

(1)

On November 21, 2009, Mr. Corey P. Schlossmann resigned from his positions as Chief Executive Officer, President and Secretary of the Company, but remained a Director of the Company.

(2)

On November 21, 2009, Dr. Joel D. Wallach was appointed as Chairman of the Board of Directors.

(3)

On November 21, 2009, Mr. Stephan R. Wallach was appointed as Chief Executive Officer, President, and Secretary.

(4)

On December 4, 2006, Mr. Thomas W. Maher was appointed as Chief Financial Officer of the Company.

(5)

On September 25, 2008, Mr. Bruce Tackman was appointed as a Director of the Company.

All directors serve until their successors have been duly elected and qualified, unless they earlier resign.



**Mr. Corey P. Schlossmann** Mr. Schlossmann has served as TruckCenter.com's CEO since October 2006. Prior to serving as CEO of TruckCenter.com Mr. Schlossmann held the position of CEO at Nationwide Auction Systems from October 1999 until his departure in September of 2006 when he acquired Truckcenter.com from Nationwide. During Mr. Schlossmann's tenure at Nationwide, he led Nationwide's internal development and external expansion efforts. This included strategic planning, technology upgrades and development, strategic planning, the implementation of a professional sales and marketing team and identification and negotiations with potential acquisition targets. Prior to joining Nationwide he was a consultant to Nationwide for approximately five years, and served as acting CEO and CFO from January 1999 until his permanent appointment in October of that year. He has twenty years of experience as a business management consultant and certified public accountant. He has advised various small to mid-size companies in the areas of taxation, preparing business plans, evaluations and has performed due diligence in the analysis of potential acquisitions, business ventures and transactions. Most recently, he was a partner with Gordon, Fishburn & Schlossmann, LLP, Certified Public Accountants (1995-1998) and has served as accountant and advisor to Nationwide for the past four years. Prior to that, he was a partner with Hankin & Company (1988-1995), a full service consulting firm focused on implementing strategic solutions for owner managed businesses and forensic consulting. Mr. Schlossmann served as Senior Tax Manager at Price Waterhouse (1983-1988), providing integrated tax planning and advisory services to high-tech, high-growth companies as well as to high-net-worth individuals. Mr. Schlossmann received his Bachelor of Science Degree (summa cum laude) in Business Administration and Accounting from California State University, Northridge.

**Dr. Joel D. Wallach** Dr. Joel Wallach has been involved in bio-medical research for over forty years, receiving his Bachelors of Science degree in 1962 from the University of Missouri. Majoring in Animal Husbandry (Nutrition) with a minor in Field Crops and Soil, Dr. Wallach received his Doctor of Veterinary Medicine Degree in 1964 from the University of Missouri. Dr. Wallach has worked for many Zoos and Universities across the US, at one point working with Mutual of Omaha's Marlin Perkins at the St. Louis Zoo. Dr. Wallach also received his ND degree (Naturopathic Medicine) in 1982 and he has been licensed in Oregon for more than twenty years. He has written more than 70 scientific papers, as well as six books including **Diseases of Exotic Animals** (a 1200 page Veterinary text book). Dr. Wallach achieved the prestigious rank of Eagle Scout as a Boy Scout and continues to support the Boy Scouts today, even establishing a local Cub Scout group in San Diego. Dr. Wallach now dedicates his time to lecturing on the benefits of Nutrition around the world and works to lobby the US government on behalf of the Supplement Industry, as a dedicated advocate to making better nutrition available to the public. Dr. Wallach is a member of the California Association of Naturopathic Physicians. Dr. Wallach has been associated with Youngevity®, a leading designer of dietary supplements and cutting-edge personal care and wellness lifestyle products, since it was founded in 1997.

**Mr. Stephan R. Wallach** Steve Wallach is the CEO of Youngevity®, and has been since it was founded in 1997. With over 15 years of sales and network marketing experience, Steve Wallach has successfully guided the company through mergers and acquisitions, various battles with the FDA and the daily challenges of running a corporation. Sharing his father's passion for access to true and accurate health information, Steve spearheads Youngevity's® ongoing battle against the FDA's censorship of nutritional information. He is a frequent talk radio program guest and speaks eloquently about our mission to get information into the hands of the general public, allowing them to make informed healthcare decisions. His history as a successful distributor provides Steve with a unique perspective in an often tumultuous industry, giving him hands-on experience to draw upon and providing a solid foundation for leadership. Steve's business philosophy reflects his strong belief that passion should be the driving force behind any organization, with flexibility and efficiency being key elements along the road to success in the business world.



Having assembled a dynamically talented and experienced management team, coupled with a solid infrastructure, Steve has positioned the company for steady growth both domestically and internationally.

**Thomas W. Maher** Mr. Maher brings to the company over 20 years of senior financial management experience. Over this period, he has served as Chief Financial Officer for both privately held and publicly reporting corporations. Over the past 10 years he has served as a Chief Financial Officer of a publicly traded international sign manufacturing company, Luminart Corp., and as a Chief Financial Officer of a commercial construction general contracting firm RC Vannatta Inc. Mr. Maher has a MBA degree in Finance and Economics from the University of Detroit.

**Bruce A. Tackman** -President & Chairman of the Board (Retired), Kavlico Corporation, Automotive, Industrial, and Aerospace products, Moorpark, California, 1985 2004. Mr. Tackman received a B.S. degree in finance from La Verne University, and studied international finance at the University of Southern California. He joined Kavlico Corporation in 1985 as CFO, becoming V.P. of Finance in 1990 for worldwide operations. He was appointed President & CEO in 2000 after successfully divesting the Company to CMAC, an international electronic and telecommunication firm. Mr. Tackman retired from Kavlico Corporation in 2004. He was a member of the Presidents Supplier council for Cummins Engine, and responsible for the development of international automotive sales in Europe, South America, and Asia, supplying electronic sensors to the majority of automotive OEM's throughout the world. Kavlico was the largest manufacturer of position sensors used on every aircraft in the world. He serves on the Board for two Southern California colleges and was a Director for Los Robles Regional Medical Center for seven years.

## INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

### *Involvement in certain legal proceedings.*

During the past ten years no director, executive officer, promoter or control person of the Company has been involved in the following:

(1)

A petition under the Federal bankruptcy laws or any state insolvency law which was filed by or against, or a receiver, fiscal agent or similar officer was appointed by a court for the business or property of such person, or any partnership in which he was a general partner at or within two years before the time of such filing, or any corporation or business association of which he was an executive officer at or within two years before the time of such filing;

(2)

Such person was convicted in a criminal proceeding or is a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses);

(3)

Such person was the subject of any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him from, or otherwise limiting, the following activities:

i.

Acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such

activity;

ii.

Engaging in any type of business practice; or

iii.

Engaging in any activity in connection with the purchase or sale of any security or commodity or in connection with any violation of Federal or State securities laws or Federal commodities laws;

(4)

Such person was the subject of any order, judgment or decree, not subsequently reversed, suspended or vacated, of any Federal or State authority barring, suspending or otherwise limiting for more than 60 days the right of such person to engage in any activity described in paragraph (f)(3)(i) of this section, or to be associated with persons engaged in any such activity;

(5)

Such person was found by a court of competent jurisdiction in a civil action or by the Commission to have violated any Federal or State securities law, and the judgment in such civil action or finding by the Commission has not been subsequently reversed, suspended, or vacated;

(6)

Such person was found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission to have violated any Federal commodities law, and the judgment in such civil action or finding by the Commodity Futures Trading Commission has not been subsequently reversed, suspended or vacated;

(7)

Such person was the subject of, or a party to, any Federal or State judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of:

i.

Any Federal or State securities or commodities law or regulation; or

ii.

Any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order; or

iii.

Any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or

(8)

Such person was the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

***Section 16(a) Beneficial Ownership Reporting Compliance***

Section 16 of the Securities Exchange Act of 1934 requires the Company's directors and certain executive officers and certain other beneficial owners of the Company's common stock to periodically file notices of changes in beneficial ownership of common stock with the Securities and Exchange Commission. To the best of the Company's knowledge, based solely on copies of such reports received by it, and the written representations of its officers and directors, the Company believes that for 2009 all required filings were timely filed by each of its current directors and executive officers, with the exception of a Form 3 by each of Joel Wallach and Stephan Wallach.

***Code of Ethics***

We have adopted a Code of Ethics and Business Conduct for Officers, Directors and Employees that applies to all of our officers, directors and employees.

***Audit Committee***

We created an Audit Committee on September 25, 2008 to oversee our internal controls and financial reporting process. At December 31, 2009, Mr. Schlossmann was the Chairman of our Audit Committee.

**ITEM 11.**

**EXECUTIVE COMPENSATION**

***Summary Compensation Table***

The following table sets forth the overall compensation earned over each of the past two fiscal years ending December 31, 2009 by (1) each person who served as the principal executive officer of the Company during fiscal year 2009; (2) the Company's most highly compensated executive officers as of December 31, 2009 with compensation during fiscal year 2009 of \$100,000 or more; and (3) those individuals, if any, who would have otherwise been included in section (2) above but for the fact that they were not serving as an executive of the Company as of December 31, 2009.

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The following executive compensation was paid during 2008 or 2009:

| Name and<br>Principal<br>Position   | Fiscal<br>Year | Salary<br>(\$) | Bonus<br>(\$) | Salary Compensation     |  | Options<br>Awards<br>(\$)(1) | Non-Equity<br>Incentive Plan<br>Compensation<br>(\$) | Nonqualified<br>Deferred<br>Compensation<br>Earnings<br>(\$) | All Other<br>Compensation<br>(\$)(2)(3) | Total<br>(\$) |
|---|----------------|----------------|---------------|-------------------------|--|------------------------------|--|--|---|---------------|
|   |                |                |               | Stock<br>Awards<br>(\$) |  |                              |  |  |   |               |
| Corey<br>Schlossmann,<br><br>Former CEO,<br>President,<br>CFO, Treasurer,<br>Secretary<br><br>and Current<br>Director (1) | 2008           | \$ 46,923      | \$ --         | 150,000                 |  | \$176,000                    | --   | --   | --                                      | \$372,923     |
|   | 2009           | \$203,077      | \$ --         | 355,936                 |  | \$ --                        | --   | --   | --                                      | \$559,013     |
| Thomas W.<br>Maher -<br>CFO and<br>Treasurer  | 2008           | \$ 84,000      | \$1,250       | --                      |  | \$ --                        | --   | --   | --                                      | \$ 85,250     |
|   | 2009           | \$ 84,000      | \$ --         | 46,722                  |  | \$ --                        | --   | --   | --                                      | \$130,722     |
| Enrique de<br>Vilmorin<br><br>Former CEO &<br><br>President (3)   | 2008           | \$166,154      | \$ --         | --                      |  | \$ --                        | --   | --   | --                                      | \$166,154     |
| Joel D.<br>Wallach(4)<br><br>Director   | 2009           | \$ --          | \$ --         | --                      |  | \$ --                        | --   | --   | --                                      | \$ --         |
| Stephan R.<br>Wallach(5)<br><br>CEO, President,<br>Secretary  | 2009           | \$ --          | \$ --         | --                      |  | \$ --                        | --   | --   | --                                      | \$ --         |
| Bruce Tackman<br>Director(6)  | 2008           | \$ 10,000      | \$ --         | --                      |  | \$ 88,000                    | --   | --   | --                                      | \$ 98,000     |
|   | 2009           | \$ --          | --            | 85,000                  |  | \$ --                        | --   | --   | --                                      | \$ 85,000     |
|   | 2008           | 10,000         | --            | --                      |  | \$ 88,000                    | --   | --   | --                                      | \$ 98,000     |

Howard

Landa(7)

|                 |      |    |    |    |        |    |    |    |    |    |    |        |
|-----------------|------|----|----|----|--------|----|----|----|----|----|----|--------|
| Former Director | 2009 | \$ | -- | -- | 42,500 | \$ | -- | -- | -- | -- | \$ | 42,500 |
|-----------------|------|----|----|----|--------|----|----|----|----|----|----|--------|

(1)

On November 21, 2009, Mr. Corey P. Schlossmann resigned from his positions as Chief Executive Officer, President and Secretary of the Company, but remained a Director of the Company.

(2)

On February 9, 2010, Mr. Thomas W. Maher resigned from his positions as Chief Financial Officer of the Company.

(3)

On September 5, 2008, Mr. Enrique de Vilmorin resigned from his positions as Chief Executive Officer, President and Chairman of the Board of Directors of the Company.

(4)

On November 21, 2009, Dr. Joel D. Wallach was appointed as Chairman of the Board of Directors.

(5)

On November 21, 2009, Mr. Stephan R. Wallach was appointed as Chief Executive Officer, President, and Secretary.

(6)

On September 25, 2008, Bruce Tackman was appointed as a Director of the Company.

(7)

On November 21, 2009, Howard Landa resigned as a member of the Board of Directors.

There were no stock options granted or exercised by the named executive officers in 2009.

## GRANTS OF PLAN BASED AWARDS

| Estimated Future     |            |             |        |         |             |                         |         |                 |                          |                           |            |
|----------------------|------------|-------------|--------|---------|-------------|-------------------------|---------|-----------------|--------------------------|---------------------------|------------|
| Payouts Under        |            |             |        |         |             | Estimated Payouts Under |         |                 |                          |                           |            |
| Non-Equity Incentive |            |             |        |         |             | Equity Incentive        |         |                 |                          |                           |            |
| Name                 | Grant Date | Plan Awards |        |         | Plan Awards |                         |         | All Other Stock | All Other Option Awards; | Exercise or Base Price of | Grant Date |
|                      |            | Threshold   | Target | Maximum | Threshold   | Target                  | Maximum |                 |                          |                           |            |
|                      |            | (\$)        | (\$)   | (\$)    | (#)         | (#)                     | (#)     |                 |                          |                           |            |



|   |   |                             |  |
|---|---|-----------------------------|--|
| Awards;<br>Number<br>of<br>Shares<br>of Stock<br>or Units | Number of<br>Securities<br>Underlying<br>Options<br>(#) | Option<br>Awards<br>(\$/Sh) | Value<br>of Stock<br>and<br>Option<br>Awards |
|---|---|-----------------------------|--|

(#)

There were no other stock based awards under the Stock Incentive Plan in 2009 to the Named Executive Officers.

*Executive Officer Outstanding Equity Awards at Fiscal Year-End*

The following table provides certain information concerning any common share purchase options, stock awards or equity incentive plan awards held by each of our named executive officers that were outstanding as of December 31, 2009.

| Name                 | Option Awards   |   |   |                            |                        | Stock Awards  |  |   |   |   |
|----------------------|---|---|---|----------------------------|------------------------|---|--|---|---|---|
|                      | Equity Incentive Plan Awards:                           |   |   |                            |                        | Equity Incentive Plan Awards:                               |  |   |   |   |
|                      | Number of Securities Underlying Unexercised Options (#) | Number of Securities Underlying Unexercised Options (#) | Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Value of Shares or Units of Stock That Have Not Vested | Number of Shares or Units of Stock That Have Not Vested | Market or Payout Value of Unearned Awards | Market or Payout Value of Unearned Awards |
| Corey P. Schlossmann |   |   |   |                            |                        |   |  |   |   |   |
| CEO & President(1)   |   |   |   |                            |                        |   |  |   |   |   |
| Thomas Maher         |   |   |   |                            |                        |   |  |   |   |   |
| Former CFO(2)        |   |   |   |                            |                        |   |  |   |   |   |



(1)

On November 21, 2009, Mr. Corey P. Schlossmann resigned from his positions as Chief Executive Officer, President and Secretary of the Company. Then, on November 22, 2010 Mr. Schlossman was reappointed as interim President, Chief Executive Officer, Chief Financial Officer, Treasurer and Secretary, upon the resignation and departure of such officers.

(2)

On February 9, 2010, Mr. Thomas W. Maher resigned from his positions as Chief Financial Officer of the Company. On February 9, 2010 Mr. Corey P. Schlossman was appointed as interim Chief Financial Officer.

#### **OPTION EXERCISES AND STOCK VESTED**

There were no options exercised or stock vested during the year ended December 31, 2009.

#### **PENSION BENEFITS AND NONQUALIFIED DEFERRED COMPENSATION**

The Company does not maintain any qualified retirement plans or non-nonqualified deferred compensation plans for its employees or directors.

#### **EMPLOYMENT AGREEMENTS**

None.

#### **DIRECTOR COMPENSATION**

**Cash Compensation**

Director compensation varies on a per meeting basis.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth certain information regarding beneficial ownership of our common stock as of December 31, 2009: (i) by each of our directors, (ii) by each of the Named Executive Officers, (iii) by all of our executive officers and directors as a group, and (iv) by each person or entity known by us to beneficially own more than five percent (5%) of any class of our outstanding shares. As of December 31, 2009 there were 102,150,306 shares of our common stock outstanding:

| Name and Address of Beneficial Owner                     | Common Stock                        |                                 |
|--|-------------------------------------|---------------------------------|
|  | Beneficial Ownership <sup>(1)</sup> | Percent of Class <sup>(1)</sup> |
| <b><u>Directors and Named Executive Officers</u></b>     |                                     |                                 |
| Corey P. Schlossmann <sup>(2) (3)</sup>                  | 29,254,413                          | 28.64 %                         |
| Thomas W. Maher <sup>(2) (4)</sup>                       | 375,000                             | *                               |
| Bruce Tackman <sup>(2) (5)</sup>                         | 500,000                             | *                               |
| Howard Landa <sup>(2) (6)</sup>                          | 250,000                             | *                               |
| Joel Wallach <sup>(2)</sup>                              | 0                                   | 0%                              |
| Stephan Wallach <sup>(2)</sup>                           | 0                                   | 0%                              |
| Officers and Directors as a Group (4 Persons)            | 30,379,013                          | 29.74%                          |
| <b><u>Other Beneficial Owners</u></b>                    |                                     |                                 |
| GreenBridge Capital Partners, IV, LLC <sup>(7) (9)</sup> | 54,321,341                          | 53.18%                          |
| Joseph D. Kowal <sup>(9)</sup>                           | -- <sup>(8)</sup>                   | --                              |
| Total  | 57,540,084                          | 56.33%                          |

\* Indicates less than 1%.



(1) Applicable percentage of ownership is based on 102,150,306 shares of common stock outstanding on December 31, 2009. Percentage ownership is determined based on shares owned together with securities exercisable or convertible into shares of common stock within 60 days of December 31, 2009 for each stockholder. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to securities exercisable or convertible into shares of common stock that are currently exercisable or exercisable within 60 days of December 31, 2009 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Our common stock is our only issued and outstanding class of securities eligible to vote.

(2) Address of the referenced individual is c/o Ethos Environmental, Inc., 6800 Gateway Park Drive, San Diego, CA 92154.

(3) Corey P. Schlossmann resigned as Chief Executive Officer, President, and Secretary of the Company on November 21, 2009, but remained on as a Director of the Company. His ownership includes 27,160,670 shares owned by GreenBridge Capital Partners, IV, LLC, and 800,000 shares of common stock issuable upon exercise of stock options that are exercisable within 60 days of December 31, 2009.

(4) Thomas W. Maher resigned as our Chief Financial Officer and Treasurer on February 9, 2010.

(5) Bruce Tackman is a member of our Board of Directors. Ownership includes 500,000 shares of common stock issuable upon exercise of stock options that are exercisable within 60 days of December 31, 2009.

(6) Howard Landa resigned as a member of our Board of Directors on November 21, 2009. Ownership includes 250,000 shares of common stock issuable upon exercise of stock options that are exercisable within 60 days of December 31, 2009.

(7) Greenbridge Capital Partners, IV, LLC, is equally owned by Mr. Joseph D. Kowal and Mr. Corey P. Schlossman.

(8) Mr. Kowal's ownership includes 27,160,671 shares owned by GreenBridge Capital Partners, IV, LLC, and 800,000 shares of common stock issuable upon exercise of stock options that are exercisable within 60 days of December 31, 2009.

(9) Address of the referenced entity is 20130 Via Celline, Porter Ranch, CA 91326

### ***Changes in Control***

We know of no plans or arrangements that will result in a change of control at our company.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

None.

### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

|                    | <b>Year Ended</b>        | <b>Year Ended</b>        |
|--------------------|--------------------------|--------------------------|
|                    | <b>December 31, 2008</b> | <b>December 31, 2009</b> |
| Audit fees         | 151,000                  | 40,000                   |
| Audit-related fees | Nil                      | Nil                      |
| Tax fees           | Nil                      | Nil                      |
| All other fees     | Nil                      | Nil                      |
| Total              | 151,000                  | 40,000                   |

For the years ended December 31, 2009 and 2008, we incurred fees as discussed below.

*Audit Fees: M&K CPAS, PLLC fees* totaled \$40,000 for 2008 and \$40,000 for 2009.

*Audit Fees: Peterson Sullivan PLLC fees* totaled \$28,000 for 2008.

*Audit Fees: Moore & Associates, Chartered fees* totaled \$83,000 for 2008.





## **PART IV**

### **ITEM 15. EXHIBITS.**

(a)

Documents filed as part of this Report.

#### **1.**

**Financial Statements.** The Consolidated Balance Sheet of Ethos Environmental, Inc., and subsidiaries as of December 31, 2009 and 2008, the Consolidated Statements of Operations for the year ended December 31, 2009 and 2008, the Consolidated Statements Stockholders Equity (Deficit) from inception of development stage to December 31, 2009, and Statements of Cash Flows for the year ended December 31, 2009, and together with the notes thereto and the report of M&K CPAS, PLLC thereon appearing in Item 8 are included in this 2009 Annual Report on Form 10-K.

#### **3.**

**Exhibits.** The following exhibits are either filed as a part hereof or are incorporated by reference. Exhibit numbers correspond to the numbering system in Item 601 of Regulation S-K.

| <b>Exhibit Number</b> | <b>Description of Exhibit</b>   | <b>Filing</b>   |
|-----------------------|---|---|
| 3.01                  | Articles of Incorporation and Amendments  | Filed with the SEC on April 6, 2000 as part of our Registration Statement on Form 10SB12G.          |
| 3.01(a)               | Articles of Amendment to Articles of Incorporation                                      | Filed with the SEC on April 25, 2006 as part of our Preliminary Information Statement on Form 14-C. |
| 3.02                  | Bylaws  | Filed with the SEC on April 6, 2000 as part of our Registration Statement on Form 10SB12G.          |
| 10.1                  | Promissory Note issued to Brian Quinn dated January 18, 2008.                           | Filed with the SEC on January 24, 2008 as part of our Current Report on Form 8-K.                   |
| 10.2                  | Promissory Note issued to Patricia Applegate dated March 26, 2008.                      | Filed with the SEC on March 27, 2008 as part of our Current Report on Form 8-K.                     |
| 10.3                  | Securities Purchase Agreement between ETEV and Patricia Applegate dated March 26, 2008. | Filed with the SEC on March 27, 2008 as part of our Current Report on Form 8-K.                     |

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- 10.4 Promissory Note issued to Dick F. Chase dated March 31, 2008. Filed with the SEC on April 4, 2008 as part of our Current Report on Form 8-K.
- 10.5 Securities Purchase Agreement between ETEV and MKM Opportunity Master Fund, Limited dated August 1, 2008. Filed with the SEC on August 14, 2008 as part of our Quarterly Report on Form 10-Q.
- 10.6 Promissory Note issued to MKM Opportunity Master Fund, Limited dated August 1, 2008. Filed with the SEC on August 14, 2008 as part of our Quarterly Report on Form 10-Q.
- 10.7 Stock Purchase Agreement between ETEV and MKM Opportunity Master Fund, Limited dated August 1, 2008. Filed with the SEC on August 14, 2008 as part of our Quarterly Report on Form 10-Q.
- 10.8 Stock Purchase Warrant issued to MKM Opportunity Master Fund, Limited dated August 1, 2008. Filed with the SEC on August 14, 2008 as part of our Quarterly Report on Form 10-Q.
- 10.9 Settlement Agreement and General Mutual Release between ETEV and GreenBridge Capital Partners, IV, LLC dated October 16, 2008. Filed with the SEC on October 21, 2008 as part of our Current Report on Form 8-K.
- 10.10 Assumption Agreement between ETEV and Enrique de Vilmorin dated August 2, 2008. Filed with the SEC on October 21, 2008 as part of our Current Report on Form 8-K.
- 10.11 Promissory Note issued to Newport Investment Group Ltd. dated October 16, 2008. Filed with the SEC on October 21, 2008 as part of our Current Report on Form 8-K.
- 10.12 Private Placement Subscription Agreement between ETEV and MKM Opportunity Master Fund, Limited dated September 25, 2008. Filed with the SEC on November 19, 2008 as part of our Quarterly Report on Form 10-Q.
- 10.13 Stock Purchase Warrant issued to MKM Opportunity Master Fund, Limited dated October 1, 2008. Filed with the SEC on November 19, 2008 as part of our Quarterly Report on Form 10-Q.
- 10.14 Settlement Agreement and General Release between ETEV and MKM Opportunity Master Fund, Limited dated January 9, 2009. Filed with the SEC on January 14, 2009 as part of our Current Report on Form 8-K.
- 10.15 Promissory Note issued to MKM Opportunity Master Fund, Limited dated January 1, 2009. Filed with the SEC on January 14, 2009 as part of our Current Report on Form 8-K.
- 10.16 Stock Purchase Warrant issued to MKM Opportunity Master Fund, Limited dated December 1, 2008. Filed with the SEC on January 14, 2009 as part of our Current Report on Form 8-K.
- 10.17 Settlement Agreement and General Release between ETEV and Dick F. Chase dated January 1, 2009. Filed with the SEC on January 14, 2009 as part of our Current Report on Form 8-K.
- 10.18 Promissory Note issued to Dick F. Chase dated January 1, 2009. Filed with the SEC on January 14, 2009 as part of our Current Report on Form 8-K.
- 10.19 Form of Private Placement Securities Purchase Agreement dated January 8, 2009. Filed with the SEC on January 14, 2009 as part of our Current Report on Form 8-K.
- 10.20 Form of Private Placement Convertible Promissory Note dated January 9, 2009. Filed with the SEC on January 14, 2009 as part of our Current Report on Form 8-K.
- 10.21 Form of Private Placement Private Placement Common Stock Purchase Warrant dated January 9, 2009. Filed with the SEC on January 14, 2009 as part of our Current Report on Form 8-K.

|       |  |   |
|-------|--|---|
| 10.22 | Form of Private Placement Security Agreement dated January 9, 2009.  | Filed with the SEC on January 14, 2009 as part of our Current Report on Form 8-K.   |
| 10.23 | Operating Agreement between ETEV and ecoMates, LLC dated March, 2009.  | Filed with the SEC on April 15, 2009 as part of our Year End Report on Form 10-K.   |
| 10.24 | Operating Agreement between ETEV and Ethos Scientific, LLC dated March, 2009.  | Filed with the SEC on April 15, 2009 as part of our Year End Report on Form 10-K.   |
| 10.25 | Form of Private Placement Securities Purchase Agreement dated May 8, 2009.   | Filed with the SEC on May 13, 2009 as part of our Year End Report on Form 10-K.     |
| 10.26 | Private Placement Convertible Promissory Note issued May 8, 2009 to MKM Opportunity Master Fund.                         | Filed with the SEC on May 13, 2009 as part of our Year End Report on Form 10-K.     |
| 10.27 | Private Placement Common Stock Purchase Warrant issued May 8, 2009 to MKM Opportunity Master Fund.                       | Filed with the SEC on May 13, 2009 as part of our Year End Report on Form 10-K.     |
| 10.28 | Promissory Note issued May 8, 2009 to MKM Opportunity Master Fund.   | Filed with the SEC on May 13, 2009 as part of our Year End Report on Form 10-K.     |
| 10.29 | Common Stock Purchase Warrant issued May 8, 2009 to MKM Opportunity Master Fund.   | Filed with the SEC on May 13, 2009 as part of our Current Report on Form 8-K.       |
| 10.30 | Form of Promissory Note dated August 5, 2009.  | Filed with the SEC on August 11, 2009 as part of our Current Report on Form 8-K.    |
| 10.31 | Form of Stock Purchase Warrant dated August 5, 2009.   | Filed with the SEC on August 11, 2009 as part of our Current Report on Form 8-K.    |
| 10.32 | Form of Securities Purchase Agreement dated August 5, 2009   | Filed with the SEC on August 11, 2009 as part of our Current Report on Form 8-K.    |
| 10.33 | Promissory Note issued to Carrillo Huettel, LLP dated April 28, 2009.  | Filed with the SEC on August 14, 2009 as part of our Quarterly Report on Form 10-Q. |
| 10.34 | Stock Purchase Warrant issued to Carrillo Huettel, LLP dated April 28, 2009.   | Filed with the SEC on August 14, 2009 as part of our Quarterly Report on Form 10-Q. |
| 10.35 | Settlement Agreement and General Mutual Release between ETEV and Thrive Worldwide, LLC dated October 7, 2009.            | Filed with the SEC on October 14, 2009 as part of our Current Report on Form 8-K.   |
| 10.36 | Promissory Note issued to MKM Opportunity Master Fund, Limited dated October 7, 2009.                                    | Filed with the SEC on October 14, 2009 as part of our Current Report on Form 8-K.   |
| 10.37 | Assignment Agreement between Thrive Worldwide, LLC and MKM Opportunity Master Fund, Limited dated October 7, 2009.       | Filed with the SEC on October 14, 2009 as part of our Current Report on Form 8-K.   |
| 10.38 | Securities Purchase Agreement and Promissory Note issued to MKM Opportunity Master Fund, Limited dated November 2, 2009. | Filed with the SEC on November 9, 2009 as part of our Current Report on Form 8-K.   |
| 10.39 | Agreement and Plan of Merger between ETEV and Youngevity dated November 21, 2009   | Filed with the SEC on November 25, 2009 as part of our Current Report on Form 8-K.  |
| 14.1  | Code of Ethics   | Filed with the SEC on April 15, 2009 as part of our Annual Report on Form 10-K.     |
| 16.1  | Letter re: Change in Certifying Accountant from J.H. COHN LLP  | Filed with the SEC on January 24, 2008 as part of our Current Report on Form 8-K.   |
| 16.2  | Letter from former Auditor Moore & Associates  | Filed with the SEC on June 19, 2009 as part of our Current Report on Form 8-K.      |
| 21.1  | List of Subsidiaries   | Filed herewith.   |

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- 31.01 Certification of Principal Executive Officer Pursuant to Rule 13a-14 Filed herewith.
- 31.02 Certification of Principal Financial Officer Pursuant to Rule 13a-14 Filed herewith.
- 32.01 CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act Filed herewith.
- 32.02 CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act Filed herewith.

## SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 28<sup>th</sup> day of June 2011.

**REGENECA, INC.**  
a Nevada Corporation

By: /s/ Matthew Nicosia  
Matthew Nicosia  
Chief Executive Officer (Principal  
Executive Officer)  
  
and Director

/s/ Daniel Kerker  
Daniel Kerker  
Chief Financial Officer (Principal  
Financial Officer)  
  
and Principal Accounting Officer) and  
Treasurer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of Ethos Environmental, Inc. and in the capacities and on the dates indicated.

| Signature                                     | Position                             | Date          |
|---|--------------------------------------|---------------|
| <u>/s/ Matthew Nicosia</u><br>Matthew Nicosia | Chief Executive Officer and Director | June 28, 2011 |
| <u>/s/ Daniel Kerker</u>                      |                                      | June 28, 2011 |

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Daniel Kerker

*Chief Financial Officer, Principal Accounting  
Officer, and Treasurer*

/s/ Adam Gilmer  
Adam Gilmer

*President and Director*

June 28, 2011

/s/ Christopher Wilson  
Christopher Wilson

*Secretary*

June 28, 2011

/s/ James Short  
James Short

*Director*

June 28, 2011