Burlington Stores, Inc.
Form 10-K
March 31, 2014
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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 February 1, 2014

OR

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

For the transition period from __________ to __________

Commission File Number 001-36107

BURLINGTON STORES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**80-0895227**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
1830 Route 130 North	
Burlington, New Jersey	**08016**
(Address of Principal Executive Offices)	**(Zip Code)**

(609) 387-7800

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, par value $0.0001	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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 x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Indicate by 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 x (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of August 2, 2013, the last business day of the registrant s most recently completed second fiscal quarter, there was no established public trading market for the registrant s equity securities. The registrant s common stock began trading on the New York Stock Exchange on October 2, 2013.

As of March 19, 2014, 73,686,524 shares of common stock of the registrant were outstanding.

Documents Incorporated By Reference

None

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BURLINGTON STORES, INC.

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PART I

Item 1. Business

Overview

We are a nationally recognized retailer of high-quality, branded apparel at everyday low prices. We opened our first store in Burlington, New Jersey in 1972, selling primarily coats and outerwear. Since then, we have expanded our store base to 521 stores, inclusive of an internet store, in 44 states and Puerto Rico, and diversified our product categories by offering an extensive selection of in-season, fashion-focused merchandise, including: women s ready-to-wear apparel, menswear, youth apparel, baby, footwear, accessories, home and coats. We acquire a broad selection of desirable, first-quality, current-brand, labeled merchandise directly from nationally recognized manufacturers and other suppliers. For the fiscal year ended February 1, 2014, we generated total revenue of $4,462.0 million, net sales of $4,427.5 million, net income of $16.2 million, Adjusted EBITDA and Adjusted Net Income (as subsequently defined in this Form 10-K) of $383.7 million and $70.2 million, respectively.

As used in this Annual Report, the terms Company, we, us, or our refer to Burlington Stores, Inc. and all its subsidiaries. We were organized in 2013 under the name Burlington Holdings, Inc. and currently exist as a Delaware corporation. Our indirect subsidiary, Burlington Coat Factory Warehouse Corporation (BCFWC), was initially organized in 1972 as a New Jersey corporation, was reincorporated in 1983 in Delaware when the company originally became a public company and currently exists as a Delaware corporation. BCFWC became a direct, wholly-owned subsidiary of Burlington Coat Factory Investments Holdings, Inc. in connection with the acquisition of BCFWC on April 13, 2006 by affiliates of Bain Capital Partners, LLC (along with its associated investment funds, or any successor to its investment management business, Bain Capital) in a take private transaction (the Merger Transaction) and became an indirect, wholly-owned subsidiary of ours on February 14, 2013, in connection with our corporate reorganization. We completed an initial public offering of our common stock in October 2013. Affiliates of Bain Capital continue to beneficially own a controlling interest of our common stock.

Fiscal Year End

We define our fiscal year as the 52 or 53 week period ending on the Saturday closest to January 31. This is an annual report for the 52 week fiscal year ended February 1, 2014 (Fiscal 2013). The fiscal year ended February 2, 2013 consisted of 53 weeks (Fiscal 2012) and the fiscal year ended January 28, 2012 (Fiscal 2011) consisted of 52 weeks.

Our Stores

As of February 1, 2014, we operated 521 stores, inclusive of an internet store. Over 98% of our net sales are derived from our Burlington Coat Factory stores (BCF stores). We believe that our customers are attracted to our stores principally by the availability of a large assortment of first-quality current brand-name merchandise at everyday low prices.

BCF stores offer customers a complete line of value-priced apparel, including: ladies sportswear, menswear, coats, and family footwear, as well as baby furniture, accessories, home decor and gifts. We continue to emphasize our rich heritage of coats and outerwear and we believe that we are viewed as the destination for coat shoppers. Our broad selection provides a wide range of apparel, accessories and furnishing for all ages. We purchase both pre-season and in-season merchandise, allowing us to respond timely to changing market conditions and consumer fashion preferences. Furthermore, we believe BCF stores substantial selection of staple, destination products such as coats and products in our Baby Depot departments, as well as men s and boys suits, attracts customers from beyond our local trade areas. We believe these products drive incremental store-traffic and differentiate us from our competitors.

In some of our stores, we grant unaffiliated third parties the right to use designated store space solely for the purpose of selling such third parties goods, primarily fragrances. During Fiscal 2013, our rental income from all such arrangements aggregated less than 1% of our total revenues. We do not own or have any rights to any trademarks, licenses or other intellectual property used in connection with the brands sold by such unaffiliated third parties.

We believe the size of our typical store represents a competitive advantage. Our average store size is approximately 80,000 square feet, occupying significantly more selling square footage than most off-price or specialty store competitors. We believe major landlords frequently seek us as a tenant because the appeal of our apparel merchandise profile attracts a desired customer base and because we can take on larger facilities than most of our competitors. In addition, we have built long-standing relationships with major shopping center developers.

Our store base is geographically diversified with stores located in 44 states and Puerto Rico.

State	Number of Stores	State	Number of Stores	State	Number of Stores
AK	2	KY	4	NV	5
AL	7	LA	9	NY	34
AR	2	MA	13	OH	19
AZ	9	MD	15	OK	3
CA	59	ME	2	OR	4
CO	6	MI	17	PA	27
CT	10	MN	5	PR	12
DE	2	MO	7	RI	4
FL	35	MS	2	SC	5
GA	16	NC	10	TN	6
IA	2	ND	1	TX	51
ID	2	NE	1	UT	3
IL	28	NH	2	VA	17
IN	12	NJ	28	WA	6
KS	6	NM	2	WI	9

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Our store sales area is organized by merchandise category with flexibility to quickly expand or contract category offerings in response to changes in consumer preferences. Our typical store features open sight lines, bright overhead lighting and clear signage to promote easy navigation through the store. We highlight the best brands and freshest product in four way fixtures along the aisles with additional merchandise arranged by size in H-racks. We believe our clean, organized merchandise presentation highlights the brands, value, selection and sizing within assortments and promotes a self-service, treasure hunt experience for our customers.

Our stores are managed by our field organization, which is composed of corporate, territory, region and store-level managers. Our store managers are accountable for the sales and profitability of our stores. They are generally supported within the store by assistant managers and at the regional level by a team, led by a regional vice president and consisting of regional managers in operations, human resources and loss prevention. The regional vice president oversees the performance of the store managers and ensures that regional functional managers are providing the support necessary for the store managers to succeed. Further, our staffing model is designed such that there is a leadership team member accountable and on duty at all times.

Store Expansion and Real Estate Strategy

We continue to explore expansion opportunities both within our current market areas and in other regions. We believe that our ability to find satisfactory locations for our stores is essential for the continued growth of our business. The opening of stores generally is contingent upon a number of factors including, but not limited to, the availability of desirable locations with suitable structures and the negotiation of acceptable lease terms. There can be no assurance, however, that we will be able to find suitable locations for new stores or that even if such locations are found and acceptable lease terms are obtained, we will be able to open the number of new stores presently planned.

We have a proven track record of new store expansion. Our store base has grown from 13 stores in 1980 to 521 stores, inclusive of an internet store, as of February 1, 2014. Assuming that appropriate locations are identified, we believe that we will be able to execute our growth strategy without significantly impacting our current stores. The table below shows our store openings and closings since the beginning of our fiscal year ended January 29, 2011.

	As of January 29, 2011	As of January 28, 2012	As of February 2, 2013	As of February 1, 2014
Stores (Beginning of Period)	442	460	477	500
Stores Opened	25	20	25	23
Stores Closed	(7)	(3)	(2)	(2)
Stores (End of Period)	460	477	500	521

Distribution and Warehousing

We have two primary distribution centers that ship approximately 91% of merchandise units to our stores. The remaining 9% of merchandise units are drop shipped directly to our stores. The two distribution centers, located in Edgewater Park, New Jersey and San Bernardino, California, occupy an aggregate of 1,308,000 square feet and each includes processing and storage capacity.

In addition to our two primary distribution facilities, we operate warehousing facilities in Burlington, New Jersey, Redlands, California, Cinnaminson, New Jersey and Florence, New Jersey. The Burlington facility is a 402,000 square foot facility currently used for e-commerce fulfillment, the processing and storage of goods received on hangers, and remote storage for our Edgewater Park, New Jersey distribution center. The product stored at this facility is processed and shipped through our Edgewater Park facility. The Redlands facility, which we opened in August 2011, is a 295,000 square foot facility being used primarily as remote storage for our San Bernardino distribution center. The product stored at this facility is processed and shipped out of our San Bernardino distribution center.

	Calendar Year Operational	Size (sq. feet)	Leased or Owned
Edgewater Park, New Jersey	2004	648,000	Owned
San Bernardino, California	2006	660,000	Leased
Burlington, New Jersey	1987(1)	402,000	Owned
Redlands, California	2011	295,000	Leased
Cinnaminson, New Jersey	2013	218,000	Leased
Florence, New Jersey	2013	208,000	Leased

(1) Distribution activities in this warehouse ceased during the transition period from May 31, 2009 to January 30, 2010. Our current use of this warehouse commenced in Fiscal 2011.

We must continue to make investments in storage and processing to support our expected store growth over the next three to five years.

Customer Service

We are committed to providing our customers with an enjoyable shopping experience and strive to make continuous efforts to improve customer service. In training our employees, our goal is to emphasize knowledgeable, friendly customer service and a sense of professional pride. We offer our customers special services to enhance the convenience of their shopping experience, such as professional tailors, a baby gift registry and layaways.

We have empowered our store teams to provide an outstanding customer experience for every customer in every store, every day. We have streamlined processes and will continue to strive to create opportunities for fast and effective customer interactions. Our stores must reflect clean, organized merchandise presentations that highlight the brands, value, and diversity of selection within our assortments.

Our Off-Price Sourcing and Merchandising Model

Our open to buy off-price model enables us to provide our customers with products that are nationally branded, fashionable, high quality and priced right. Led by our Chief Merchandising Officer, we have an experienced team of General Merchandise Managers, Divisional Merchandise Managers and buyers focused on improving comparable store inventory turnover, inventory age and freshness of merchandise. We purchase merchandise from many suppliers, none of which accounted for more than 2% of our net purchases during Fiscal 2013. We have no long-term purchase commitments or arrangements with any of our suppliers, and believe that we are not dependent on any one supplier. We continue to have good working relationships with our suppliers.

We have designed our merchant organization so that buyers focus primarily on buying, planners focus primarily on planning, and information systems help inform data-driven decisions for both. Buyers are in market each week and focus on purchasing great products for great value. We seek to purchase a majority of our merchandise in-season. Buyers spend time interacting face-to-face with new and existing vendors and on continuously evaluating trends in the market to which we believe our customers would respond positively. In 2012, we instituted a Merchant Scorecard that rates products across four key attributes fashion, quality, brand and price to help formalize a framework for buying decisions.

Our merchandising model allows us to provide our customers with a wide breadth of product categories. Sales percentage by major product category is as follows:

Category	Fiscal 2011	Fiscal 2012	Fiscal 2013
Women s Ready-to-Wear Apparel	22%	23%	24%
Menswear	20%	20%	19%
Accessories and Footwear	20%	21%	21%
Coats	9%	8%	8%
Youth Apparel/Baby/Home	29%	28%	28%

E-Commerce

We employ an e-commerce strategy currently focused on increasing awareness of the breadth of our merchandise selection, great brands and values, as well as driving traffic to our stores and selling merchandise directly from our website. We execute our strategy through our website and through social media platforms such as Facebook, Twitter and Pinterest. In Fall 2013, we re-launched our website with significantly upgraded user experience including improved navigation, shopping functionality and a more modern layout to increase site traffic and conversion rates. This re-launch also included an expansion of the online merchandise assortment to include additional items across women s ready-to-wear apparel, menswear, youth apparel, baby, accessories, home and coats. As a part of this re-launch, we also updated the cross-channel Baby Registry currently serving our Baby Depot customers.

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Customer Demographic

Our core customer is the 25-49 year-old woman. The core customer is educated, resides in mid- to large-sized metropolitan areas and is a brand conscious fashion enthusiast. This customer shops for herself, her family, and her home. We appeal to value seeking and fashion conscious customers who are price-driven but enjoy the style and fit of high-quality, branded merchandise.

Marketing and Advertising

We use a variety of broad-based and targeted marketing strategies to efficiently deliver the right message to the targeted audience at the right time. These strategies include national television, direct mail, email, digital marketing, local radio and out-of-home communications. Our broad television broadcast communication and reach is balanced with relevant customer contacts to increase frequency of store visits.

Management Information Systems and Processes

We utilize a combination of primarily industry-standard third party and internally developed information technology and systems solutions across our business functions. We have implemented new merchandise planning and allocation systems, a business intelligence system and a markdown optimization system. These initiatives enhance the consistency of our execution and improve the scalability of these functions across a growing store base. We have also implemented a testing methodology which allows us to evaluate new initiatives across our entire organization and make data-driven decisions that support growth and minimize costs. To date, we have performed tests in store operations, merchandise presentation, advertising and marketing, among other areas.

Competition

The U.S. retail apparel and home furnishings markets are highly fragmented and competitive. We compete for business with department stores, off-price retailers, specialty stores, discount stores, wholesale clubs, and outlet stores. At various times throughout the year, traditional full-price department store chains and specialty shops offer brand-name merchandise at substantial markdowns, which can result in prices approximating those offered by us at our BCF stores.

Seasonality

Our business, like that of most retailers, is subject to seasonal influences, with the major portion of sales and income typically realized during the back-to-school and holiday seasons (September through January). Weather is also a contributing factor to the sale of our clothing. Generally, our sales are higher if the weather is cold during the Fall and warm during the early Spring.

Trademarks

We own the trademarks, service marks and tradenames that we use in connection with the operation of our business. Our trademarks include BCF, Burlington, Burlington Coat Factory, Cohoes, Luxury Linens, MJM Designer Sh and Baby Depot. We consider these trademarks and the accompanying name recognition to be valuable to our business. We believe that our rights to these properties are adequately protected. Our rights in these trademarks endure for as long as they are used.

Employees

As of February 1, 2014, we employed 30,095 people, including part-time and seasonal employees. Our staffing requirements fluctuate during the year as a result of the seasonality of our business. We hire additional employees and increase the hours of part-time employees during seasonal peak selling periods. As of February 1, 2014, employees at two of our stores were subject to collective bargaining agreements.

AVAILABLE INFORMATION

We make available, free of charge, through our internet website www.burlingtonstores.com, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). Such material is also available free of charge through us upon written request to the attention of our Corporate Counsel at the following address: Burlington Stores, Inc. 1830 Route 130 North, Burlington, New Jersey 08016. The public can read and copy materials at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549 and obtain information on the operation of the reference room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website containing all reports, proxies, information statements, and all other information regarding issuers that file electronically (http://www.sec.gov). The information contained on, or accessible through, our website is not part of this Annual Report on Form 10-K and is therefore not incorporated by reference.

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Item 1A. Risk Factors

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about us, the industry in which we operate and other matters, as well as management s beliefs and assumptions and other statements regarding matters that are not historical facts. For example, when we use words such as projects, expects, anticipates, intends, plans, believes, seeks, estimates, should, would, could, potential or may, variations of such words or other words that convey uncertainty of future events or outcomes, we are making forward looking statements within the meaning of Section 27A of the Securities Act of 1933 (Securities Act) and Section 21E of the Securities Exchange Act of 1934 (Exchange Act). Our forward-looking statements are subject to risks and uncertainties. Such statements include but are not limited to, proposed store openings and closings, proposed capital expenditures, projected financing requirements, proposed developmental projects, projected sales and earnings, our ability to maintain selling margins, and the effect of the adoption of recent accounting pronouncements on our consolidated financial position, results of operations and cash flows. Actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors that could cause actual results to differ materially from those estimated by us include: general economic conditions; competitive factors, including pricing and promotional activities of major competitors; our ability to successfully implement several of our strategic initiatives; the availability of desirable store locations on suitable terms; changing consumer preferences and demand; industry trends, including changes in buying, inventory and other business practices by customers; competitive factors, including pricing and promotional activities of major competitors; the availability, selection and purchasing of attractive merchandise on favorable terms; import risks; weather patterns, including, among other things, changes in year-over-year temperatures; our future profitability; our ability to control costs and expenses; unforeseen computer related problems; any unforeseen material loss or casualty; the effect of inflation; an increase in competition within the markets in which we compete; regulatory changes; changes in general and/or regional economic conditions; our relationships with employees; the impact of current and future laws; terrorist attacks, particularly attacks on or within markets in which we operate; natural and man-made disasters, including but not limited to fire, snow and ice storms, flood, hail, hurricanes and earthquakes; our substantial level of indebtedness and related debt-service obligations; restrictions imposed by covenants in our debt agreements; availability of adequate financing; our dependence on vendors for our merchandise; domestic events affecting the delivery of merchandise to our stores; existence of adverse litigation and risks; and each of the factors discussed in this Item 1A, Risk Factors as well as risks discussed elsewhere in this report.

While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. In addition, as a result of these and other factors, our past financial performance should not be relied on as an indication of future performance. The cautionary statements referred to in this section also should be considered in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report might not occur. Furthermore, we cannot guarantee future results, events, levels of activity, performance or achievements.

Set forth below are certain important risks and uncertainties that could adversely affect our results of operations or financial condition and cause our actual results to differ materially from those expressed in forward-looking statements made by us. Although we believe that we have identified and discussed below the key risk factors affecting our business, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may adversely affect our performance or financial condition. More detailed information regarding certain risk factors described below is contained in other sections of this report.

Risks Related to Our Business and Our Substantial Indebtedness

General economic conditions and consumer spending affect our business.

Consumer spending habits, including spending for the merchandise that we sell, are affected by, among other things, prevailing global economic conditions, inflation, levels of employment, salaries and wage rates, prevailing interest rates, housing costs, energy costs, commodities pricing, income tax rates and policies, consumer confidence and consumer perception of economic conditions. In addition, consumer purchasing patterns may be influenced by consumers disposable income, credit availability and debt levels. An incremental slowdown in the U.S. economy, an uncertain global economic outlook or an expanded credit crisis could adversely affect consumer spending habits resulting in lower net sales and profits than expected on a quarterly or annual basis. Consumer confidence is also affected by the domestic and international political situation. Our financial condition and operations could be impacted by changes in government regulations in areas including, but not limited to, taxes and healthcare. The outbreak or escalation of war, or the occurrence of terrorist acts or other hostilities in or affecting the U.S. could lead to a decrease in spending by consumers. In addition, natural disasters, industrial accidents and acts of war in various parts of the world could have the effect of disrupting supplies and raising prices globally which, in turn, may have adverse effects on the world and U.S. economies and lead to a downturn in consumer confidence and spending.

We face increased competition from other retailers that could adversely affect our business.

The retail sector is highly competitive, and retailers are constantly adjusting their promotional activity and pricing strategies in response to changing conditions. We compete on the basis of a combination of factors, including among others, price, breadth, quality and style of merchandise offered, in-store experience, level of customer service, ability to identify and respond to new and emerging fashion trends, brand image and scalability. We compete with a wide variety of large and small retailers for customers, vendors, suitable store locations and personnel. In order to increase traffic and drive consumer spending in the economic environment of the past several years, competitors, including department stores, mass merchants and specialty apparel stores, have been offering brand-name merchandise at substantial markdowns. Continuation of this trend, or the possible effect on consumer buying patterns that improving economic conditions could have, may cause consumer demand to shift from off-price retailers to other retail categories, which could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to continue to meet changes in the competitive environment and to positively differentiate ourselves from our competitors, our results of operations could be adversely affected. Moreover, we do not possess exclusive rights to many of the elements that comprise our product offerings. Our competitors may seek to emulate facets of our business strategy, which could result in a reduction of any competitive advantage or special appeal that we might possess. In addition, most of our products are sold to us on a non-exclusive basis. As a result, our current and future competitors may be able to duplicate or improve on some or all of our product offerings that we believe are important in differentiating our stores. If our competitors were to duplicate or improve on some or all of our in-store experience or product offerings, our competitive position and our business could suffer.

Our results also depend on the successful implementation of several additional strategic initiatives. We may not be able to implement these strategies successfully, on a timely basis, or at all.

We have recently implemented or begun to implement several strategic initiatives designed to transform our business and improve our performance. The success of our recent initiatives is subject to both the risks affecting our business generally and the inherent difficulties associated with implementing these initiatives, and is largely dependent on the skills, experience, and efforts of our management and other associates. We face a number of uncertainties in connection with the successful implementation of these strategic initiatives. Accordingly, there can be no assurance that these strategic initiatives will improve our performance.

Examples of the uncertainties surrounding our strategic initiatives include the following:

- we may lose executives or other key employees with leading roles in implementing the various initiatives;

- our buying, inventory management and supply chain initiatives may fail to yield the results expected;

- our investments in technology and systems may fail to improve efficiency;
- our data-driven testing culture may not result in successful initiatives;
- our sharpened focus on our core female customer may fail to increase sales as expected;
- we may not be able to uniformly implement our in-store experience program;
- our investment in refreshing our store base may not yield commensurate increases in sales; and
- the success of our new store selection in opening high-performing stores may decrease.

Fluctuations in comparable store sales and results of operations could cause our business performance to decline substantially.

Our results of operations for our individual stores have fluctuated in the past and can be expected to continue to fluctuate in the future. Since the beginning of the transition period ended January 30, 2010, our quarterly comparable store sales rates have ranged from 7.8% to negative 7.1%.

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Our comparable store sales and results of operations are affected by a variety of factors, including:

- fashion trends;
- calendar shifts of holiday or seasonal periods;
- the effectiveness of our inventory management;
- changes in our merchandise mix;
- weather patterns, including, among other things, changes in year-over-year temperatures;
- availability of suitable real estate locations at desirable prices and our ability to locate them;
- our ability to effectively manage pricing and markdowns;
- changes in general economic conditions and consumer spending patterns;
- our ability to anticipate, understand and meet consumer trends and preferences;
- actions of competitors; and
- the attractiveness of our inventory and stores to customers.

If our future comparable store sales fail to meet expectations, then our cash flow and profitability could decline substantially.

Our growth strategy includes the addition of a significant number of new stores each year. We may not be able to implement this strategy successfully, on a timely basis, or at all.

Our growth largely depends on our ability to successfully open and operate new stores. We intend to continue to open new stores in future years, while refreshing a portion of our existing store base annually. The success of this strategy is dependent upon, among other things, the current retail environment, the identification of suitable markets and sites for store locations, the negotiation of acceptable lease terms, the hiring, training and retention of competent sales personnel, and the effective management of inventory to meet the needs of new and existing stores on a timely basis. Our proposed expansion also will place increased demands on our operational, managerial and administrative resources. These increased demands could cause us to operate our business less effectively, which in turn could cause deterioration in the financial performance of our existing stores. In addition, to the extent that our new store openings are in existing markets, we may experience reduced net sales volumes in existing stores in those markets. We expect to fund our expansion through cash flow from operations and, if necessary, by borrowings under our Second Amended and Restated Credit Agreement, dated as of September 2, 2011 (the ABL Line of Credit); however, if we experience a decline in performance, we may slow or discontinue store openings. We may not be able to execute any of these strategies successfully, on a timely basis, or at all. If we fail to implement these strategies successfully, our financial condition and results of operations would be adversely affected.

Our net sales, operating income and inventory levels fluctuate on a seasonal basis and decreases in sales or margins during our peak seasons could have a disproportionate effect on our overall financial condition and results of operations.

Our net sales and operating income fluctuate seasonally, with a significant portion of our operating income typically realized during the five-month period from September through January. Any decrease in sales or margins during this period could have a disproportionate effect on our financial condition and results of operations. Seasonal fluctuations also affect our inventory levels. We must carry a significant amount of inventory, especially before the holiday season selling period. If we are not successful in selling our inventory, we may have to write down our inventory or sell it at significantly reduced prices or we may not be able to sell such inventory at all, which could have a material adverse effect on our financial condition and results of operations.

Failure to execute our opportunistic buying and inventory management process could adversely affect our business.

We purchase the majority of our inventory opportunistically, with our buyers purchasing close to need. Establishing the treasure hunt nature of the off-price buying experience to drive traffic to our stores requires us to offer changing assortments of merchandise in our stores. While opportunistic buying provides our buyers the ability to buy at desirable times and prices, in the quantities we need and into market trends, it places considerable discretion in our buyers, subjecting us to risks related to the pricing, quantity, nature and timing of inventory flowing to our stores. If we are unable to provide frequent replenishment of fresh, high quality, attractively priced merchandise in our stores, it could adversely affect traffic to our stores as well as our sales and margins. We base our purchases of inventory, in part, on our sales forecasts. If our sales forecasts do not match customer demand, we may experience higher inventory levels and need to markdown excess or slow-moving inventory, leading to decreased profit margins, or we may have insufficient inventory to meet customer demand, leading to lost sales, either of which could adversely affect our financial performance. We need to purchase inventory sufficiently below conventional retail to maintain our pricing differential to regular department and specialty store prices and to attract customers and sustain our margins, which we may not achieve at various times and which could adversely affect our results.

We must also properly execute our inventory management strategies by appropriately allocating merchandise among our stores, timely and efficiently distributing inventory to stores, maintaining an appropriate mix and level of inventory in stores, appropriately changing the allocation of floor space of stores among product categories to respond to customer demand and effectively managing pricing and markdowns, and there is no assurance we will be able to do so. Failure to effectively execute our opportunistic inventory buying and inventory management strategies could adversely affect our performance and our relationship with our customers.

Failure to identify customer trends and preferences to meet customer demand could negatively impact our performance.

Because our success depends on our ability to meet customer demand, we work to follow customer trends and preferences on an ongoing basis and to buy inventory in response to those trends and preferences. However, identifying consumer trends and preferences in the diverse product lines and many markets in which we do business and successfully meeting customer demand across those lines and for those markets on a timely basis is challenging. Although our flexible business model allows us to buy close to need and in response to consumer preferences and trends and to expand and contract merchandise categories in response to consumers changing tastes, we may not do so successfully, which could adversely affect our results.

If we are unable to renew or replace our store leases or enter into leases for new stores on favorable terms, or if one or more of our current leases are terminated prior to the expiration of their stated term and we cannot find suitable alternate locations, our growth and profitability could be negatively impacted.

We currently lease approximately 92% of our store locations. Most of our current leases expire at various dates after five or ten-year terms, the majority of which are subject to our option to renew such leases for several additional five-year periods. Our ability to renew any expiring lease or, if such lease cannot be renewed, our ability to lease a suitable alternative location, and our ability to enter into leases for new stores on favorable terms will depend on many factors, some of which may not be within our control, such as conditions in the local real estate market, competition for desirable properties and our relationships with current and prospective landlords. If we are unable to renew existing leases or lease suitable alternative locations, or enter into leases for new stores on favorable terms, our growth and profitability may be negatively impacted.

Extreme and/or unseasonable weather conditions could have a significant adverse effect on our business, financial condition and results of operations.

Extreme weather conditions in the areas in which our stores are located could have a material adverse effect on our business, financial condition and results of operations. For example, heavy snowfall or other extreme weather conditions over a prolonged period might make it difficult for our customers or associates to travel to our stores. In addition, unforeseen public health issues, natural disasters such as hurricanes, tornados, floods, earthquakes, and other extreme weather or climate conditions or a combination of these or other factors, could severely damage or destroy one or more of our stores or facilities located in the affected areas, thereby disrupting our business operations. Any of these events or circumstances could disrupt the operations of one or more of our vendors or one or more of our stores located in the affected areas. Day-to-day operations, particularly our ability to receive products from our vendors or transport products to our stores, could be adversely affected, or we could be required to close stores. As a result, our business could be adversely affected.

Our business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the fall or winter season or cool weather during the spring or summer season could render a portion of our inventory incompatible with those unseasonable conditions. These prolonged unseasonable weather conditions could adversely affect our business, financial condition and results of operations. In addition, because a significant portion of our net sales historically have occurred during the five-month period from September through January, unseasonably warm weather during these months could have a disproportionately large effect on our business and materially adversely affect our financial condition and results of operations.

We do not have long-term contracts with any of our vendors and if we are unable to purchase suitable merchandise in sufficient quantities at competitive prices, we may be unable to offer a merchandise mix that is attractive to our customers and our sales may be harmed.

The products that we offer are manufactured by third party vendors. Some of our key vendors may limit the number of retail channels they use to sell their merchandise, which may, in limited cases, result in intense competition among retailers to obtain and sell these goods. In addition, nearly all of the brands of our top vendors are sold by competing retailers and some of our top vendors also have their own dedicated retail stores. Moreover, we typically buy products from our vendors on a purchase order basis. We have no long-term purchase contracts with any of our vendors and, therefore, have no contractual assurances of continued supply, pricing or access to products, and any vendor could change the terms upon which they sell to us or discontinue selling to us at any time. If our relationships with our vendors are disrupted, we may not be able to acquire the merchandise we require in sufficient quantities or on terms acceptable to us. Any inability to acquire suitable merchandise would have a negative effect on our business and operating results because we would be missing products from our merchandise mix unless and until alternative supply arrangements were made, resulting in deferred or lost sales. In addition, events that adversely affect our vendors could impair our ability to obtain desired merchandise in sufficient quantities. Such events include difficulties or problems associated with our vendors business, finances, labor, importation of products, costs, production, insurance and reputation.

Our failure to find store employees who can effectively operate our stores could adversely affect our business.

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of store employees, including store managers, who understand and appreciate our corporate culture and customers, and are able to adequately and effectively represent this culture. The store employee turnover rate in the retail industry is generally high. Excessive store employee turnover will result in higher employee costs associated with finding, hiring and training new store employees. Moreover, improvement in general economic conditions may decrease the supply of part-time labor, which constitutes the majority of our store employee base. Our labor costs are subject to many external factors, including unemployment levels, prevailing wage rates, minimum wage laws, potential collective bargaining arrangements, health insurance costs and other insurance costs and changes in employment and labor legislation or other workplace regulation (including changes in entitlement programs such as health insurance and paid leave programs). Any increase in labor costs may adversely impact our profitability, or, if we fail to pay such higher wages, we could suffer increased employee turnover.

We are also dependent upon temporary personnel to adequately staff our stores and distribution facilities, with heightened dependence during busy periods such as the holiday season and when multiple new stores are opening. There can be no assurance that we will receive adequate assistance from our temporary personnel, or that there will be sufficient sources of suitable temporary personnel to meet our demand. Any such failure to meet our staffing needs or any material increases in employee turnover rates could have a material adverse effect on our business or results of operations.

Our results may be adversely affected by fluctuations in energy prices.

Increases in energy costs may result in an increase in our transportation costs for distribution, utility costs for our stores and costs to purchase our products from suppliers, as well as reductions in the amount of disposable income available to customers and the use of automobiles, thereby reducing traffic to our stores. A sustained rise in energy costs could adversely affect consumer spending and demand for our products and increase our operating costs, both of which could have an adverse effect on our performance.

Parties with whom we do business may be subject to insolvency risks which could negatively impact our liquidity.

Many economic and other factors are outside of our control, including but not limited to commercial credit availability. These factors also affect our vendors who, in many cases, depend upon commercial credit to finance their operations. If they are unable to secure commercial financing, our vendors could seek to change the terms on which they sell to us, which could negatively affect our liquidity. In addition, the inability of vendors to access liquidity, or the insolvency of vendors, could lead to their failure to deliver merchandise to us.

Although we purchase most of our inventory from vendors domestically, apparel production is located primarily overseas.

We do not own or operate any manufacturing facilities. As a result, we are dependent upon the timely receipt of quality merchandise from suppliers and vendors. Factors which affect overseas production could affect our suppliers and vendors and, in turn, our ability to obtain inventory and the price levels at which they may be obtained. Although such factors apply equally to our competitors, factors that cause an increase in merchandise costs or a decrease in supply could lead to generally lower sales and gross margins in the retail industry.

Such factors include:

- political or labor instability in countries where suppliers are located or at foreign and domestic ports which could result in lengthy shipment delays, which, if timed ahead of the Fall and Winter peak selling periods, could materially and adversely affect our ability to stock inventory on a timely basis;

- political or military conflict involving apparel producing countries, which could cause a delay in the transportation of our products to us and an increase in transportation costs;

- heightened terrorism security concerns, which could subject imported goods to additional, more frequent or more thorough inspections, leading to delays in deliveries or impoundment of goods for extended periods;

- disease epidemics, outbreaks and other health related concerns, which could result in closed factories, reduced workforces, scarcity of raw materials and scrutiny or embargoing of goods produced in infected areas;

- natural disasters and industrial accidents, which could have the effect of curtailing production and disrupting supplies;

- increases in labor and production costs in goods-producing countries, which would result in an increase in our inventory costs;

- the migration and development of manufacturers, which can affect where our products are or will be produced;

- fluctuation in our suppliers local currency against the dollar, which may increase our cost of goods sold; and

- changes in import duties, taxes, charges, quotas, loss of most favored nation trading status with the United States for a particular foreign country and trade restrictions (including the United States imposing antidumping or countervailing duty orders, safeguards, remedies or compensation and retaliation due to illegal foreign trade practices).

Any of the foregoing factors, or a combination thereof could have a material adverse effect on our business.

Our business would be disrupted severely if either of our primary distribution centers were to shut down.

During Fiscal 2013, we extended central distribution services to approximately 91% of our merchandise units through our distribution facilities. Our two primary distribution centers are currently located in Edgewater Park, New Jersey and San Bernardino, California. Most of the merchandise we purchase is shipped directly to our distribution centers, where it is prepared for shipment to the appropriate stores. The success of our stores depends on their timely receipt of merchandise. If either of our current primary distribution centers were to shut down or lose significant capacity for any reason, our operations would likely be disrupted. Although in such circumstances our stores are capable of receiving inventory directly from suppliers via drop shipment, we would incur significantly higher costs and a reduced ability to control inventory levels during the time it takes for us to reopen or replace either of our primary distribution centers.

Software used for our management information systems may become obsolete, conflict with the requirements of newer hardware and may cause disruptions in our business.

We rely on our existing management information systems, including some software programs that were developed in-house by our employees, in operating and monitoring all major aspects of our business, including sales, distribution, purchasing, inventory control, merchandising planning and replenishment, as well as various financial systems. If we fail to maintain or update such software to meet the demands of changing business requirements or if we decide to modify or change our hardware and/or operating systems and the software programs that were developed in-house are not compatible with the new hardware or operating systems, disruption to our business may result.

Failure to operate and maintain currently deployed information systems or implement new technologies effectively could disrupt our business or reduce our sales or profitability.

The efficient operation of our business is dependent on our information systems. If an act of God, interference by computer hackers or another event caused our information systems to not function properly, major business disruptions could occur. In particular, we rely on our information systems to effectively manage sales, distribution, merchandise planning and allocation functions. We have some redundant capabilities including a data center in New Jersey that is located within 15 miles of our Burlington, New Jersey headquarters. If a disaster impacts either location, while it most likely would not fully incapacitate us, our operations could be significantly affected. Our disaster recovery site is located in Chicago, Illinois. System redundancy is targeted to support the most critical aspects of running our business, but our disaster recovery planning may be ineffective, insufficient or inadequate to address all eventualities.

The failure of our information systems and the third party systems we rely on to perform as designed, or our failure to implement and operate them effectively, could disrupt our business or subject us to liability and thereby harm our sales and profitability.

Unauthorized disclosure of sensitive or confidential information, whether through a breach of our computer system or otherwise, could severely hurt our business.

As part of our normal course of business we collect, process and retain sensitive and confidentiaN-RIGHT: 0pt" align="justify">

None.

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PART II

Item 5. Market for the Common Equity and Related Stockholder Matters

Price Range of Our Common Stock

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, 2005 through December 31, 2006.

	Bid*	
	Low	**High**
2005 Fiscal Year		
Jan - March 2005	$ 6.00	$ 18.00
Apr - June 2005	$ 7.20	$ 12.00
July - Sept 2005	$ 3.00	$ 32.40
Oct - Dec 2005	$ 6.00	$ 22.80
2006 Fiscal Year		
Jan - Mar 2006	$ 6.60	$ 13.20
Apr - June 2006	$ 6.00	$ 11.76
July - Sept 2006	$ 3.00	$ 7.68
Oct - Dec 2006	$ 2.00	$ 11.15

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

Because our common stock is subject to the SEC's penny stock rules, broker-dealers may experience difficulty in completing customer transactions, and trading activity in our securities may be adversely affected.

Transactions in our common stock are currently subject to the "penny stock" rules promulgated under the Securities Exchange Act of 1934. Under these rules, broker-dealers who recommend our securities to persons other than institutional accredited investors must:

- make a special written suitability determination for the purchaser;
- receive the purchaser's written agreement to a transaction prior to sale;
- provide the purchaser with risk disclosure documents which identify certain risks associated with investing in "penny stocks" and which describe the market for these "penny stocks" as well as a purchaser's legal remedies; and
- obtain a signed and dated acknowledgment from the purchaser demonstrating that the purchaser has actually received the required risk disclosure document before a transaction in a "penny stock" can be completed.

As a result of these rules, broker-dealers may find it difficult to effectuate customer transactions and trading activity in our securities may be adversely affected. As a result, the market price of our securities may be depressed, and you may find it more difficult to sell our securities.

Holders

As of December 31, 2006, there were approximately 855 holders of record of our common stock.

Dividends

We have not paid any cash dividends on our common stock or preferred 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 or preferred 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 or preferred 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 to be granted under the 2006 Plan.

Recent Sales of Unregistered Securities

None (other than in connection with the merger described herein).

Item 6. 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.

Overview

The mission of Ethos Environmental is to be recognized as the industry standard for high quality, non-toxic cleaning and lubricating products that increase fuel mileage and reduce emissions.

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

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

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Our Corporate History

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

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

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

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

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

- The Company was the surviving corporation,
- The Company acquired all issued and outstanding shares of Ethos in exchange for 17,718,187 shares of common stock of the Company. Shares of Company common stock, representing an estimated 97% of the total issued and outstanding shares of Company common stock, shall be issued to the Ethos stockholders,
- The shareholders of Concierge received pro rata for their shares of common stock of Ethos, 17,718,187 shares of common stock of the Company in the merger, and all shares of capital stock of Ethos were cancelled,
- The officers and directors of Ethos became the officers and directors of the Company,
- The name of Victor Industries, Inc. was changed to “Ethos Environmental, Inc.”, and
- Ethos requested a new symbol for trading on the Over the Counter Bulletin Board (“OTCBB”), which also reflects the reverse stock split of 1 for 1,200, the new symbol of the Company is “ETEV.”

Business Description

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

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

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

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PLAN OF OPERATIONS FOR THE NEXT TWELVE MONTHS

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

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

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

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

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

Results of Operations

The following financial data compares the balances as relates to Ethos Environmental, Inc. for the fiscal years ended December 2006 and 2005.

Revenues

We recognized revenues of $4,768,013 for the year ended December 31, 2006 compared to revenues of $1,780,825 for the year ended December 31, 2005, an increase of $2,987,188 or 168%. The primary source of revenue for the years ended December 31, 2006 is from the sale of Ethos FR®.

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

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

Gross Profit

Gross profit, defined as revenues less cost of goods sold, was $3,427,878 or 72% of sales for the year ended December 31, 2006, compared to $1,254,366 or 70% of sales for the year ended December 31, 2005. In terms of absolute dollars, gross profit increased 173% for the 2006 calendar year compared to the 2005 calendar year due primarily to the sales of the Ethos FR® product.

Cost of goods sold was $1,340,135 for the 2006 calendar year, which represented 28% of revenues compared to $526,459 for the 2005 calendar year, which represented 30% of revenues.

Operating Expenses

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

General & Administrative expenses incurred during the year ended December 31, 2006 totaled $5,346,409. These expenses were incurred primarily for the following reasons:

Legal fees of approximately $ 136,598
Accounting, audit, bookkeeping and director fees totaling $ 57,676
Business consulting fees of $ 4,862,976
Outside Services of $159,749
Office expenses of $ 129,410

Similar expenses incurred for the year ended December 31, 2005 were $1,821,160 and were incurred primarily for consulting services of a similar nature.

Also, for comparison purposes, there were 4,910,000 newly issued shares for the payment of services during the year ended December 31, 2006, compared to 5,108,190 shares issued for cash during the year ended December 31, 2005.

Research and Development Costs

Research and development costs are charged to operations when incurred and are included in general and administrative expenses. The amounts expensed for the years ended December 31, 2006 and 2005 amounted to $112,051 and $132,404, respectively.

Net Loss

We incurred a net loss for the year ended December 31, 2006 of $6,490,113 as compared to a net loss of $1,051,637 for the comparable prior year period.

NON-OPERATING INCOME AND EXPENSES

Non-operating income, net of expenses, increased in the year ended December 31, 2006 versus 2005, due to the settlement of a substantial amount due to one of our vendors. Interest expense increased to $620,244 during the 12 months ended December 31, 2006 from $0 in 2005. The interest was directly associated with the interest-only loan for $4,750,000, related to the purchase of our new building. Other expenses increased to $58,931 in 2006 versus none in 2005.

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Liquidity and Capital Resources

On December 31, 2006, we had a working capital of $49,801 and stockholders' equity of $6,096,938 compared to a working capital deficit of $405,752 and stockholders' equity of $610,392 on December 31, 2005.

On December 31, 2006, the Company had $64,867 in cash and $300,000 in restricted cash, total assets of $11,920,143 and total liabilities of $5,823,205, compared to $198,498 in cash and $300,000 in restricted cash, total assets of $-1,446,212 and total liabilities of $793,395 on December 31, 2005.

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

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

Loan Facilities

On February 7, 2007, we entered into an equipment lease agreement with Mazuma Capital Corp. wherein the Company agreed to a 24-month sale and leaseback arrangement for up to $800,000 of its manufacturing equipment. The lease calls for a monthly payment based on a factor of .04125 times the average outstanding loan balance during the month. Through March 29, 2007, the company has placed property valued at $737,968 under this lease arrangement with Mazuma Capital Corp.

Inflation has not significantly impacted the Company's operations.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies

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

Revenue Recognition

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

Acquired Goodwill

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

Customer Relationships

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Ethos Environmental, Inc.
San Diego, CA

We have audited the accompanying consolidated balance sheet of Ethos Environmental, Inc., ("the Company") as of December 31, 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2006 and 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ethos Environmental, Inc., as of December 31, 2006, and the results of its operations and its cash flows for the years ended December 31, 2006 and 2005, in conformity with accounting principles generally accepted in the United States.

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

/S/ PETERSON SULLIVAN PLLC

Seattle, Washington
April 15, 2007

Item 7. Financial Statements

ETHOS ENVIRONMENTAL, INC.
CONSOLIDATED BALANCE SHEET

ASSETS	December 31, 2006
CURRENT ASSETS:	
Cash	$ 64,867
Restricted Cash	300,000
Accounts Receivable (Net)	327,324
Inventory	410,915
Other Current Assets	19,900
Total Current Assets	$ 1,123,006
Property and Equipment, Net	6,380,308
Goodwill	2,411,103
Customer List, Net	1,934,036
Other Assets	5,000
Total Assets	$ 11,853,453

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES:

CURRENT LIABILITIES:	
Accounts Payable	$ 503,898
Accrued Expenses	101,488
Notes Payable	5,167,819
Note Payable Related Party	50,000
Total Current Liabilities	5,823,205
SHAREHOLDERS' EQUITY:	
Common Stock, $.001 par value; 100,000,000 shares authorized; 23,107,687 issued and outstanding	2,311
Additional Paid-in Capital	15,961,204
Accumulated Deficit	(9,933,267)
Total Shareholders' Equity	6,030,248

Total Liabilities and Shareholders’ Equity	$ 11,853,453
	==========

See notes to consolidated financial statements.

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ETHOS ENVIRONMENTAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2006 and 2005

	2006	2005
Revenues	$ 4,768,013	$ 1,780,825
Cost of Sales	1,340,135	526,459
	--------------	--------------
Gross Profit	3,427,878	1,254,366
Operating Expenses:		
Selling Expenses	4,689,910	483,953
General and Administrative	5,346,409	1,821,160
	------------	------------
Total Operating Expenses	10,036,319	2,305,113
	------------	------------
Operating Loss	(6,608,441)	(1,050,747)
Other Income	730,813	0
Interest Expense	(620,244)	(890)
Other Expense	(58,931)	0
	-------------	-------------
Net Loss	$ (6,556,803)	$ (1,051,637)
	========	========
Net Loss per Common Share	$ (6.83)	$ (5.38)
Weighted average shares used in per share calculation (basic and fully diluted)	960,685	195,504

See notes to consolidated financial statements.

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ETHOS ENVIRONMENTAL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2006 and 2005

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance at December 31, 2004 as restated	17,609,287	$ 17,610	$ 3,793,046	$(2,324,827)	$1,485,829
Common stock issued for cash	5,108,190	5,108	171,092		176,200
Net loss				(1,051,637)	(1,051,637)
Balance at December 31, 2005 as restated	22,717,477	22,718	3,964,138	(3,376,464)	610,392
Common stock repurchased	(5,000,000)	(5,000)	(45,000)		(50,000)
Capital contribution			45,000		45,000
Shares cancelled as part of reverse acquisition	(17,717,477)	(17,718)			(17,718)
Common Stock issued to effect reverse acquisition	17,718,187	1,772	4,427,775		4,429,547
Effects of Reverse acquisition	479,500	48	(11,208)		(11,160)
Common stock issued for services	4,910,000	491	7,580,499		7,580,990
Net Loss				(6,556,803)	(6,556,803)
Balance at December 31, 2006	23,107,687	$2,311	$15,961,204	($9,933,267)	$6,030,248

See notes to consolidated financial statements.

ETHOS ENVIRONMENTAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2006 and 2005

	2006	2005
Cash Flows from Operating Activities		
Net Loss	$ (6,556,803)	$ (1,051,637)
Adjustments to Reconcile net Loss to net Cash provided by (used in) operating activities		
Common Stock Issued for Expenses	7,580,990	0
Depreciation	292,096	83,209
Amortization	66,690	0
Changes in allowance for bad debts	(450,297)	527,847
Changes in Operating Assets and Liabilities		
Accounts Receivable	413,030	(451,030)
Inventory	(151,351)	(200,816)
Other assets	67,209	(10,000)
Accounts Payable	(246,658)	567,575
Accrued Expenses	10,929	90,559
Net Cash Provided by (used in) Operating Activities	1,025,835	(444,293)
Cash Flows from Investing Activities		
Building Deposit	0	(200,000)
Purchase of Property and Equipment	(6,359,874)	(101,549)
Cash Received from Acquisition	589	0
Net Cash Used in Investing Activities	(6,359,285)	(301,549)
Cash Flows from Financing Activities		
Proceeds from Note Payable	5,167,819	11,003
Proceeds from Related Party Note Payable	50,000	0
Repayment of Note Payable	(13,000)	0
Repurchase of Common Stock	(50,000)	0
Proceeds from Common Stock sales	0	176,200
Proceeds from Capital Contributions	45,000	0
Net Cash Provided by Financing Activities	5,199,819	187,203
	(133,631)	(558,639)

Net Change in Cash and Cash Equivalents		
Cash at Beginning of Period	498,498	1,057,137
	-------------	--------------
Cash at End of Period	$ 364,867	$ 498,498
	========	========
Reconciliation to Balance Sheet Presentation:		
Cash	$ 64,867	$ 198,498
Restricted Cash	300,000	300,000
	--------------	--------------
	$ 364,867	$ 498,498
	========	========

See notes to consolidated financial statements.

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Supplemental Disclosure of Non-Cash Investing Activities:

		2006
Acquisition of Ethos Environmental, Inc.:		
Accounts Receivable acquired	$	48,972
Accounts Payable assumed		(60,720)
Goodwill acquired		2,411,103
Customer List acquired		2,000,726
Common stock issued for acquisition net of shares cancelled and effects of Reverse acquisition, net of cash acquired		(4,400,669)

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NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

Ethos Environmental, Inc. ("the Company") manufactures and distributes fuel reformulating products that increase fuel mileage, reduce emissions, and maintain lower fuel costs. The Company is based in Southern California and sells its product, primarily in the United States, Latin America and Asia.

Acquisition

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

At a meeting of shareholders of the Company held on October 30, 2006, a majority of shareholders voted in favor of the merger. On November 2, 2006, the merger was consummated. As part of the merger, the Company redomiciled to Nevada, and changed its name to Ethos Environmental, Inc. In addition thereto, and as part of the merger, the Company set a record date of November 16, 2006 for a reverse stock split of 1 for 1,200. All of the per share data in these consolidated financial statements are presented on a post-split basis.

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

The transaction between the Company and Ethos Environmental, Inc. is accounted for as a purchase transaction; that is, the transaction is equivalent to the issuance of shares by the Registrant for the net assets of Ethos Environmental, Inc. The shares issued by the Registrant were valued at $0.25 per share, a value determined by management’s estimate of the dilution effect expected to occur from the issuance of such a large block of shares, i.e. 17,718,187 shares of common stock. The net value recorded equals management’s estimate of the value of the acquired assets.

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

The merger is accounted for under the purchase method of accounting as a reverse acquisition in accordance with U.S. generally accepted accounting principles for accounting and financial reporting purposes. Under this method of accounting, Ethos is treated as the “accounting acquirer” company for financial reporting purposes. Accordingly the operations of the company are included in these financial statements as of November 2, 2006. In accordance with guidance applicable to these circumstances, the merger was considered to be a capital transaction in substance. Accordingly, for accounting purposes, the merger was treated as the equivalent of Ethos issuing stock for the net monetary assets of the Company. The net monetary assets of the Company have been stated at their fair value.

The terms of the acquisition included the Company's issuance of 17,718,187 shares of common stock to the shareholders of Ethos. Upon the Company’s issuance of the 17,718,187 shares, Ethos cancelled its 17,717,477 shares of common stock issued and outstanding. Since this was accounted for as a reverse acquisition, the Company is the legal acquirer while Ethos is the accounting acquirer. Accordingly, the financial statements present the activities of Ethos while the stock issued and outstanding is that of the Company. The effects of the reverse acquisition accounting is reflected in the consolidated statement of stockholders’ equity.

As part of the reverse acquisition, the prior activities of the Company were discontinued. No discontinued operations are presented in these financial statements since no expenses or revenue were incurred after November 2, 2006 related to these operations.

The Company agreed to acquire Ethos Environmental, Inc. because of its anticipated future growth in a marketplace that is in strong demand for its product, and it was believed that the acquisition would benefit the existing shareholders of both companies. Valuation of the Ethos Environmental, Inc. working capital approximated $4,412,000, or $0.25 per share of issued common stock. The fair valuation of the purchase was determined to be $4,412,000 of which $2,000,700 was attributable to the value of the Customer List and the remainder to Goodwill.

The following unaudited pro forma financial information presents the operations of Victor Industries, Inc. ("the Company") and Ethos Environmental, Inc. ("Ethos") as if the acquisition had occurred on January 1, 2006 and 2005, respectively. This pro forma data is presented for informational purposes only and is not necessarily indicative of what the results of operations would have been had the acquisition been completed the acquisition at the date indicated. In addition, the unaudited pro forma condensed combined statement of operations does not purport to project the future operating results of the combined company. The balance sheet information is not presented since the two companies are consolidated at December 31, 2006.

Pro-forma Information (Unaudited)	2006	2005
Revenues	$ 4,768,013	$ 1,785,210
Net Loss	(7,175,207)	(1,705,951)
Loss per share, Basic and Diluted	$ (7.47)	$ (8.74)
Weighted number of shares outstanding	960,685	195,204

Going Concern

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

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

Principles of Consolidation

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

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Use of Estimates

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

Cash

Cash includes a payroll account and an operating checking account held at a financial institution. The Company's cash balances exceed federally insured limits from time to time.

Restricted cash consists of a deposit made in August 2005 that is being held in a bank in Beijing, China. This deposit is required by the government of China and must be held in the account a minimum of eighteen months in order for the Company to conduct business in China.

Accounts Receivable

Accounts receivable are stated at their principal balances, do not bear interest and are generally unsecured. Management considers all balances over 30 days old to be past due. However, if credit is extended management conducts a periodic review of the collectability of its accounts receivable. If an account is determined to be uncollectible based on historical experience and the current economic climate, an allowance is established and the account is written off against the allowance. The Company determined that an allowance of $126,485 and $576,782 at December 31, 2006 and 2005, respectively, was necessary. At December 31, 2006 62% of accounts receivable is due from one customer.

Inventory

Inventory consists primarily of the Company's fuel reformulating product and is stated at the lower of cost or market.

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.

Goodwill

Goodwill represents the excess of the purchase price of the estimated fair value of the net identified tangible and intangible assets of the acquired business. Goodwill must be tested for impairment at least on an annual basis, or if an event occurs or circumstances change prior to the annual test of impairment, then the carrying value of goodwill must be tested on an interim basis. The Company has determined there is no impairment at December 31, 2006.

Customer List

As a result of the acquisition, the Company acquired a customer list which has an identifiable defined life. The customer lists is amortized on a straight-line basis over a five-year period. The Company will continue to amortize the identifiable intangible asset over the life of the asset unless an event occurs or circumstances change that indicate that the carrying value of this asset may not be recoverable. The following table reflects the cost of the customer list and the accumulated amortization related to this asset as of December 31, 2006:

Customer list	$2,000,726
Accumulated Amortization	(66,690)
	$1,934,036

For the year ending December 31, 2006, the Company recorded $66,690 as amortization expense. The Company expects to record annual amortization expense of approximately $400,000 in 2007, $400,000 in 2008, $400,000 in 2009, $400,000 in 2010 and 333,000 in 2011 related to the customer list.

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Notes Payable

On December 26, 2006, the company entered into a Demand Loan Agreement for $500,000 with an annual interest rate of 12%. At December 31, 2006, $417,819 had been funded. The remainder of the Demand Note was funded on January 2, 2007.

On January 26, 2006 the Company secured a loan for its building in the amount of $4,750,000 with a convertible Promissory Note. The Note was convertible at $2.50 per common share up to 1.9 million shares. The Note carried an annual interest rate of 17% with interest-only payments and a term of one year. On December 6, 2006, the Note was assigned to another third party.

Prior to maturity, the Company approached the current Note holders and requested that they extend the maturity of the Note to March 31, 2009. As part of its offer to induce the Note holder to extend the maturity date, the Company offered to rescind the conversion feature and issue 1.9 million detachable warrants. The Company is still currently negotiating the terms of a mutually acceptable extension.

Note Payable - Related Party

During 2006, there was one Loan Payable to the President of the Company in the amount of $50,000. The loan has no stated repayment terms, is due on demand, is unsecured and does not bear interest. The Note was issued for a deposit to the Company account for short-term working capital needs.

Fair Value of Financial Instruments

The Carrying value of the Company's accounts receivable, accounts payable, accrued expenses, note payable, note payable related party and building loan approximate their estimated fair value due to the relatively short maturities of those instruments.

Revenue Recognition

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

Two customers accounted for 88% of our revenues for the fiscal year ended December 31, 2006. One customer accounted for 40% and the second customer accounted for 48%.

There was one U.S. customer that accounted for 40% of 2005 sales and one Hong Kong customer that accounted for 30% of 2005 sales.

Stock Based Compensation

Prior to January 1, 2006, the Company accounted for stock-based awards under the intrinsic value method, which followed the recognition and measurement principles of APB Opinion No. 25, “Accounting for Stock Issued to Employees”, and related Interpretations. The intrinsic value method of accounting resulted in compensation expense for stock options to the extent that the exercise prices were set below the fair market price of the Company’s stock at the date of grant.

As of January 1, 2006, the Company adopted SFAS No. 123(R) “share-based payment” using the modified prospective method, which requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. The fair value of stock options is determined using the Black-Scholes valuation model, which is consistent with the Company's valuation techniques previously utilized for options in footnote disclosures required under SFAS No. 123, "Accounting for Stock Based Compensation", as amended by SFAS No. 148, "Accounting for Stock Based Compensation Transition and Disclosure".

Since the Company did not issue stock options to employees during the year ended December 31, 2006 or 2005, there is no effect on net loss or earnings per share had the Company applied the fair value recognition provisions of SFAS No. 123(R) to stock-based employee compensation. When the Company issues shares of common stock to employees and others, the shares of common stock are valued based on the market price at the date the shares of common stock are approved for issuance.

Loss Per Share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding in the period. Diluted loss per share takes into consideration common shares outstanding (computed under basic earnings per share) and potentially dilutive common shares. There were no dilutive securities outstanding at December 31, 2006 or 2005. The convertible feature of the Notes Payable is not included in the calculation of diluted earnings per share since the effect is anti-dilutive due to the Company's net loss.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2006 and 2005, was $132,955 and $231,380, respectively and are included in selling expenses in the consolidated financial statements.

Shipping and Handling

Expenses related to shipping and handling are expenses as incurred and are included in "cost of sales" in the statement of operations.

Research and Development

Research and development costs are expensed to operations when incurred and are included in general and administrative expenses in these consolidated financial statements. The amounts expensed for the years ended December 31, 2006 and 2005 amounted to $112,051 and $132,404, respectively.

Concentrations

The Company uses five vendors for most of its fuel reformulating products although there are other companies that can provide equivalent products. These vendors accounted for 90% of product purchases in 2006. During 2005, the company primarily used one vendor for most of its fuel reformulating products. That vendor accounted for 90% of products purchased in 2005.

Income Taxes

The Company accounts for its income taxes under the provisions of Statements of Financial Accounting Standards No. 109 (SFAS No. 109). Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of certain assets and liabilities for financial and tax reporting. The deferred taxes represent the future tax return consequences of those differences, which will either be taxable when the assets and liabilities are recovered or settled.

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Foreign Operations

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the local functional currency (the U.S. Dollar) are included in "general and administrative" expenses in the statements of operations, which amounts were not material for the years ended December 31, 2006 and 2005.

Reclassification

Certain items from the 2005 financial statements have been reclassified to conform to the 2006 presentation.

Recent Accounting Pronouncements

During October 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS 157”). This statement does not require any new fair value measurements but provides guidance on how to measure fair value and clarifies the definition of fair value under accounting principles generally accepted in the United States of America. The statement also requires new disclosures about the extent to which fair value measurements in financial statements are based on quoted market prices, market-corroborated inputs, or unobservable inputs that are based on management’s judgments and estimates. The statement is effective for fiscal years beginning after November 15, 2007. The statement will be applied prospectively by the Company for any fair value measurements that arise after the date of adoption.

The FASB has also issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)”. As the Company has no plans covered by this standard, it will have no effect on the consolidated financial statements.

The SEC has issued Staff Accounting Bulletin No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements” (“SAB 108”), in September 2006. SAB 108 requires entities to quantify misstatements based on their impact on each of their financial statements and related disclosures. SAB 108 is effective as of December 31, 2006. The adoption of this standard is not expected have an impact on the Company’s consolidated results of operations, cash flows or financial position.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115.” This statement permits entities to choose to measure eligible items at fair value at specified election dates. The statement is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007 although early adoption is permitted provided that an entity also adopts SFAS 157. The Company has not determined the impact this standard will have on its consolidated operating results or financial position upon adoption.

Note 2. Prior Period Adjustments

The December 31, 2004 balances have been restated to correct for an error related to vehicles that were incorrectly recorded as assets in 2003 and 2004. The value of the assets removed was $282,366, less $25,440 of accumulated depreciation.

In addition, the December 31, 2004 balances have been restated to reduce accrued expenses by $38,917 due to a settlement that was reached with a vendor in 2004.

The net effect of the combined adjustments was to increase the accumulated deficit and decrease total stockholders’ equity by $218,009. There was no effect on earnings per share.

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Note 3. Property and Equipment

The Company's property and equipment consisted of the following at December 31:

	2006	2005
Building	$ 5,845,417	$ 0
Equipment	886,353	167,591
Furniture and fixtures	14,727	14,727
Computers	36,648	35,790
	6,783,145	218,108
Less: accumulated depreciation	(402,837)	(63,153)
	$ 6,380,308	$154,955

Note 4. Income Taxes

The Company is liable for taxes in the United States. As of December 31, 2006, the Company does not expect to have any income for tax purposes and therefore, no tax liability or expense has been recorded in these financial statements.

The Company estimates that it has tax losses of approximately $12,300,000 which may be available to reduce future taxable income. Any tax loss carry forward available expires between the years 2022 and 2025.

The deferred tax asset associated with the estimated tax loss carry forward is approximately $4,182,000. The Company has provided a valuation allowance against the deferred tax asset. The valuation allowance increased by $2,370,000 and $358,000 for 2006 and 2005, respectively.

The use of any loss carry forwards may be limited under the Internal Revenue Code due to the change in control of the Company in 2006.

Note 5. Operating Leases

The Company leases an office building under a lease agreement that expires in July 2012. The rent expense for the year ended December 31, 2006 and 2005, totaled to $66,844 and $48,634, respectively.

The Company's future annual minimum lease payments are as follows for years ending December 31:

2007	$	52,657
2008		54,236
2009		55,863

2010		57,539
2011		59,265
Thereafter		35,170
Total	$	314,730

Note 6. Stock Option Plan

In 2006, the Company adopted the 2006 Stock Incentive Plan which reserves a total of 3,500,000 common shares to provide the Company with a means of compensating selected key employees (including officers), directors and consultants. No options were granted in 2006 under this Plan.

Note 7. Subsequent Events

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 lease-back arrangement for up to $800,000 of its manufacturing equipment. The lease calls for a monthly payment based on a factor of .04125 times the average outstanding loan balance during the month. Through March 29, 2007, the Company has placed property valued at $737,968 under this lease arrangement with Mazuma Capital Corp.

Between January 1, 2007 and April 14, 2007, the Company issued 574,000 shares of our common stock for services rendered by key consultants, officers, and directors.

On March 9, 2007, the Company closed on a private placement of 50,000 shares of common stock for a total of $50,000.

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

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The Registrant's Board of Directors approved the engagement of Peterson Sullivan, PLLC ("PS") as the Registrant's independent registered public accounting firm to audit the Company's financial statements for the year ended December 31, 2006.

The report issued by PS in connection with the audit for the year ended December 31, 2006 did not contain an adverse opinion or a disclaimer of opinion, nor was such report qualified or modified as to audit scope or accounting principles.

Item 8A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures:

Our President, after evaluating the effectiveness of our "disclosure controls and procedures" (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), has concluded that, as of December 31, 2006 our disclosure controls and procedures contained significant internal control weaknesses that, in the aggregate, represent material weaknesses.

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

In connection with the preparation of our financial statements for the year ended December 31, 2006, certain significant internal control deficiencies became evident to management that, in the aggregate, represent material weaknesses, including,

(i) Lack of a control environment that sufficiently promotes effective internal control over financial reporting throughout the management structure;
(ii) Lack of independent directors for our audit committee;
(iii) Lack of training in public company reporting requirements;
(iv) Lack of control processes for recording and approving journal entries;
(v) Lack of controls over the sales transaction process;
(vi) Lack of controls over invoice posting process;
(vii) Insufficient policies and procedures over various financial statement areas;
(viii) Insufficient documentations for accounting or business transactions;
(ix) Lack of policies and procedures over records retention;
(x) Lack of an audit committee financial expert;
(xi) Insufficient personnel in our finance/accounting functions;
(xii) Insufficient segregation of duties; and
(xiii) Insufficient corporate governance policies.

As part of the communications by Peterson Sullivan, PLLC, or Peterson Sullivan, with our management with respect to Peterson Sullivan's audit procedures for fiscal 2006, Peterson Sullivan informed management that these deficiencies constituted material weaknesses, as defined by Auditing Standard No. 2, "An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements," established by the Public Company Accounting Oversight Board, or PCAOB.

In accordance with Section 404 of the Sarbanes-Oxley Act of 2002, we intend to take appropriate and reasonable steps to make the necessary improvements to remediate these deficiencies during 2007. We intend to consider the results of our remediation efforts and related testing as part of our year-end 2007 assessment of the effectiveness of our internal control over financial reporting.

(c) Changes in Internal Control Over Financial Reporting:

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Item 8B. Other Information

None.

PART III

Item 9. Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance With Section 16(a) of the Exchange Act

The following sets forth the names and ages, as of March 31, 2007, 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.

Directors

Name	Age	Position	Director/Officer Since
Enrique de Vilmorin	55	Chief Executive Officer, President and Director	2006
Jose Manuel Escobedo	66	Director	2006
Luis Willars	65	Director	2006

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

Enrique de Vilmorin

Mr. de Vilmorin has more than 25 years experience in multi-national corporations. His areas of expertise include finance, management and manufacturing. His hands-on approach makes him as comfortable with clients as he is in the warehouse or in the boardroom. His background includes work with Intel, IBM, First Union Bank, and the World Bank Group and a Masters Degree in Economics from the University of Southern California.

Jose Manuel Escobedo

Mr. Escobedo brings to the Company more than 30 years of entrepreneurial experience and an MBA from IPADE. Mr. Escobedo has owned and managed businesses within the oil and fuels industry. He is a director of the Company.

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Luis Willars

Mr. Willars, an Economist with more than 30 years experience in government and private sector corporations, adds a strong knowledge in corporate finance and administration. Mr. Willars holds a Masters Degree in Economics from IETSM. He is responsible for Ethos Environmental’s worldwide Strategic Planning and Finance.

Executive officers of the company are as follows:

Enrique de Vilmorin - President and Chief Executive Officer (see above).

Thomas W. Maher - Chief Financial Officer

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.

Involvement in Certain Legal Proceedings

We are not currently involved in any legal proceedings.

During the last five (5) years none of our directors or officers has:

(1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

(2) been convicted in a criminal proceeding or subject to a pending criminal proceeding;

(3) been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or

(4) been found by a court of competent jurisdiction in a civil action, the Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

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 2006 all required filings were timely filed by each of its directors and executive officers.

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.

Item 10. 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, 2006 by (1) each person who served as the principal executive officer of the Company during fiscal year 2006; (2) the Company's most highly compensated executive officers as of December 31, 2006 with compensation during fiscal year 2006 of $100,000 or more; and (3) those individuals, if any, who would have otherwise been in included in section (2) above but for the fact that they were not serving as an executive of the Company as of December 31, 2006.

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The following executive compensation was paid during 2005 or 2006, if any.

Salary Compensation

Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation Compensation ($) (2)(3)	Total ($)
Enrique de Vilmorin - CEO & President	2006	$ 344,325	$ —	875,000	—	—	—	—	$ 1,219,325
	2005	$ --	$ —	—	—	—	—	—	$ —
Thomas W. Maher - CFO	2006	$ --	--	--	--	--	--	--	$

There were no stock options granted or exercised by the named executive directors in 2006.

GRANTS OF PLAN BASED AWARDS

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Payouts Under Equity Incentive Plan Awards						
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards; Number of Shares of Stock or Units (#)	All Other Option Awards; Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards
-	-	-	-	-	-	-	-	--	-	-	-

There were no other stock based awards under the Stock Incentive Plan in 2006 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, 2006.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options(#) Exercisable	Number of Securities Underlying Unexercised Options(#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
Enrique de Vilmorin CEO & President	—	—	—	$ —	—	—	—	—	—
Thomas Maher CFO	—	—	—	$ —	—	—	—	—	—

OPTION EXERCISES AND STOCK VESTED

There were no options exercised or stock vested during the year ended December 31, 2006.

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

On December 4, 2006, Ethos Environmental, Inc. (the "Company") entered into an employment agreement (the "Maher Agreement") with Thomas W. Maher defining the terms of his employment with the Company as Chief Financial Officer, effective December 1, 2006 (the "Effective Date"). The initial term of Mr. Maher's employment under the Maher Agreement is through December 1, 2007 (unless earlier terminated in accordance with the terms of the Maher Agreement), with automatic one-year renewals for each of the successive two years following the Effective Date.

The Company has no other written employment agreements with any of its named executive officers or directors.

DIRECTOR COMPENSATION

Stock Options

The Company does not currently have a fixed stock option plan that provides for the issuance of incentive and non-qualified stock options to officers, directors, employees and non-employees.

Cash Compensation

Directors receive no cash compensation for services rendered.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information regarding beneficial ownership of common stock as of December 31, 2006, by:

- Each person known to us to own beneficially more than 5%, in the aggregate, of the outstanding shares of our common stock;
- Each director;
- Each of our chief executive officer and our other two most highly compensated executive officers; and
- All executive officers and directors as a group.

The number of shares beneficially owned and the percent of shares outstanding are based on 23,107,669shares outstanding as of December 31, 2006. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities.

Beneficial Owner	Shares of Common Stock Number	Beneficially Owned Percent	
Enrique de Vilmorin	10,500,000	45.44	%
Jose Manuel Escobedo	250,000	1.08	%
			%
			%
			%
			%
All such directors and executive Officers as a group	10,750,000	46.52	%
Total	10,750,000	46.52	%

Changes in Control

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

Item 12. Certain Relationships and Related Transactions

During 2006, there was one Loan Payable to the President of the Company in the amount of $50,000. The loan has no stated repayment terms, is due on demand, is unsecured and does not bear interest.

Item 13. Exhibits

EXHIBIT NUMBER	DESCRIPTION	LOCATION
3.1 - 3.2	Articles of Incorporation and Bylaws	Incorporated by reference as Exhibits to the Form 8-K filed on December 12, 2004 as amended on February 3, 2005.
10.1	Agreement and Plan of Merger by and between the Company and Ethos Environmental, Inc.	Incorporated by reference as an Exhibit to the Form 8-K filed on April 24, 2006.
10.2	2006 Definitive Proxy Statement.	As filed with the Commission on

		October 4, 2006.
31.1	Rule 13a-14(a)/15d-14(a) Certification (CEO)	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification (CFO)	Filed herewith
32.1	Section 1350 Certification (CEO)	Filed herewith
32.2	Section 1350 Certification (CFO)	Filed herewith

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Item 14. Principal Accounting Fees and Services

During the year ended December 31, 2006, we engaged Peterson Sullivan PLLC as our independent auditor. For the year ended December 31, 2006, we incurred fees to Peterson Sullivan PLLC as discussed below.

· *Audit Fees:* Fees for audit and quarterly review services totaled $81,868 and $20,076 for 2006 and 2005, respectively, including fees associated with consents and the review of this report.

· *Tax Fees:* We did not engage PETERSON SULLIVAN PLLC, for any tax related services during 2006 or 2005.

· *All Other Fees:* Fees for other services not included in the above were $0in both 2006 and 2005.

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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 17th day of April 2007.

Ethos Environmental, Inc.
a Nevada Corporation
By:

/s/ Enrique de Vilmorin
Enrique de Vilmorin
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, the following persons on behalf of the Registrant and in the capacities and on the dates indicated have signed this report below.

Signature	Position	Date
/s/ Enrique de Vilmorin Enrique de Vilmorin	Chief Executive Officer and Director	April 17, 2007
/s/ Jose Manuel Escobedo Jose Manuel Escobedo	Director	April 17, 2007
/s/ Luis Willars Luis Willars	Director	April 17, 2007
/s/ Thomas W. Maher Thomas W. Maher	Chief Financial Officer	April 17, 2007