

EQUITY RESEARCH REPORT



Ethos Environmental, Inc. OTCBB : ETEV

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Close as of: March 6, 2008
DJIA: 12,040.39
S&P 500: 1,304.34
NASDAQ Composite: 2,220.50
Russell 2000: 662.78

Recommendation: **BUY**

Price Target: **\$ 4.99**

Stock Price:	\$0.90	Market Cap.:	\$33.18 M	3-mo. Avg. Vol. (est.)	46,000
52 Week Price Range:	\$0.75 – 4.50	Shares Outstanding:	36.88 M	Current Ratio	7.40
Industry/Sector:	Spec. Chemicals	Float (est):	16.02 M	P/S TTM	4.37

BASIS FOR RECOMMENDATION

- We are initiating a **BUY** rating for Ethos Environmental, Inc. (OTCBB: ETEV). Ethos is the manufacturer of award-winning fuel reformulating products that help commercial fleets and government agencies meet environmental regulations and relieve skyrocketing fuel costs. Tests have shown that by using the Company's flagship product, Ethos FR[®], commercial vehicles can increase fuel mileage between 7% and 19% while reducing harmful emissions by more than 30%.
- Strong competitive advantages:** As countries around the world attempt to deal with rising fuel prices and emissions control, the Company has proven its ability to deliver a product that works with virtually no switching costs or risk and thus has gained a strong first mover advantage.
- Large collective market opportunity:** Like the United States, countries all around the world are endeavoring to deal with the high costs of petroleum products and the detrimental effects of those products on the environment.
- Solid YOY Revenue Growth:** The Company has shown phenomenal growth in the last five years, growing revenue from under \$200k in 2003 to \$10.4 M in 2007E, a 5-Yr. CAGR of 121%.
- Sound Management Team:** Ethos' founders, management team and directors draw on decades of experience in a variety of industries, as well as entrepreneurial business and financial management. The team is led by CEO, Enrique de Vilmorin who has more than 25 years experience in multi-national corporations in the areas of finance, management and manufacturing. His personable style has enabled him to land large foreign government contracts, such as Ecuador. His background includes work with Intel, IBM, First Union Bank, and the World Bank Group.
- Diverse and Growing Customer Base.** Since its inception in 2000, Ethos Environmental has grown its customer base to thousands of diverse clients in over 15 countries worldwide.



BUSINESS / PRODUCT OVERVIEW



Ethos Environmental Inc., a Nevada corporation, engages in the manufacture and distribution of fuel reformulating products. It offers a line of fuel reformulators under the name Ethos FR[®], which contain a blend of low and high molecular weight esters that add cleaning and lubricating qualities to various fuels or motor oil. The Company's overall mission is to be recognized as the industry standard for high quality, non-toxic cleaning and lubricating products that increase fuel mileage and reduce emissions. The company's products reduce the emissions of hydrocarbons, nitrogen oxides, and carbon monoxide, as well as particulate matter, especially in diesel-powered engines. It sells its products to the users of cars, trucks, and vessels primarily in the United States, Latin America, and Asia.

Ethos FR[®] – Sales Ramping Up

Ethos FR[®] is a unique combination of high-quality, non-toxic, specially designed esters that uses only the elements of carbon, hydrogen and oxygen. This combination of low molecular weight cleaning esters and high molecular weight lubricating esters, reformulates any fuel whether its gasoline, diesel, methanol, ethanol, LNG, compressed natural gas or biodiesel.

In short, Ethos products reformulate any fuel, resulting in two important benefits. The first benefit is the added lubricity to the engine. The second is adding cleansing properties to the fuel. All of the internal components benefit from the cleansing and lubricating action including the fuel lines, filters, carburetors, spark plugs and injectors. Ethos also conditions the engine seals, keeping them tighter for a longer period of time. A cleaner, more lubricated engine runs smoother, requires less maintenance and reduces engine heat significantly, thereby returning horsepower closer to the manufacturer's specifications. Ethos removes carbon deposits that cause fuel to combust incompletely, resulting in wasted fuel that creates toxic emissions.



In contrast to traditional fuel additives and oxygenates fuels, such as ethanol and methyl tertiary butyl ether (MTBE), Ethos' products have cleaning properties that contribute to the lubrication of the engine instead of slowly destroying it. The formula dissolves the gums and residues and adds important lubrication that an engine needs. The engine stays clean and lubricated, allowing it to run smoothly and efficiently.

Company Strategy Brief

Product Focus. Ethos capitalizes on two issues that are at the forefront of the world: 1) spiraling fuel costs; and 2) the environmental impact of fossil fuels.

New Product Development. The Company has a highly focused development team that is 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. Ethos recently introduced its Bunker Fuel Conditioner (discussed later in the report) and is working to improve that product even further. In addition, the Company is in ongoing development to improve the performance of its ester-based product for use with alcohol-based fuels, such as ethanol.

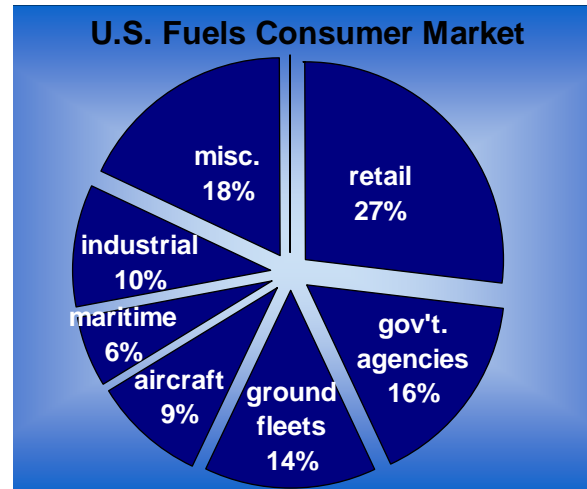
Sales and Marketing. By delivering a product that works and ultimately pays for itself, the Company's sales strategy is relatively simple. From its earliest days, Ethos has focused on product demonstration as the most effective means of introducing Ethos FR to potential users. During this demonstration phase, Ethos supplies product to treat a sample of the fleet at no cost to the client.

MARKET SNAPSHOT

Industry Background – Clean Air / Oil Dependence

While cleaner air, global warming and our persistent dependence on fossil fuels have all been concerns for years, never have the issues been at the forefront of society like they have now. It is estimated that in the United States, nearly 400 million gallons of gasoline gets consumed every day. In a year, therefore, the U.S. consumes about 146 billion gallons (about 550 billion liters) of gasoline.

In California alone, as the fifth largest economy in the world, \$82 million is spent on gasoline and diesel every day (in addition to \$22 million for natural gas and \$82 million on electricity). Furthermore, the demand for transportation fuels in California is increasing at a rapid rate, projected to grow by almost 35 percent over the next 20 years, according to the California Department of Energy. Petroleum will be the primary source of California's transportation fuels for the foreseeable future, with demand continuing to rise and in-state supplies diminishing. We just use California as a proxy here; really this goes for the entire U.S. and most of the world. It is no wonder that oil prices have sky-rocketed, far outpacing inflation.



While this is not a report on the subject as such, global warming is a major concern when it comes to automobile emissions. Global warming is caused by carbon dioxide (CO²) and other air pollution that is collecting in the atmosphere like a thickening blanket, trapping the sun's heat and causing the planet to warm up. Coal-burning power plants are the largest U.S. source of carbon dioxide pollution -- they produce 2.5 billion tons every year. Automobiles, the second largest source, create nearly 1.5 billion tons of CO² annually.

Against this backdrop, it is no wonder that alternative fuels (alternative to fossil that is), and methods to make fossil fuels run cleaner and more efficiently, are big business these days. Increasing public concerns about climate change and its potential economic and political security consequences are driving public policy and private investment to bring clean energy technologies to the forefront quickly as possible. The market is finally rewarding innovators who are producing new energy solutions. With the growing level of support of alternative transportation technology steadily gaining momentum from a corporate, government and consumer level, innovations such as cleaner fuel sources, and energy efficient automotive technology continue to result.

With an estimated investment value of \$25 billion in 2007, which followed a burgeoning 2006 in which investments tripled, market research firm Packaged Facts, projects that the rapidly emerging renewable energy investment market could skyrocket to nearly \$50 billion by 2011, and possibly surpass \$7 trillion by 2030 in cumulative real 2007 dollars, according to a recent report from Cambridge Energy Research Associates.

The statistics can go on and on. But despite widespread debate on the subject, one thing is clear, however, and that is the U.S. and the world are finally opening their eyes to the fact that our current system of energy and fuel dependence is broken. Like it has been shown in the current U.S. healthcare system, costs are ballooning and quality of life is diminishing.

PRODUCTS

Ethos FR[®] - Fuel Reformulator

So while the debate on emissions reduction solutions continues, Ethos Environmental is making a difference in cleaning the air today. Improved and accessible technology to measure diesel engine emissions is still in

development. The change from diesel to alternative fuels has become more controversial as research shows that natural gas may be more hazardous. Particulate matter is reduced to a micro size, making it easier to assimilate by humans. Acquisition and operating costs associated with alternative fuels has slowed down widespread implementation. Ethos FR's unique blend of esters reduces emissions and implementation is economical, therefore continued use is sustainable as well as safe.

Esters are derived from carboxylic acids. A carboxylic acid contains the -COOH group, and in an ester the hydrogen in this group is replaced by a hydrocarbon group of some kind. In the simplest terms, esters can be defined as the reaction products of acids and alcohols. Thousands of different kinds of esters are commercially produced for a broad range of applications. Within the realm of synthetic lubrication, a relatively small, yet substantial family of esters has been found to be very useful in severe environment applications.

Ethos Environmental offers a cost effective solution to help industry meet environmental regulations and relieve skyrocketing fuel prices. Hundreds of millions of miles of road tests have proven that commercial fleets on average increase fuel mileage between 7% and 19% and reduce emissions by more than 30%. Commercial fleets in the United States, Canada, Mexico, Latin America, Asia and Europe use Ethos Fuel Reformulator.

Ethos FR is non-toxic, non-hazardous and works with any fuel used in car, trucks, buses, RV's, ships, trains and generators. Ethos FR reduces fuel costs by producing a net gain in mileage above cost. Ethos FR contains two families of esters, a group of cleaning esters and a group of lubricating esters in a mineral oil base. It cleans and lubricates the internal parts of the engine without the use of petroleum-derived products commonly found in fuel additives. The main objective is to make fuels self-cleaning and self-lubricating without increasing toxic emissions. Moving parts function more smoothly with reduced heat and friction, requiring less maintenance. Horsepower returns closer to the manufacturer specifications. Ethos FR removes carbon deposits, one of the culprits that cause fuel to combust incompletely, resulting in wasted fuel that creates toxic emissions. The combination of cleaning and lubricating esters in Ethos FR stabilize the fuel without changing its specifications.

The overall result is that Ethos FR makes engines combust fuel more completely. When an engine uses each measure of fuel to the maximum degree possible, it has two very important benefits. It reduces fuel consumption and reduces non-combusted residues that an engine expels in the form of exhaust emissions, such as hydrocarbons, nitrogen oxides, carbon monoxide, particulate matter and other harmful products of combustion. Unused fuel is saved in the fuel tank, waiting to be used efficiently by the engine, instead of exhausted in the form of toxic emissions. Ethos FR reduces emissions without adding any of its own components to the exhaust since it is 99.99976% ashless upon combustion and it is not derived from petroleum.

Ethos Bunker Fuel Conditioner

Like any fledgling company in a rapidly-changing industry, the Company's product strategy is dynamic and evolving. Ethos is continually looking for new opportunities to expand its product line and increase applications for its basic formula.

Ships burning heavy fuel oil (bunker fuel) can also benefit from the use of Ethos Bunker Fuel Conditioner. The international marine shipping fleet is a major contributor to the world's greenhouse gas emissions, as recently reported in the Wall Street Journal (Danger at Sea: Ships Draw Fire for Rising Role in Air Pollution, Nov 27, 2007). With the use of Ethos Bunker Fuel Conditioner, the potential exists for significantly reducing these emissions. When added in proper concentration, the components of Ethos the product improves fuel stability and also increases engine performance by cleaning and maintaining the entire fuel system.

The Company recently announced that recent testing performed at PetroEcuador's (the state-run oil company of Ecuador) Esmeraldas refinery resulted in a more than 50% reduction in carbon monoxide emissions with the use of Ethos Bunker Fuel Conditioner.

During 2007, Ethos sales to PetroEcuador and Petro-Industrial exceeded \$9 million. Management anticipates continued usage of its products by PetroEcuador and Petro-Industrial during the immediate future and beyond.

Sales Strategy

As stated earlier, Ethos has focused on product demonstration, done through approaching each market from the perspective of the customer's strongest motivation, whether to reduce fuel costs or reduce engine emissions, as the most effective means of introducing Ethos FR to potential users. During this demonstration phase, Ethos supplies product to treat a sample of the fleet at no cost to the client. It is vital that the customer understand and prove the effectiveness of Ethos FR in their fleets. This demonstration phase will last as long as necessary to quantify the value and projected savings possible once the entire fleet is treated.

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

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

We expect Ethos to continue moving forward, with many new customers in 2008. Management has told us that there are pending contracts with a major railroad, a major metropolitan area transportation authority, and several foreign governments. To us, the numbers don't lie. With solid YOY growth since 2003, obviously the sales strategy being implemented is effective.

OUTLOOK / VALUATION

With a solid operating history, normally traditional valuation methods such as discounted cash flow (DCF) would be appropriate in this case. But because the Company is in high-growth mode, visibility is a bit uncertain. Multiple comparisons, however, such as discounted forward price-to-earnings ratio (P/E), and discounted forward price-to-sales ratio (P/S), are also reasonable metrics in that they show the current market values of similar companies. In addition, we only need to forecast next year's revenue and earnings rather than the more-uncertain future years.

Since we are not valuing a development stage company, to form the basis for our valuation we are using the underlying assumption that the value of Ethos should mirror that of its closest peers (based on product, sales, size and/or corporate strategies), which are below:

Peer Data

	Lubrizol Corp. (LZ)	Clean Diesel Technologies, Inc. (CDTI)	Innospec Inc. (IOSP)	Solpower Corporation (SOCP.OB)	Nova Biosource Fuels, Inc. (NBF)	AE Biofuels, Inc. (AEBF.OB)	Allegro Biodiesel Corporation (ABDS.OB)	China Clean Energy, Inc. (CCGY.OB)
TTM Revenues (\$000)	\$4,500,000	\$4,160	\$602,400	\$290	\$24,940	\$744	\$8,790	\$18,540
TTM Earnings (\$000)	\$283,400	(\$3,180)	\$29,500	(\$305)	(\$19,420)	(\$5,610)	(\$31,710)	\$2,020
Net Margin	6.30%	-76.44%	4.90%	-105.17%	-77.87%	-754.03%	-360.75%	10.90%
Shares Outstanding (000)	68,410	7,400	23,710	7,230	110,105	73,920	21,720	31,510
Earnings Per Share	\$4.14	(\$0.43)	\$1.24	(\$0.04)	(\$0.18)	(\$0.08)	(\$1.46)	\$0.06
Price as of 3/6/08 close	\$58.53	\$14.25	\$20.11	\$0.25	\$2.00	\$8.98	\$0.20	\$1.70
Market Cap (000)	\$4,004,037	\$105,450	\$476,808	\$1,808	\$220,210	\$663,802	\$4,344	\$53,567
Market Cap / TTM Revenue	0.89	25.35	0.79	6.23	8.83	892.21	0.49	2.89
Price/Earnings	14.13	N/A	16.16	N/A	N/A	N/A	N/A	26.52
Price/Book	1.96	7.93	1.61	N/A	0.64	31.15	1.90	3.34

For purposes of this portion of the valuation, we have eliminated the outliers Lubrizol (P/S), which accounted for approximately 72% of the weight, and AE Biofuels, which has an unusually high P/S multiple. Lubrizol was kept for the P/E calculation as it was only one of three companies with that multiple.

Valuation Matrix

ETEV Actual & Projected *

TTM Revenues E	\$	10,377,000		
TTM Earnings E	\$	(18,268,000)		
P/E		N/A		
P/S		3.20		
Shares Outstanding		36,872,000		
Price as of 3/06/08 close	\$	0.90		
Market Cap (000)		33,184,800		
'08E Revenues **	\$	35,094,000		
Discounted	\$	30,516,522		
'08E Earnings **	\$	18,208,000		
Discounted	\$	15,833,043		
Averages:				
Weighted:				
			P/E	11.88
			P/S	5.99
Simple:				
			Net Margin	-169.02%
<hr/>				
Proj Market Cap based on Wtd. P/S	\$	182,739,249		
Proj Share Price based on Wtd. P/S	\$	4.96		
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Proj Market Cap based on Wtd. P/E	\$	188,101,641		
Proj Share Price based on Wtd. P/E	\$	5.10		

* - The company's 10-K for 2007 should be filed soon, and we have used management guidance on 2007 figures.

** - management estimates

For our final valuation, we have taken the average of the four companies that had positive net margins and applied it Ethos to get an estimate of the Company's FY07 earnings. Since the Company did over \$10 million in revenue last year, we do not feel the need to use the high discount rates afforded most start-ups. Therefore, we have discounted the FY08 revenue and earnings figures by 15% to get \$30,516,522 and \$15,833,043 respectively. Applying these figures to the peer multiples, we obtain fair prices of \$4.96 and \$5.10, respectively. Since we are more secure with the sales figure, rather than a less visible bottom line, coupled with the fact that our sample size for our P/E calculation was only three, we have only applied a 20% weight to the P/E valuation. Thus, our current fair value of Ethos Environmental shares is **\$4.99 per share**.

Capital Resources

The Company has financed its operations since inception primarily through the sale of shares of its common stock, credit facilities and other loans. To date, however, Ethos has shown the ability to raise the funds necessary to fund operations and development. Management has undertaken steps as part of a plan to sustain 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. In August 2007, Ethos raised \$2MM. Management anticipates, based on currently proposed plans and assumptions relating to our operations, that the Company's current cash and cash equivalents together with projected cash flows from operations and projected revenues will be sufficient to satisfy its contemplated cash requirements for the next 12 months. Cash requirements for 2008 and beyond will depend primarily upon the level of product sales, inventory levels, product development, sales and marketing expenditure, and capital expenditures.

Risk Factors

Competitive Threat. ETEV faces intense competition from a number of companies that offer or are developing products in its targeted application areas. We also expect that Ethos will encounter intense competition from a number of established and development-stage companies that continually enter the Company's target markets.

Loss of Proprietary Rights. While patent protection should minimize this threat, the protection of ETEV's proprietary formula is critical to its business prospects. The loss of any of the proprietary rights that the Company believes are protected under intellectual property safeguards may result in the loss of its competitive advantage over present and potential competitors.

Dilution. All else being equal, the raising of future equity capital and relatively heavy use of stock-based compensation will depress share price and could significantly affect our price target.

Competitive Advantages

Despite the risk of current and potential competition, which will always be present in the ever-changing alternative energy and specialty chemical sectors, we believe that the Company holds several key, competitive advantages:

- The Company has, to a large degree, a first mover advantage in its target markets, particularly with foreign governments. As more and more nations adopt Ethos FR, it is anticipated that other governments will place orders.
- Ethos FR is a simple and effective product, thus avoiding large switching costs for commercial fleets and government agencies wishing to reduce emissions and improve fuel efficiency.
- Ethos' product makes other alternative fuels even better. Ethos FR works with any combustible engine fuel such as ethanol (and other oxygenates) and is therefore not limited to petroleum products.
- The management team is made up of knowledgeable, deeply experienced people, with the vision and commitment to move the Company forward.

Recommendation and Conclusion

We are initiating coverage of Ethos Environmental with a BUY recommendation. This report has laid out our investment thesis for the Company. Rather than a typical fledgling alternative fuel company, we see ETEV as a bona-fide specialty chemical concern, one that is filling a huge global need, has great leadership and has been already exhibiting strong revenue growth.

Operating results and stock performance could be subject to greater volatility as the Company grows, but with the stock at these levels, long-term investors might be interested in using this period as an opportunity to build positions with risk capital in anticipation of stronger performance in FY2008 and beyond.

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About the Analyst

Randy Lewis, CFA, founder and Senior Equity Analyst of EquityNet, has more than 10 years experience in equity and portfolio analysis, as well as financial consulting and strategic planning. Prior to forming EquityNet, Mr. Lewis served as an equity analyst at SSI Investment Management, Inc., a \$500-million, money management firm, specializing in sophisticated, hedged investment strategies, and serving institutional and high net worth clients. Previous to SSI, Mr. Lewis was a financial analyst for Griffin Financial Services, the securities brokerage arm of Home Savings of America (now Washington Mutual), the then-largest savings and loan in the U.S. Mr. Lewis has had several articles published, most recently in HFR Journal of Hedge Fund Research on the subject of merger arbitrage. Mr. Lewis received his Bachelors Degree with honors in Finance from California State University, Fullerton, his MBA at the Anderson School of Business at UCLA, and has earned the Chartered Financial Analyst (CFA) designation. He is also an Adjunct Instructor of Finance and Accounting at the University of Phoenix, and Business at Pierce College in the Los Angeles Community College District.

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