

EYI INDUSTRIES INC  
Form 10QSB/A  
May 27, 2004

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-QSB/A**

**Amendment No. 1**

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **March 31, 2004**

Transition Report pursuant to 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **000-29803**

**EYI INDUSTRIES, INC.**

(Exact name of small business issuer as specified in its charter)

**NEVADA**

(State or other jurisdiction of  
incorporation or organization)

**88-0407078**

(IRS Employer Identification No.)

**3960 Howard Hughes Parkway, Suite 500**

**Las Vegas, Nevada**

(Address of principal executive offices)

**89109**

(Zip Code)

Issuer's telephone number, including area code:

**(702) 296-8034**

**NOT APPLICABLE**

(Former name, former address and former fiscal year end, if changed since last report)

Check whether the issuer (1) 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 issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes  No

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:  
**152,424,447** shares of common stock issued and outstanding as of **May 7, 2004**.

Transitional Small Business Disclosure Format (check one): Yes  No

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**Explanatory Note**

This amended quarterly report on 10-QSB/A dated May 26, 2004 is being filed to:

- (i) correct a typographical error in respect of the registrant's anticipated working capital needs under the heading "Item 2. Management's Discussion and Analysis or Plan of Operation - Financing Requirements"; and
- (ii) correct an arithmetic error in the number of shares and average price of shares sold in private placement transactions by the registrant during the three months ended March 31, 2004 disclosed under the heading "Item 2. Management's Discussion and Analysis or Plan of Operation - Cash Provided by Financing Activities", and in the accompanying interim unaudited financial statements for the three months ended March 31, 2004; and
- (iii) make the corresponding changes described in (ii) to the consolidated balance sheets and consolidated statement of stockholders' equity in the accompanying interim unaudited financial statements for the three months ended March 31, 2004.

Other than the foregoing items and conforming changes related thereto, no part of the quarterly report on Form 10-QSB filed on May 24, 2004 is being amended, and the filing of this amended quarterly report on Form 10-QSB/A should not be understood to mean that any other statements contained therein are untrue or incomplete as of any date subsequent to May 24, 2004.

**PART 1 - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**EYI INDUSTRIES, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	March 31, 2004 Unaudited	December 31, 2003 Restated
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 42,640	\$ 52,075
Restricted cash	210,196	223,682
Accounts receivable	167,544	52,323
Related party receivables	5,241	5,465
Prepaid expenses	75,474	28,600
Inventory	221,755	254,367
<b>TOTAL CURRENT ASSETS</b>	<b>722,850</b>	<b>616,512</b>
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>116,403</b>	<b>143,439</b>
<b>INTANGIBLE ASSETS</b>	<b>19,801</b>	<b>19,801</b>
<b>TOTAL ASSETS</b>	<b>\$ 859,054</b>	<b>\$ 779,752</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Bank indebtedness	\$ 222,313	\$ 259,977
Accounts payable and accrued liabilities	905,067	836,751
Accounts payable - related parties	873,624	779,367
Customer deposits	74,226	6,250
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,075,230</b>	<b>1,882,345</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>-</b>	<b>-</b>
<b>MINORITY INTEREST IN SUBSIDIARY</b>	<b>463,387</b>	<b>468,877</b>
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized, no shares issued and outstanding		
Common stock, \$0.001 par value; 537,278,000 shares authorized, 149,647,125 and 148,180,670 shares issued and outstanding, respectively	149,647	148,181
Discount on common stock	(53,598)	(53,598)
Additional paid-in capital	974,902	827,972
Stock warrants	199,229	128,385
Accumulated deficit	(2,949,743)	(2,622,410)
<b>TOTAL STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>(1,679,563)</b>	<b>(1,571,470)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>\$ 859,054</b>	<b>\$ 779,752</b>

The accompanying condensed notes are an integral part of these financial statements.

F-1

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**EYI INDUSTRIES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended March 31, 2004 Unaudited	Three Months Ended March 31, 2003 Unaudited
<b>REVENUE</b>	\$ 1,529,195	\$ 3,656,657
<b>COST OF GOODS SOLD</b>	832,095	2,736,201
<b>GROSS PROFIT</b>	697,100	920,456
<b>OPERATING EXPENSES</b>		
Consulting fees	152,520	231,310
Legal and professional	20,052	118,550
Customer service	124,339	318,330
Finance and administration	219,223	208,904
Sales and marketing	27,556	29,513
Telecommunications	105,062	106,877
Wages and benefits	252,066	253,520
Warehouse expense	105,060	139,294
<b>TOTAL OPERATING EXPENSES</b>	<b>1,005,878</b>	<b>1,406,298</b>
<b>OPERATING LOSS</b>	<b>(308,778)</b>	<b>(485,842)</b>
<b>OTHER INCOME (EXPENSES)</b>		
Interest and other income	6,238	108
Interest expense	(21,480)	(2,321)
Foreign currency gain/(discount)	(8,803)	(32,186)
<b>TOTAL OTHER INCOME (EXPENSES)</b>	<b>(24,045)</b>	<b>(34,399)</b>
<b>NET LOSS BEFORE TAXES</b>	<b>(332,823)</b>	<b>(520,241)</b>
<b>PROVISION FOR TAXES</b>	<b>-</b>	<b>-</b>
<b>NET LOSS BEFORE ALLOCATION TO MINORITY INTEREST</b>	<b>(332,823)</b>	<b>(520,241)</b>
<b>ALLOCATION OF LOSS TO MINORITY INTEREST</b>	<b>5,490</b>	<b>-</b>
<b>NET LOSS</b>	<b>\$ (327,333)</b>	<b>\$ (520,241)</b>
<b>BASIC AND DILUTED</b>		
<b>NET LOSS PER COMMON SHARE</b>	<b>\$ nil</b>	<b>\$ nil</b>
<b>WEIGHTED AVERAGE NUMBER OF</b>		
<b>COMMON STOCK SHARES OUTSTANDING</b>	<b>149,090,095</b>	<b>118,045,603</b>

The accompanying condensed notes are an integral part of these financial statements.

F-2

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**EYI INDUSTRIES, INC.****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)**

	Common Stock		Additional Paid-in Capital	Discount on Common Stock	Option/ Warrants	Retained Earnings	Total
	Number of Shares	Amount					
Stock issued for cash on June 21, 2002	23,026,200	\$ 23,026	\$ 6,974	\$ -	\$ -	\$ -	\$ 30,000
Contribution of assets, liabilities and subsidiaries acquired at June 30, 2002	92,104,800	92,105	-	(53,598)	-	-	38,507
Net loss for period ended June 30, 2002	-	-	-	-	-	(7,967)	(7,967)
Balance, June 30, 2002	115,131,000	115,131	6,974	(53,598)	-	(7,967)	60,540
Shares issued for cash in private placement for \$1.50 per share, net of prorata share of private placement fees of \$61,206	2,914,603	2,915	477,307	-	-	-	480,222
Net loss for fiscal year ended June 30, 2003	-	-	-	-	-	(1,644,456)	(1,644,456)
Balance, June 30, 2003	118,045,603	118,046	484,281	(53,598)	-	(1,652,423)	(1,103,694)
	30,135,067	30,135	343,691	-	128,385	-	502,211

Recapitalization  
and share  
exchange  
(restated)

Net loss for  
fiscal year  
ended

December 31, 2003	-	-	-	-	-	(969,987)	(969,987)
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Balance,  
December 31,  
2003 (restated)

December 31, 2003 (restated)	148,180,670	148,181	827,972	(53,598)	128,385	(2,622,410)	(1,571,470)
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Common stock  
issued at an  
average price of  
\$0.17 including  
warrants

less expenses of \$28,715	1,466,455	1,466	146,930	-	70,844	-	219,240
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Net loss for  
fiscal year  
ended

March 31, 2004	-	-	-	-	-	(327,333)	(327,333)
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Balance, March  
31, 2004  
(unaudited)

March 31, 2004 (unaudited)	149,647,125	\$ 149,647	\$ 974,902	\$ (53,598)	\$ 199,229	\$ (2,949,743)	\$ (1,679,563)
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The accompanying condensed notes are an integral part of these financial statements.

F-3



**EYI INDUSTRIES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three Months Ended	
	March 31, 2004	March 31, 2003
<b>CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Net loss	\$ (327,333)	\$ (520,241)
Loss allocated to minority interest	5,490	0
	(332,823)	(520,241)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	27,036	38,948
Decrease (increase) in:		
Related party receivables	224	116
Accounts receivable	(115,221)	5,692
Prepaid expenses	(46,874)	(30,585)
Inventory	32,612	(118,112)
Increase (decrease) in:		
Accounts payable and accrued liabilities	68,316	18,706
Accounts payable - related parties	94,257	335,721
Customer deposits	67,976	(45,830)
Net cash used by operating activities	(204,497)	(315,585)
<b>CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES</b>		
Decrease (increase) in restricted cash	13,486	(7,991)
Purchase of property, plant and equipment	-	(5,450)
Net cash used by investing activities	13,486	(13,441)
<b>CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES</b>		
Decrease in bank indebtedness	(37,664)	-
Increase in bank indebtedness	-	208,981
Issuance of stock, net of private placement costs & warrants	219,240	207,335
Net cash provided by financing activities	181,576	416,316
Net increase in cash and cash equivalents	(9,435)	87,290
<b>CASH - Beginning of Year</b>	52,073	294,762
<b>CASH - End of Period</b>	\$ 42,640	\$ 382,052
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>		
Interest expense paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -
<b>NON-CASH INVESTING AND FINANCING TRANSACTIONS:</b>		
None		

The accompanying condensed notes are an integral part of these financial statements.



**EYI INDUSTRIES, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2004**

**NOTE 1 DESCRIPTION OF BUSINESS**

Essentially Yours Industries, Inc., was incorporated on June 21, 2002 in the State of Nevada. The main business activities of Essentially Yours Industries, Inc. were acquired through a merger with the former entity, Burrard Capital, Inc., and other entities described in Note 4 concerning the reorganization of Essentially Yours Industries, Inc. On December 31, 2003, Essentially Yours Industries, Inc. entered into a share exchange agreement of its stock with Safe ID Corporation ( Safe ID ). This transaction is being accounted for as a share exchange and recapitalization. See Note 3. As a result of this transaction, Safe ID has changed its name to EYI Industries, Inc. ( the Company ), and is acting as the parent holding company for the operating subsidiaries.

The principal business of the Company is the marketing of health and wellness care products. The Company sells its products through network marketing distributors, which in turn, sell the products to the end customers. The Company maintains its principal business office in Surrey, British Columbia. The Company has elected to change its year-end from June 30 to December 31.

The Company has four wholly owned subsidiaries. The first subsidiary is Halo Distributions LLC (hereinafter Halo), which was organized on January 15, 1999, in the State of Kentucky. Halo is the distribution center for the Company's product in addition to other products. The second subsidiary is RGM International Inc., which was incorporated on July 3, 1997, in the State of Nevada. RGM International Inc. is a dormant investment company, which owns 1 percent of Halo. The third subsidiary is Essentially Yours Industries (Canada) Inc. (hereinafter EYI Canada ), which was organized on September 13, 2002, in the province of British Columbia, Canada. EYI Canada markets health and wellness care products for use in Canada. The fourth subsidiary is 642703 B.C. Ltd., doing business as EYI Management, which was organized on February 22, 2002, in the province of British Columbia, Canada. EYI Management provides accounting and marketing services to the consolidated entity.

Basis of Presentation

The accompanying interim condensed financial statements are prepared in accordance with rules set forth in Regulation SB of the Securities and Exchange Commission. As said, these statements do not include all disclosures required under generally accepted principles and should be read in conjunction with the audited financial statements for the year ended December 31, 2003. In the opinion of management, all required adjustments which consist of normal re-occurring accruals have been made to the financial statements.

**EYI INDUSTRIES, INC.**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2004**  
**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

Recent Accounting Pronouncements

In May 2003, the Financial Account Standards Board issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Accounting Standards no. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (hereinafter SFAS No. 150 ). SFAS No. 150 establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in statements of financial position. Previously, many of those instruments were classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company has not yet determined the impact of the adoption of the statement.

Restricted Cash

Restricted cash includes deposits held in a reserve account in the amount of \$210,196 and \$223,682 at March 31, 2004 and December 31, 2003, respectively. Such deposits are required by the bank as protection against unfunded charge backs and returns of credit card transactions.

Going Concern

As shown in the accompanying financial statements, the Company had negative working capital of approximately \$1,300,000 and an accumulated deficit incurred through March 31, 2004. The Company is currently putting technology in place which will, if successful, mitigate these factors which raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

Management has established plans designed to increase the sales of the Company's products, and decrease debt. The Company plans on continuing to reduce expenses, and with small gains in any combination of network sales, direct sales, international sales, and warehouse sales, believe that they will eventually be able to reverse the present deficit. Management intends to seek additional capital from new equity securities offerings that will provide funds needed to increase liquidity, fund internal growth and fully implement its business plan. Management plans include negotiations to convert significant portions of existing debt into equity.

The timing and amount of capital requirements will depend on a number of factors, including demand for products and services and the availability of opportunities for international expansion through affiliations and other business relationships.

**EYI INDUSTRIES, INC.**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2004**

**NOTE 3 PROPERTY AND EQUIPMENT**

Capital assets are recorded at cost. Depreciation is calculated using the straight-line method over three to seven years.

**NOTE 4 NOTES PAYABLE**

On March 24, 2004, the Company entered into a promissory note for monies received in the amount of \$10,000. The note is due on demand and interest accrues at the rate of 5% per annum.

**NOTE 5 CAPITAL STOCK**

During the quarter ended March 31, 2004, the Company received \$247,955 from the private placement sale of 857,143 shares of common stock at \$0.14 per share and 609,312 shares of common stock at \$0.21 per share. In addition, the purchasers of the shares received warrants to purchase one additional share of common stock for each share purchased, exercisable at \$0.20 and \$0.30 per share, respectively, for a period of two years.

**NOTE 6 COMMON STOCK WARRANTS**

Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (hereinafter "SFAS No. 123"), defines a fair value-based method of accounting for stock options and other equity instruments. The Company has adopted this method, which measures compensation costs based on the estimated fair value of the award and recognizes that cost over the service period.

In accordance with SFAS No. 123, the fair value of stock options and warrants granted are estimated using the Black-Scholes Option Price Calculation. The following assumptions were made to value the warrants for the quarter ended March 31, 2004: risk-free interest rate of 4%, volatility of 110% and terms of two years.

Warrants and Prior Year Adjustment

During the quarter ended March 31, 2004, the Company determined that an additional 916,667 warrants from the reverse acquisition and share exchange with Safe Id Corporation had not been properly determined and valued at the date of the change of control nor at December 31, 2003. Correction of this error was made and is reflected in the financial statements. The warrants were valued at \$45,833. The additional paid-in-capital was reduced by \$45,833 and warrants accounted for in the equity section was increased by the same. There was no effect on total stockholders equity or upon net income and accumulated deficits.

**EYI INDUSTRIES, INC.****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2004**

During the quarter ended March 31, 2004, the Company received \$247,955 from the private placement sale of 857,143 shares of common stock at \$0.14 per share and 609,312 shares of common stock at \$0.21 per share. In addition, the purchasers of the shares received warrants to purchase one additional share of common stock for each share purchased, exercisable at \$0.20 and \$0.30 per share, respectively, for a period of two years. As part of these transactions the fair value of the warrants was determined to be \$70,844 .

**NOTE 7 COMMITMENTS**Purchase Agreement

On June 30, 2002, the Company entered into a distribution and license agreement with a company in which one of the Company's directors has an ownership interest. The agreement gives the Company the exclusive right to market, sell and distribute certain products for a five-year renewable term. Management estimates that 90% of the Company's sale volume results from products supplied under this licensing agreement.

During the quarter ended March 31, 2004, the Company negotiated the lowering of the purchasing threshold and pursuant to the agreement, the Company is required to purchase the following amounts of product during the term of the agreement:

June 1, 2003 to May 31, 2004	\$	1,530,000
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June 1, 2004 to May 31, 2005	\$	3,825,000
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For each year thereafter during the term of this agreement, the minimum amount of \$5,355,000.

In the event that the Company is unavailable to meet the minimum purchase requirements of the licensing agreement or the terms requiring it to pay 15% of the difference between the minimum purchase amount referred to above and actual purchases for that year in which there is a shortfall, then the licensor has various remedies available to it including, renegotiating the agreement, removing exclusivity rights, or terminating the agreement.

As of the date of these financial statements, the licensor has not made any additional demands of the Company.

**EYI INDUSTRIES, INC.**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2004**

Lease Payments

The Company has operating lease commitments for its premises, office equipment and an automobile. The minimum annual lease commitments are as follows:

Year ended December 31,	Minimum
2004	\$ 208,096
2005	57,220
2006	5,220
2007	5,220
2008	1,740

**NOTE 8 CONTINGENCIES**

Other Matters

The Company's predecessor organization, Essentially Yours Industries Corp. ( EYIC ), a British Columbia corporation, has outstanding claims from the Internal Revenue Service for penalties and interest of approximately \$2,000,000. Furthermore, one or more states may have claims against EYIC for unpaid state income taxes. Management believes that these claims are limited solely to EYIC and that any prospective unpaid tax claims against the Company are remote and unable to be estimated.

**NOTE 9 CONCENTRATIONS**

Economic Dependence

During the year, the Company purchased approximately 90% of its products for resale from one company, Nutri-Diem Inc., which is the sole supplier of the Company's flagship product Calorad. Pursuant to a purchase agreement, the Company is subject to minimum purchases per annum. See Note 13.

**NOTE 10 RELATED PARTY TRANSACTIONS**

Accounts payable to related parties includes amounts due to the president and chief executive officer for services performed during the last year, as well as other related parties and the company with which they have a signed management agreement. These payables are non-interest bearing and non-collateralized.

During the year, the Company purchased approximately 90% of its products for resale from one company, Nutri-Diem Inc., which is owned in part by a director of the Company. See Note 13.

**EYI INDUSTRIES, INC.**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2004**  
**NOTE 11 - SUBSEQUENT EVENT**

Management Agreement

EYI Corp. has agreed to perform various services such as utilization of fixed assets and administrative assistance to the Company on a month to month basis commencing April 1, 2004. The services and duties to be provided and performed by EYI Corp. for EYII shall be determined and agreed upon by the parties, from time to time, as required, provided however, it is understood and agreed that such services will primarily consist of assisting EYII in the sales and marketing business.

The remuneration to be paid by EYII to EYI Corp. for the aforementioned services shall be the cost of actual expenses plus a fee of five (5%) percent for services provided.

Exercise of options

In April 2004, an officer of the Company exercised 3,200,000 options in exchange for notes in the amount of \$528,000.



## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS**

### **FORWARD LOOKING STATEMENTS**

The information in this discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve risks and uncertainties, including statements regarding EYI Industries, Inc.'s (the "Company") capital needs, business strategy and expectations. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential" or "continue", the negative of such terms or other comparable terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors, including the risks outlined in the Risk Factors section below, and, from time to time, in other reports the Company files with the SEC. These factors may cause the Company's actual results to differ materially from any forward-looking statement. The Company disclaims any obligation to publicly update these statements, or disclose any difference between its actual results and those reflected in these statements. The information constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

As used in this quarterly report, the terms "we", "us", "our", and "our company" mean EYI Industries, Inc. unless otherwise indicated. All dollar amounts in this quarterly report are in U.S. dollars unless otherwise stated.

### **OVERVIEW**

We are in the business of selling, marketing, and distributing a product line consisting of approximately 35 nutritional products in two categories, dietary supplements and personal care products. Our most successful product is Calorad, a liquid collagen-based dietary supplement presently available on the market. These products are marketed through a network marketing program in which IBAs (Independent Business Associates) purchase products for resale to retail customers as well as for their own personal use. We have a list of over 400,000 IBAs, of which approximately 14,000 we consider active. An active IBA is one who purchased our products within the preceding 12 months. Over 6,000 of these IBAs are very active, and are on our automatic Auto-ship Program.

The IBAs in our network are encouraged to recruit interested people to become new distributors of our products. New IBAs are placed beneath the recruiting IBA in the network and are referred to as being in that IBA's down-line organization. Our marketing plan is designed to provide incentives for IBAs to build, maintain and motivate an organization of recruited distributors in their down-line organization to maximize their earning potential. IBAs generate income by purchasing our products at wholesale prices and reselling them at retail prices. IBAs also earn commissions on product purchases generated by their down-line organization.

On an ongoing basis we review our product line for duplication and sales trends and make adjustments accordingly. As of March 31, 2004, our product line consisted of: (i) 23 dietary supplement products; and (ii) 12 personal care products consisting primarily of cosmetic and skin care products. Our products are primarily manufactured by Nutri-Diem, Inc., a related party, and sold by us under a license and distribution agreement with Nutri-Diem. Certain of our own products are manufactured for us by third party manufacturers pursuant to formulations developed for us. Our products are sold to our IBAs located in all 50 states, the District of Columbia and Canada.

We believe that our network marketing system is suited to marketing dietary supplement and personal care products, because sales of such products are strengthened by ongoing personal contact between IBAs and their customers. Our network marketing system appeals to a broad cross-section of people, particularly those looking to supplement family income or who are seeking part-time work. IBAs are given the opportunity, through our sponsored events and training sessions, to network with other distributors, develop selling skills and establish personal goals. We supplement monetary incentives with other forms of recognition, in order to motivate IBAs.



## Recent Corporate Developments

- On May 4, 2004 we entered into a letter agreement with Eyewonder, Inc. ( Eyewonder ), pursuant to which Eyewonder agreed to manage an advertising and lead generation campaign to promote and sell our products utilizing Eyewonder's proprietary audio-video streaming technology. In consideration of the services provided by Eyewonder under the agreement, we agreed to pay the following fees: a fee of \$100,000 for product promotions, a fee of \$770,000 for the implementation of a communications component for the campaign, and a fee of \$140,000 for each consumer application. Under the terms of the agreement we have the option to pay fees to Eyewonder through the issuance to Eyewonder of units of our stock, each consisting one share at a price of \$0.21 per share and one share purchase warrant exercisable at a price of \$0.30 per share for a period of five years from the date of issuance. Eyewonder is also entitled to a fee of 8% of the gross revenue generated through all sales of products that result from responses to advertising by Eyewonder. In addition, on execution of the agreement, we agreed to issue options to purchase 1,100,000 shares of our common stock at a price of \$0.22 per share to certain individuals designated by Eyewonder.
- On June 30, 2002 we entered into a distribution and license agreement (the License and Distribution Agreement ) with Nutri-Diem Inc. ( Nutri-Diem ), the principal of which is Michel Grise a holder of more than 10% of our outstanding common stock and director of our subsidiaries. Pursuant to the terms the License and Distribution Agreement, as amended on November 7, 2002, we were granted by Nutri-Diem an exclusive license and right to market, sale and distribute in Canada and the United States certain products owned by Michel Grise Consultant, Inc. In consideration of the grant of exclusive license and right to distribute the products specified in the License and Distribution Agreement we agreed to expend the following amounts on purchasing products of Nutri-Diem over a five year period: (i) from June 1, 2002 to May 31, 2003, \$3,000,000 CDN, (ii) from June 1, 2003 to May 31, 2004, \$7,000,000 CDN, (iii) from June 1, 2004 to May 31, 2005, \$20,000,000 CDN, and (iv) for each year commencing on June 1, and ending on May 31 thereafter during the term of that agreement we were required to purchase products totalling \$50,000,000 CDN.

On April 30, 2004 we entered into an amendment to our License and Distribution Agreement with Nutri-Diem, lowering the amount of expenditures we are required to make under the agreement. Pursuant to the terms of the amendment to the License and Distribution Agreement we are presently required to expend the following amounts on purchasing the products of Nutri-Diem over the term of the License and Distribution Agreement: (i) from June 1, 2003 to May 31, 2004, \$1,530,000, from June 1, 2004 to May 31, 2005, \$3,825,000, and (iii) for each year thereafter, \$5,355,000.

- Our core business is in network marketing development and sales. In 2004 we implemented some critical changes to our network marketing development and sales strategy. We analyzed our compensation structure and realized that although the plan paid the sales force more than industry standard, it was still not encouraging sales, growth, duplication or retention. After months of study, outside consulting, field leader's focus groups and senior management discussion, we made key adjustments during our first fiscal quarter in 2004 that are intended to cap the sales commission expense while at the same time promote increased network sales. We anticipate retaining a higher percentage of both customers and distributors with this new plan.
- To further facilitate growth and benefit from certain competitive advantages conferred by the new commission plan, we have upgraded our Internet support sites, created a trainer field certification program, developed a regional training program and increased our face to face training capability. These support tools are intended to ensure compliance, mature team and territory development and assist sales growth.
- We see international sales as a key component for our growth in the next 5 years. During the first quarter of fiscal 2004, we signed a letter of intent with Supra Group, Inc. to assist in the expansion of our marketing efforts in Spanish speaking countries including Spain, Portugal and Latin America. We believe Supra Group, Inc. have significant international experience, expertise and contacts and that this alliance will assist in our ability to

expand into Spanish-speaking countries.

- We also distribute our products through brick and mortar retail stores. We encourage and support our IBA's in placing our nutritional supplements in retail environments that include doctor's offices, spas, gyms, health food stores and pharmacies. We have recently upgraded our merchandising tools and believe that there is potential in continuing and expanding these sales.

## PLAN OF OPERATIONS

Our plan of operations over the next twelve months is to undertake the following:

1. We plan to expand the marketing of our Calorad product over the next twelve months. We feel that our main product Calorad, a 21 year old market proven product, is positioned to expand into the significant weight loss industry. We see market conditions in the US and Canada amenable to a significant growth of Calorad sales.
2. We have plans to turn Halo, our wholly-owned warehouse facility into a profitable operation. All sales increases translate into more shipping for Halo. We have some contracts in negotiation which may increase sales at Halo. There is no assurance that the contracts we enter into will increase our sales at Halo or that Halo will become a profitable operation.
3. We intend to upgrade our computer systems over the next twelve months. These upgrades are intended to result in improved operational efficiency and reduced overhead costs.
4. We anticipate spending approximately \$314,455 in administrative expenses over the next twelve months in maintaining our head office and our warehouse and distribution centers in Louisville, Kentucky and Surrey, British Columbia, Canada.

We anticipate that we will incur the following general operating costs over the next twelve months in pursuing our stated plan of operations:

<b>EXPENSE</b>	<b>AMOUNT</b>
Consulting Fees	\$656,400
Legal and Professional Fees	\$200,000
Finance and Administration	\$314,455
Customer Service	\$856,446
Sales and Marketing	\$25,000
Telecommunications	\$681,600
Wages and Benefits	\$1,481,146
Warehouse Expense	\$256,000
<b>TOTAL</b>	<b>\$4,471,047</b>

Our estimated general operating costs of \$4,471,047 includes operating expenses such as transfer agent and filing fees, professional legal and accounting expenses, investor relations, travel, and other costs associated with being a reporting issuer under the Exchange Act, over the next twelve months.

Our cash on hand as of March 31, 2004 was \$42,640. Our total expenditures over the next twelve months, excluding costs of sales, are anticipated to be \$4,471,047. Accordingly, we will require financing to fund our operations for the next twelve months. If we are unable to obtain additional financing, our business plan will be significantly delayed until a point in time when we would be able to secure the necessary financing. We anticipate that any financing will be an equity financing. However, there is no assurance that we will be able to secure the necessary financing.

## **RESULTS OF OPERATIONS**

### **Net Sales**

Net sales for the three months ended March 31, 2004 was \$1,529,195, compared net sales of \$3,656,657 during the comparative period in 2003. This represents a decline of \$2,127,462 or 58%. The decrease in our net sales was primarily the result of adjustments to our sales commission plan for our independent business associates ("IBAs") implemented during our first fiscal quarter in 2004 that were intended to cap the sales commission expenses.

For the three months ended March 31, 2004, the cost of goods sold was \$832,095 which represents 61%. For the three months ended March 31, 2003, the cost of goods sold was \$2,736,201 which represents 75%. The decline in cost of goods sold is attributed to the success of our new compensation plan for our IBAs.

### **Operating Expenses**

Our operating expenses decreased to \$1,005,878 during the three months ended March 31, 2004 compared to operating expenses of \$1,406,298 as at March 31, 2003. The reduction of our operating expenses was primarily due to the streamlining of our operations. Our operating expenses consist principally of salaries and other personnel costs for our administrative staff, rent, legal and professional fees, consulting fees, sales and marketing expenses and warehouse expenses.

### **Compensation Expense**

For the three months ended March 31, 2004, compensation expense was \$252,066 and for the three months ended March 31, 2003, compensation expense was \$253,520.

### **Net Loss**

Our net loss for the three months ended March 31, 2004 decreased to \$332,823 from a net loss of \$520,241 for the three months ended March 31, 2003, representing a decrease of \$187,418 or 36%. The decrease in our net loss was primarily as a result of the streamlining of our operations and a reduction in our overhead expenses.

## **FINANCIAL CONDITION**

### **Cash and Working Capital**

We had cash of \$42,640 as at March 31, 2004, compared with cash of \$52,075 as at December 31, 2003. Our working capital deficit increased to \$1,352,380 as at March 31, 2004, compared to a working capital deficit of \$1,265,833 as at December 31, 2003.

### **Liabilities**

The largest component of our working capital deficit are accounts payable and accrued liabilities in the amount of \$1,778,691 as at March 31, 2004 including amounts payable to related parties, compared to \$1,616,118 as at December 31, 2003.

### **Cash Used in Operating Activities**

Cash used in operating activities for the three months ended March 31, 2004 was \$204,497, compared to \$315,585 for the three months ended March 31, 2003. The decrease in cash used in operating activities resulted from our streamlining and cost reduction activities during 2004.

**Cash Provided by Financing Activities**

We have continued to finance our business primarily through private placement sales of our common stock, exercises of stock options, short term loans, conversion of accrued liabilities into stock and through increases in our accrued liabilities and accounts payable. Cash provided by financing activities for the three months ended March 31, 2004 was \$181,576, compared to \$416,316 for the three months ended March 31, 2003.



Financing activities included the issuance of common stock for aggregate proceeds of \$247,955 during the three months ended March 31, 2004 in private placement transactions. These private placement transactions included the issue of an aggregate of 1,466,455 shares of our common stock and associated share purchase warrants, representing an average price of \$0.17 per share. We issued 4,200,000 shares upon exercise of options with an exercise price of \$0.165 per share. All shares issued pursuant to stock option exercises during our first quarter were registered on Form S-8 registration statements that we filed with the Securities and Exchange Commission.

### **Financing Requirements**

We currently have minimal cash and working capital resources. We do not have adequate financial resources in order to enable us to continue our business operations without additional financing. Our current sources of working capital are sufficient to satisfy our anticipated working capital needs for approximately the next twenty two weeks. We may not be able to obtain additional working capital on acceptable terms, or at all. Accordingly, there is substantial doubt about our ability to continue as a going concern.

We will require additional financing if we are to continue as a going concern and to finance our business operations. We anticipate that any additional financing would be through the sales of our common or preferred stock or placement of convertible debt. We are presently in the process of negotiating private placements of our securities to raise working capital to finance our operations. However, we do not have any arrangements in place for the sale of any of our securities and there is no assurance that we will be able to raise the additional capital that we require to continue operations. In the event that we are unable to raise additional financing on acceptable terms, then we may have to scale back our plan of operations and operating expenditures. We anticipate that we will continue to incur losses until such time as the revenues we are able to generate from sales and licensing of our products exceed our increased operating expenses. We base this expectation in part on the expectation that we will incur increased operating expenses in completing our stated plan of operations and there is no assurance that we will generate revenues that exceed these expenses.

### **OFF-BALANCE SHEET ARRANGEMENTS**

We have no 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 stockholders.

### **Critical Accounting Policies**

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

Our management routinely makes judgments and estimates about the effects of matters that are inherently uncertain. As the number of variables and assumptions affecting the probable future resolution of the uncertainties increase, these judgments become even more subjective and complex. We have identified certain accounting policies, described below, that are the most important to the portrayal of our current financial condition and results of operations. Our significant accounting policies are disclosed in Note 2 to our consolidated financial statements included in this quarterly report.

#### *Property and Equipment*

Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to seven years.



### *Revenue Recognition*

We recognize revenue from product sales upon shipment to IBAs, our customers. Revenue from administration fees is recognized upon collection from IBAs.

### *Long-lived Assets*

We review the carrying amount of long-lived assets for impairment where events or changes in circumstances indicate that the carrying amount may not be recoverable. The determination of any impairment would include a comparison of estimated future cash flows anticipated to be generated during the remaining life of the assets to the net carrying value of the assets.

## **NEW ACCOUNTING PRONOUNCEMENTS**

In May 2003, the Financial Account Standards Board issued Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Accounting Standards no. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* (hereinafter *SFAS No. 150* ). SFAS No. 150 establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in statements of financial position. Previously, many of those instruments were classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003.

We have not yet determined the impact of the adoption of the statement.

## **RISK FACTORS**

**We have a limited operating history, an accumulated deficit and may have continued losses for the foreseeable future with no assurance of profitability.** As of March 31, 2004 we had an accumulated deficit of \$2,949,743. We will need to generate significant revenues to achieve profitability, which may not occur. We expect operating expenses to increase as a result of the further implementation of our business plan. Even if we achieve profitability, we may be unable to sustain or increase profitability on a quarterly or annual basis in the future. It is possible that we will never achieve profitability.

As shown in the financial statements accompanying this Quarterly Report, we had a working capital deficit of approximately \$1,300,000 as of March 31, 2004.

Management has established plans designed to increase the sales of our products, and decrease debt. We plan on continuing to reduce expenses, and with small gains in any combination of network sales, direct sales, international sales, and warehouse sales, believe that we will eventually be able to reverse the present deficit. Management intends to seek additional capital from new equity securities offerings that will provide funds needed to increase liquidity, and fully implement our business plan. Management plans include negotiations to convert significant portions of existing debt into equity.

The timing and amount of capital requirements will depend on a number of factors, including demand for products and services and the availability of opportunities for international expansion through affiliations and other business relationships.

**We are dependent on our IBAs for our product marketing efforts.** Our success and growth depend upon our ability to attract, retain and motivate our network of IBAs who market our products. IBAs are independent contractors who purchase products directly from us for resale and their own use. IBAs typically offer and sell our products on a

part-time basis and may engage in other business activities, possibly including the sale of products offered by our competitors. Typically, we have non-exclusive arrangements with our IBAs which may be canceled on short notice and contain no minimum purchase requirements. While we encourage IBAs to focus on the purchase and sale of our products, they may give higher priority to other products, reducing their

efforts devoted to marketing our products. Also, our ability to attract and retain IBAs could be negatively affected by adverse publicity relating to us, our products or our operations. In addition, as a result of our network marketing program, the down-line organizations headed by a relatively small number of key IBAs are responsible for a significant percentage of total sales.

The loss of a significant number of IBAs, including any key IBA, for any reason, could adversely affect our sales and operating results, and could impair our ability to attract new IBAs. There is no assurance that our network marketing program will continue to be successful or that we will be able to retain or expand our current network of IBAs.

**Government regulation by the Food and Drug Administration and other federal and state entities of our products can impact our ability to market products.** We market products that fall under two types of Food and Drug Administration regulations: dietary supplements and personal care products. In general, a dietary supplement:

is a product (other than tobacco) that is intended to supplement the diet that bears or contains one or more of the following dietary ingredients: a vitamin, a mineral, a herb or other botanical, an amino acid, a dietary substance for use by man to supplement the diet by increasing the total daily intake, or a concentrate, metabolite, constituent, extract, or combinations of these ingredients.

is intended for ingestion in pill, capsule, tablet, or liquid form.

is not represented for use as a conventional food or as the sole item of a meal or diet.

is labeled as a dietary supplement.

Personal care products are intended to be applied to the human body for cleansing, beautifying, promoting attractiveness, or altering the appearance without affecting the body's structure or functions. Included in this definition are products such as skin creams, lotions, perfumes, lipsticks, fingernail polishes, eye and facial make-up preparations, shampoos, permanent waves, hair colors, toothpastes, deodorants, and any material intended for use as a component of a cosmetic product. The Food & Drug Administration has a limited ability to regulate personal care products.

Dietary supplements must follow labeling guidelines outlined by the FDA. Neither dietary supplements nor personal care products require FDA or other government approval or notification to market in the United States.

Under the Dietary Supplement Health and Education Act of 1994, companies that manufacture and distribute dietary supplements are limited in the statements that they are permitted to make about nutritional support on the product label without FDA approval. In addition, a manufacturer of a dietary supplement must have substantiation for any such statement made and must not claim to diagnose, mitigate, treat, cure or prevent a specific disease or class of disease. The product label must also contain a prominent disclaimer. These restrictions may restrict our flexibility in marketing our product.

We believe that all of our existing and proposed products are dietary supplements or personal care products that do not require governmental approvals to market in the United States. Our key products are classified as follows:

### **Dietary Supplements**

Calorad

Agrisept-L

Oxy-Up

Triomin



Noni Plus

Iso-Greens

Definition (drops)

Essential Omega

### **Personal Care Products**

Definition (cream)

The processing, formulation, packaging, labeling and advertising of such products, however, are subject to regulation by one or more federal agencies, including the FDA, the Federal Trade Commission, the Consumer Products Safety Commission, the Department of Agriculture and the Environmental Protection Agency. Our activities also are subject to regulation by various agencies of the states and localities in which our products are sold. Among other things, such regulation puts a burden on our ability to bring products to market. Any changes in the current regulatory environment could impose requirements that would make bringing new products to market more expensive or restrict the ways we can market our products.

No governmental agency or other third party makes a determination as to whether our products qualify as dietary supplements, personal care products or neither. We make this determination based on the ingredients contained in the products and the claims we make for the products.

**If the Federal Trade Commission or certain states object to our product claims and advertising we may be forced to give refunds, pay damages, stop marketing certain products or change our business methods. The Federal Trade Commission and certain states regulate advertising, product claims, and other consumer matters, including advertising of our products.** In the past several years the Federal Trade Commission has instituted enforcement actions against several dietary supplement companies for false or deceptive advertising of certain products. We provide no assurance that:

the Federal Trade Commission will not question our past or future advertising or other operations; or

a state will not interpret product claims presumptively valid under federal law as illegal under that state's regulations.

Also, our IBAs and their customers may file actions on their own behalf, as a class or otherwise, and may file complaints with the Federal Trade Commission or state or local consumer affairs offices. These agencies may take action on their own initiative or on a referral from IBAs, consumers or others. If taken, such actions may result in:

entries of consent decrees;

refunds of amounts paid by the complaining IBA or consumer;

refunds to an entire class of IBAs or customers;

other damages; and

changes in our method of doing business.

**A complaint based on the activities of one IBA, whether or not such activities were authorized by us, could result in an order affecting some or all IBAs in a particular state, and an order in one state could influence courts or government agencies in other states.** Proceedings resulting from these complaints



may result in significant defense costs, settlement payments or judgments and could have a material adverse effect on us.

If our network marketing program is shown to violate federal or state regulations, we may be unable to market our products. Our network marketing program is subject to a number of federal and state laws and regulations administered by the Federal Trade Commission and various state agencies. These laws and regulations include securities, franchise investment, business opportunity and criminal laws prohibiting the use of pyramid or endless chain types of selling organizations. These regulations are generally directed at ensuring that product sales are ultimately made to consumers (as opposed to other IBAs) and that advancement within the network marketing program is based on sales of products, rather than investment in the company or other non-retail sales related criteria.

The compensation structure of a network marketing organization is very complex. Compliance with all of the applicable regulations and laws is uncertain because of:

the evolving interpretations of existing laws and regulations, and

the enactment of new laws and regulations pertaining in general to network marketing organizations and product distribution.

We have not obtained any no-action letters or advance rulings from any federal or state securities regulator or other governmental agency concerning the legality of our operations. Also, we are not relying on a formal opinion of counsel to such effect. Accordingly there is the risk that our network marketing system could be found to be in noncompliance with applicable laws and regulations, which could have a material adverse effect on us. Such a decision could require modification of our network marketing program, result in negative publicity, or have a negative effect on IBA morale and loyalty. In addition, our network marketing system will be subject to regulations in foreign markets administered by foreign agencies should we expand our network marketing organization into such markets.

**The legality of our network marketing program is subject to challenge by our IBAs.** We are subject to the risk of challenges to the legality of our network marketing organization by our IBAs, both individually and as a class. Generally, such challenges would be based on claims that our network marketing program was operated as an illegal pyramid scheme in violation of federal securities laws, state unfair practice and fraud laws and the Racketeer Influenced and Corrupt Organizations Act. An illegal pyramid scheme is generally a marketing scheme that promotes inventory loading and does not encourage retail sales of the products and services to ultimate consumers. Inventory loading occurs when distributors purchase large quantities of non-returnable inventory to obtain the full amount of compensation available under the network marketing program. In the event of challenges to the legality of our network marketing organization by our IBAs, there is no assurance that we will be able to demonstrate that:

our network marketing policies were enforced, and

the network marketing program and IBAs' compensation thereunder serve as safeguards to deter inventory loading and encourage retail sales to the ultimate consumers.

**Proceedings resulting from these claims could result in significant defense costs, settlement payments or judgments, and could have a material adverse effect on us.** One of our competitors, Nutrition for Life International, Inc., a multi-level seller of personal care and nutritional supplements, announced in 1999 that it had settled class action litigation brought by distributors alleging fraud in connection with the operation of a pyramid scheme. Nutrition for Life International agreed to pay in excess of \$3 million to settle claims brought on behalf of its distributors and certain purchasers of its stock.

We believe that our marketing program is significantly different from the program allegedly promoted by Nutrition for Life International and that our marketing program is not in violation of anti-pyramid laws or regulations. However,

there can be no assurance that claims similar to the claims brought against Nutrition for Life International and other multi-level marketing organizations will not be made against us, or that we would prevail in the event any such claims were made. Furthermore, even if we were successful in defending against any such claims, the costs of conducting such a defense, both in dollars spent and in management time, could

be material and adversely affect our operating results and financial condition. In addition, the negative publicity of such a suit could adversely affect our sales and ability to attract and retain IBAs.

**A large portion of our sales is attributable to Calorad.** A significant portion of our net sales is expected to be dependent upon our Calorad product. Calorad has traditionally represented more than 90% of our net sales and, although we hope to expand and diversify our product offerings, Calorad is expected to provide a large portion of our net sales in the foreseeable future. If Calorad loses market share or loses favor in the marketplace, our financial results will suffer.

**Our products are subject to obsolescence.** The introduction by us or our competitors of new dietary supplement or personal care products offering increased functionality or enhanced results may render our existing products obsolete and unmarketable. Therefore, our ability to successfully introduce new products into the market on a timely basis and achieve acceptable levels of sales has and will continue to be a significant factor in our ability to grow and remain competitive and profitable. In addition, the nature and mix of our products are important factors in attracting and maintaining our network of IBAs, which consequently affects demand for our products. Although we seek to introduce additional products, the success of new products is subject to a number of conditions, including customer acceptance. There can be no assurance that:

our efforts to develop innovative new products will be successful,  
customers will accept new products, or  
that we will obtain required regulatory approvals of such new products.

In addition, no assurance can be given that new products currently experiencing strong popularity will maintain their sales over time. In the event we are unable to successfully increase the product mix and maintain competitive product replacements or enhancements in a timely manner in response to the introduction of new products, competitive or otherwise, our sales and earnings will be materially and adversely affected.

**We have no manufacturing capabilities and we are dependent upon Nutri-Diem, Inc. and other companies to manufacture our products.** We have no manufacturing facilities and have no present intention to manufacture any of our dietary supplement and personal care products. We are dependent upon relationships with independent manufacturers to fulfill our product needs. Nutri-Diem, Inc., a related party, manufactures and supplies more than 70% of our products. We have contracts with Nutri-Diem that require us to purchase set amounts of its manufactured products for at least the next five years and possibly the next ten years. It is possible that these contracts with Nutri-Diem, Inc. could become unfavorable, and we may not be able to use other manufacturers to provide us with these services if our terms with Nutri-Diem, Inc. become unfavorable. In addition, we must be able to obtain our dietary supplement and personal care products at a cost that permits us to charge a price acceptable to the customer, while also accommodating distribution costs and third party sales compensation. Competitors who do own their own manufacturing may have an advantage over us with respect to pricing, availability of product and in other areas through their control of the manufacturing process.

We may not be able to deliver various products to our customers if third party providers fail to provide necessary ingredients to us. We are dependent on various third parties for various ingredients for our products. Some of the third parties that provide ingredients to us have a limited operating history and are themselves dependent on reliable delivery of products from others. As a result, our ability to deliver various products to our users may be adversely affected by the failure of these third parties to provide reliable various ingredients for our products.

**We are materially dependent upon our key personnel and the loss of such key personnel could result in delays in the implementation of our business plan or business failure.** We depend upon the continued involvement of Jay Sargeant, our President, Chief Executive Officer and Director, and Doris O'Neill, our Executive Vice President, Chief

Operations Officer, Secretary, Treasurer and Director. As we are a developing company, the further implementation of our business plan is dependent on the entrepreneurial skills and direction of management. Mr. Sargeant, Mr. O Neill guide and direct our activity and vision. This direction requires an awareness of the market, the competition, current and future markets and technologies that would

allow us to continue our operations. The loss or lack of availability of these individuals could materially adversely affect our business and operations. We do not carry key person life insurance for these officers and directors, and we would be adversely affected by the loss of these three key employees.

**We face substantial competition in the dietary supplement and personal care industry, including products that compete directly with Calorad.** The dietary supplement and personal care industry is highly competitive. It is relatively easy for new companies to enter the industry due to the availability of numerous contract manufacturers, a ready availability of natural ingredients and a relatively relaxed regulatory environment. Numerous companies compete with us in the development, manufacture and marketing of supplements as their sole or principal business. Generally, these companies are well funded and sophisticated in their marketing approaches.

**Depending on the product category, our competition varies.** Calorad competes directly with Body Solutions, a product with different ingredients but a similar concept. Additionally, Calorad competes indirectly with food plans such as Weight Watchers and meal replacement products such as Slim Fast. Our Noni Plus product competes with Morinda and others. Our other products have similar well-funded and sophisticated competitors. Increased competitive activity from such companies could make it more difficult for us to increase or keep market share, since such companies have greater financial and other resources available to them and possess far more extensive manufacturing, distribution and marketing capabilities.

**We may be subject to products liability claims and may not have adequate insurance to cover such claims. As with other retailers, distributors and manufacturers of products that are designed to be ingested, we face an inherent risk of exposure to product liability claims in the event that the use of our products results in injury.** With respect to product liability claims, we have coverage of \$5,000,000 per occurrence and \$5,000,000 in the aggregate. Because our policies are purchased on a year to year basis, industry conditions or our own claims experience could make it difficult for us to secure the necessary insurance at a reasonable cost. In addition, we may not be able to secure insurance that will be adequate to cover liabilities. We generally do not obtain contractual indemnification from parties supplying raw materials or marketing our products. In any event, any such indemnification is limited by its terms and, as a practical matter, to the creditworthiness of the other party. In the event that we do not have adequate insurance or contractual indemnification, liabilities relating to defective products could require us to pay the injured parties' damages which are significant compared to our net worth or revenues.

**We may be adversely affected by unfavorable publicity relating to our product or similar products manufactured by our competitors.** We believe that the dietary supplement products market is affected by national media attention regarding the consumption of these products. Future scientific research or publicity may be unfavorable to the dietary supplement products market generally or to any particular product and may be inconsistent with earlier favorable research or publicity. Adverse publicity associated with illness or other adverse effects resulting from the consumption of products distributed by other companies, which are similar to our products, could reduce consumer demand for our products and consequently our revenues. This may occur even if the publicity did not relate to our products. Adverse publicity directly concerning our products could be expected to have an immediate negative effect on the market for that product.

**Because we have few proprietary rights, others can provide products and services substantially equivalent to ours.** We hold no patents. We believe that most of the technology used by us in the design and implementation of our products may be known and available to others. Consequently, others may be able to formulate products equivalent to ours. We rely on confidentiality agreements and trade secret laws to protect our confidential information. In addition, we restrict access to confidential information on a need to know basis. However, there can be no assurance that we will be able to maintain the confidentiality of our proprietary information. If our pending trademark or other proprietary rights are violated, or if a third party claims that we violate its trademark or other proprietary rights, we may be required to engage in litigation. Proprietary rights litigation tends to be costly and time consuming. Bringing or defending claims related to our proprietary rights may require us to redirect our human and monetary resources to address those claims.

**Our common stock is penny stock , with the result that trading of our common stock in any secondary market may be impeded.** The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a price of less

than \$5.00, other than securities registered on certain national securities exchanges or quoted on the Nasdaq system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock, to deliver a standardized risk disclosure document prepared by the Commission, that: (a) contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading; (b) contains a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to a violation to such duties or other requirements of Securities' laws; (c) contains a brief, clear, narrative description of a dealer market, including bid and ask prices for penny stocks and the significance of the spread between the bid and ask price; (d) contains a toll-free telephone number for inquiries on disciplinary actions; (e) defines significant terms in the disclosure document or in the conduct of trading in penny stocks; and (f) contains such other information and is in such form, including language, type, size and format, as the SEC may require by rule or regulation. The broker-dealer also must provide, prior to effecting any transaction in a penny stock, the customer with: (a) bid and offer quotations for the penny stock; (b) the compensation of the broker-dealer and its salesperson in the transaction; (c) the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and (d) a monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules; the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a written suitability statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for our stock as it is subject to these penny stock rules. Therefore, stockholders may have difficulty selling those securities.

### **ITEM 3. CONTROLS AND PROCEDURES.**

As required by Rule 13a-15 under the Exchange Act, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2004, being the date of our fiscal period covered by this quarterly report. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer, Jay Sargeant and Chief Financial Officer, Rajesh Raniga. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting management to material information relating to us required to be included in our periodic SEC filings. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date we carried out our evaluation.

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

During our fiscal quarter ended March 31, 2004, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

The term "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the registrant's principal executive and principal financial officers, or persons performing similar functions, and effected by the registrant's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:





- (1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the registrant;
- (2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the registrant are being made only in accordance with authorizations of management and directors of the registrant; and
- (3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the registrant's assets that could have a material effect on the financial statements.

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We are a party to the legal proceedings described in our Annual Report on Form 10-KSB, as filed with the Securities and Exchange Commission on April 14, 2004. We are not party to any new legal proceedings that have been commenced since the date of our Annual Report on Form 10-KSB.

**ITEM 2. CHANGES IN SECURITIES**

During the three months ended March 31, 2004, we completed the sales of the following securities that were not registered pursuant to the Securities Act of 1933 (the "Securities Act"):

1. In January, 2004, we received subscriptions for the sale of 857,143 units at a price of \$0.14 per unit for proceeds of \$120,000 to two investors. Each unit was comprised of one share of our common stock and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one share of our common stock at a price of \$0.20 per share for the three year period following closing. A total of 857,143 shares and 857,143 share purchase warrants were issued. The purchasers consisted of two "accredited investors", as defined by Rule 501 of Regulation D of the Securities Act. The sale was completed pursuant to Rule 506 of Regulation D of the Securities Act. All securities issued were endorsed with a restrictive legend confirming that the securities cannot be resold without registration under the Act or an applicable exemption from the registration requirements of the Securities Act.
2. As of May 17, 2004, we completed the sale of 1,039,597 units at a price of \$0.21 per unit for proceeds of \$218,315 to twenty three investors during the previous three months. Each unit was comprised of one share of our common stock and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one share of our common stock at a price of \$0.30 per share for the three year period following closing. A total of 1,039,597 shares and 1,039,597 share purchase warrants were issued. The purchasers consisted of twenty three "accredited investors", as defined by Rule 501 of Regulation D of the Securities Act. The sale was completed pursuant to Rule 506 of Regulation D of the Securities Act. All securities issued were endorsed with a restrictive legend confirming that the securities cannot be resold without registration under the Securities Act or an applicable exemption from the registration requirements of the Securities Act.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

No matters were submitted to our security holders for a vote during the fiscal quarter ended March 31, 2004.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.****EXHIBITS****(a) Exhibits and Index of Exhibits**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
3.1	Articles of Incorporation. <sup>(1)</sup>
3.2	Bylaws. <sup>(1)</sup>
10.1	Transfer/Assignment, dated as of May 27, 2002, between Essentially Yours Industries, Inc., a Nevada corporation and Essentially Yours Industries, Corp., a Canadian Federal Company. <sup>(1)</sup>
10.2	License of Intellectual Property, dated as of June 30, 2002, between Essentially Yours Industries, Inc., a Nevada corporation and Essentially Yours Industries, Corp., a Canadian Federal Company. <sup>(1)</sup>
10.3	Agency Appointment Agreement, dated as of June 30, 2002, between Essentially Yours Industries, Inc., a Nevada corporation and Essentially Yours Industries, Corp., a Canadian Federal Company. <sup>(1)</sup>
10.4	Management Agreement, dated as of June 30, 2002, between Essentially Yours Industries, Inc., a Nevada corporation and Essentially Yours Industries, Corp., a Canadian Federal Company. <sup>(1)</sup>
10.5	Distribution and License Agreement, dated as of June 30, 2002, between Essentially Yours Industries, Inc., a Nevada corporation and Nutri-Diem, Inc., a Canadian corporation incorporated pursuant to the laws of the Quebec Company Act. <sup>(1)</sup>
10.6	Declaration of Trust, dated as of May 27, 2002, between Jay Sargeant and twelve named trust beneficiaries. <sup>(1)</sup>
10.7	Notice to Transfer Intellectual Property Rights, dated as of August 28, 2002 from Essentially Yours Industries, Inc., a Nevada corporation, to Essentially Yours Industries, Corp., a Canadian Federal Company, and its directors. <sup>(1)</sup>
10.8	Assignment/Transfer of Intellectual Property Rights, dated as of August 28, 2002, from Essentially Yours Industries, Inc., a Nevada corporation, to Essentially Yours Industries, Corp., a Canadian Federal Company. <sup>(1)</sup>
10.9	Consulting Agreement, dated as of November 5, 2002, between Essentially Yours Industries, Inc., a Nevada corporation, and Flaming Gorge, Inc. <sup>(1)</sup>
10.10	Consulting Agreement, dated as of November 5, 2002, between Essentially Yours Industries, Inc., a Nevada corporation, and O'Neill Enterprises, Inc. <sup>(1)</sup>
10.11	Addendum to the Distribution and License Agreement dated as of November 7, 2002, between Essentially Yours Industries, Inc., a Nevada corporation and Nutri-Diem, Inc., a Canadian corporation incorporated pursuant to the laws of the Quebec Company Act. <sup>(1)</sup>
10.12	Form of Lock-up Agreement. <sup>(1)</sup>
10.13	Form of Subscription Documents. <sup>(1)</sup>
10.14	Form of IBA Application. <sup>(1)</sup>
10.15	Transfer/Assignment, dated as of May 27, 2002, between Essentially Yours Industries, Inc., a Nevada corporation and Essentially Yours Industries, Corp., a Canadian Federal Company. <sup>(1)</sup>
10.16	

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	Merger Agreement and Plan of Reorganization, dated as of June 30, 2002, between and among Burrard Capital, Inc., a Nevada corporation, Essentially Yours Industries, Inc., a Nevada corporation, and Jay Sargeant. <sup>(1)</sup>
10.17	Share Exchange Agreement, dated November 4, 2002, by and among Safe ID Corporation, a Nevada corporation, Essentially Yours Industries, Inc., a Nevada corporation, the undersigned directors of Safe ID, and Jay Sargeant. <sup>(2)</sup>
10.18	First Amendment to Trust Agreement dated December 23, 2003, between Jay Sargeant and twelve named trust beneficiaries, revising the terms of the Declaration of Trust dated as of May 27, 2002, between Jay Sargeant and twelve named trust beneficiaries. <sup>(4)</sup>
10.19	Registration Rights Agreement, dated December 31, 2003, by and among Safe ID Corporation, A Nevada corporation, and certain shareholders of EYI Industries, Inc., A Nevada corporation. <sup>(2)</sup>
10.20	Stock Compensation Program <sup>(3)</sup>
<u>10.21</u>	<u>Consulting Agreement dated December 27, 2003 between Rajesh Raniga Inc. and Safe ID Corporation.</u>
<u>10.22</u>	<u>Consulting Agreement dated January 1, 2004 between EYI Industries, Inc. and O Neill Enterprises Inc.</u>

<u>10.23</u>	<u>Consulting Agreement dated January 1, 2004 between EYI Industries, Inc. and Flaming Gorge, Inc.</u>
<u>10.24</u>	<u>Addendum to the Distribution and License Agreement between Essentially Yours Industries, Inc. and Nutri-Diem Inc. dated April 30, 2004.</u>
<u>10.25</u>	<u>Letter Agreement dated May 4, 2004 between Eye Wonder, Inc. and EYI Industries, Inc.</u>
14.1	Code of Ethics <sup>(4)</sup>
21.1	List of Subsidiaries <sup>(4)</sup>
<u>31.1</u>	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u>	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1</u>	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
<u>32.2</u>	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>

- (1) Filed as an exhibit to the registration statement on Form SB-2 of Essentially Yours Industries, Inc, filed with the SEC on November 12, 2002.
- (2) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on January 8, 2004.
- (3) Filed as an exhibit to our Registration Statement on Form S-8, filed with the SEC on March 30, 2004.
- (4) Filed as an exhibit to our annual report on Form 10-KSB for the year ended December 31, 2003, filed with the SEC on April 14, 2004.

**REPORTS ON FORM 8-K**

We did not file any current reports on Form 8-K during the fiscal quarter ended March 31, 2004 and we have not filed any current reports on Form 8-K since March 31, 2004.

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**EYI INDUSTRIES, INC.**

By:

*/s/ Jay Sargeant*

Jay Sargeant

President, Chief Executive Officer,  
and Director

(Principal Executive Officer)

Date: May 26, 2004

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