

EYI INDUSTRIES INC.
Form 10QSB
November 20, 2006

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

FORM 10-QSB

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

For the quarterly period ended **September 30, 2006**

Transition Report under Section 13 or 15(d) of the Exchange Act

For the transition period from _____ 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.)

7865 Edmonds Street

Burnaby, BC CANADA

(Address of principal executive offices)

V3N 1B9

(Zip Code)

Issuer's telephone number:

(604) 759-5031

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 Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 336,267,350 shares of common stock issued and outstanding as of November 17, 2006.

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

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B, and, therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, cash flows, and stockholders' equity in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature. Operating results for the nine month period ended September 30, 2006 are not necessarily indicative of the results that can be expected for the year ending December 31, 2006.

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

EYI INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS

| | September 30, 2006 (Unaudited) | December 31, 2005 |
|---|--------------------------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 1,879,075 | \$ 25,639 |
| Accounts receivable, net of allowance | 36,193 | 48,783 |
| Related party receivables | 31,250 | - |
| Prepaid expenses | 97,795 | 12,387 |
| Inventory | 511,625 | 295,248 |
| TOTAL CURRENT ASSETS | 2,555,938 | 382,057 |
| OTHER ASSETS | | |
| Property, plant and equipment, net | 75,714 | 49,671 |
| Deposits | 26,011 | 67,603 |
| TOTAL OTHER ASSETS | 101,725 | 117,274 |
| INTANGIBLE ASSETS | 13,387 | 15,044 |
| TOTAL ASSETS | \$ 2,671,050 | \$ 514,375 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 1,374,522 | \$ 1,929,049 |
| Accounts payable - related parties | 460,149 | 328,038 |
| Convertible debt - related party, net of discount | 2,549,263 | - |
| Derivative on convertible debt | 1,354,824 | - |
| Interest payable, convertible debt | 149,681 | - |
| Notes payable - related party | 50,000 | 90,000 |
| TOTAL CURRENT LIABILITIES | 5,938,439 | 2,347,087 |
| Net liabilities from discontinued operations | 375,344 | 375,344 |
| COMMITMENTS AND CONTINGENCIES MINORITY INTEREST IN SUBSIDIARY | 140,813 | 262,057 |
| STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Preferred stock, \$0.001 par value; 10,000,000 shares authorized, no shares issued and outstanding | - | - |
| Common stock, \$0.001 par value; 3,000,000,000 shares authorized, 294,011,932 and 217,600,875 shares issued and outstanding, respectively | 294,011 | 217,600 |
| Additional paid-in capital | 9,114,960 | 6,155,518 |
| Stock options and warrants | 4,446,082 | 2,698,984 |
| Subscription receivable | (195,000) | (195,000) |
| Accumulated deficit | (17,443,599) | (11,347,215) |

| | | |
|---|--------------|-------------|
| TOTAL STOCKHOLDERS' EQUITY (DEFICIT) | (3,783,546) | (2,470,113) |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | \$ 2,671,050 | \$ 514,375 |

3

EYI INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

| | Three Months Ended September 30, 2006 (Unaudited) | Three Months Ended September 30, 2005 (Unaudited) | Nine Months Ended September 30, 2006 (Unaudited) | Nine Months Ended September 30, 2005 (Unaudited) |
|---|---|---|--|--|
| REVENUE, NET OF RETURNS AND ALLOWANCES | \$ 949,429 | \$ 1,335,963 | \$ 3,068,166 | \$ 3,850,246 |
| COST OF GOODS SOLD | 268,763 | 350,188 | 947,611 | 840,125 |
| GROSS PROFIT BEFORE COMMISSION EXPENSE | 680,666 | 985,775 | 2,120,555 | 3,010,121 |
| COMMISSION EXPENSE | 355,556 | 513,449 | 1,120,273 | 1,435,911 |
| GROSS PROFIT AFTER COST OF GOODS SOLD AND COMMISSION EXPENSE | 325,110 | 472,326 | 1,000,282 | 1,574,210 |
| OPERATING EXPENSES | | | | |
| Consulting fees | 259,639 | 273,026 | 743,738 | 751,836 |
| Legal and professional fees | 266,908 | 107,333 | 428,150 | 254,090 |
| Customer service | 62,718 | 9,771 | 169,721 | 161,776 |
| Finance and administration | 214,835 | 299,735 | 643,529 | 663,213 |
| Sales and marketing | 59,339 | 42,569 | 271,631 | 47,560 |
| Telecommunications | 32,930 | 118,881 | 97,955 | 361,139 |
| Wages and benefits | 264,899 | 252,095 | 864,292 | 995,247 |
| Warehouse expense | 98,995 | 66,220 | 229,668 | 128,066 |
| TOTAL OPERATING EXPENSES | 1,260,263 | 1,169,630 | 3,448,684 | 3,362,927 |
| LOSS FROM OPERATIONS | (935,153) | (697,304) | (2,448,403) | (1,788,717) |
| OTHER INCOME (EXPENSES) | | | | |
| Interest and other income | 2,162 | 158 | 2,405 | 3,625 |
| Interest expense | (117,803) | (103,581) | (174,537) | (158,159) |
| Financing fees | (285,534) | 30,318 | (592,471) | - |
| Loss on derivatives | (1,731,034) | - | (3,026,542) | - |
| Foreign currency gain (discount) | 5,587 | - | 21,919 | (119,169) |
| TOTAL OTHER INCOME (EXPENSES) | (2,126,622) | (73,105) | (3,769,226) | (273,703) |
| NET LOSS BEFORE TAXES | (3,061,775) | (770,409) | (6,217,628) | (2,062,420) |
| PROVISION FOR INCOME TAXES | - | - | - | - |
| NET LOSS BEFORE ALLOCATION TO MINORITY INTEREST | (3,061,775) | (770,409) | (6,217,628) | (2,062,420) |
| ALLOCATION OF LOSS TO MINORITY INTEREST | 59,705 | 14,886 | 121,244 | 47,635 |
| ALLOCATION OF LOSS TO DISCONTINUED OPERATIONS | - | 7,093 | - | (380,368) |
| NET LOSS | \$ (3,002,070) | \$ (748,430) | (6,096,384) | \$ (2,395,153) |
| BASIC AND DILUTED NET LOSS PER COMMON SHARE | \$ nil | \$ (0.01) | nil | \$ (0.02) |

**WEIGHTED AVERAGE NUMBER
OF
COMMON STOCK SHARES
OUTSTANDING
FOR BASIC AND DILUTED
CALCULATION**

| | | | |
|-------------|-------------|-------------|-------------|
| 286,014,193 | 172,702,928 | 286,014,193 | 168,678,060 |
|-------------|-------------|-------------|-------------|

The accompanying condensed notes are an integral part of these financials

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

| | Common Stock | | Additional | | | Accumulated Deficit | Total |
|---|---------------------|------------|--------------------|----------------------------|---------------------|------------------------|----------------|
| | Number of Shares | Amount | Paid-in Capital | Subscription Receivable | Option/ Warrants | | |
| Balance December 31, 2004 | 162,753,292 | \$ 162,753 | \$ 3,048,606 | \$ (15,000) | \$ 2,563,044 | \$ (7,085,205) | \$ (1,325,802) |
| Stock issued at \$0.06 per Share for promissory note for exercise of options | 3,000,000 | 3,000 | 177,000 | (180,000) | - | - | - |
| Vested stock options issued for consulting at an average price of \$0.07 per share | - | - | - | - | 35,250 | - | 35,250 |
| Vested stock options issued for employee compensation at an average price of \$0.07 per share | - | - | - | - | 133,750 | - | 133,750 |
| Stock issued to employee for financing guaranty & pledge valued at \$0.05 per share | 800,000 | 800 | 39,200 | - | - | - | 40,000 |
| Consultant-options exercised | 250,000 | 250 | 14,750 | - | (5,000) | - | 10,000 |
| Gladys Sargeant 506 Subscription Agreement | 1,000,000 | 1,000 | 4,000 | - | 15,000 | - | 20,000 |
| Vested stock option issued for consulting at an average price of \$0.03 per share | - | - | - | - | 62,250 | - | 62,250 |
| Cancelled stock options issued for compensation and consulting at an average price of \$0.08 | - | - | 425,300 | - | (425,300) | - | - |

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

| | | | | | | | |
|--|------------|--------|-----------|---|---------|---|-----------|
| per option | | | | | | | |
| Cancelled stock options issued for compensation at \$0.20 | - | - | 2,400 | - | (2,400) | - | - |
| Stock issued to TAIB Bank to retire \$75,000 of \$300,000 debenture | 2,027,027 | 2,027 | 72,973 | - | - | - | 75,000 |
| Stock issued to TAIB Bank to retire \$170,000 of \$300,000 debenture plus interest of \$10,830 | 4,487,096 | 4,487 | 176,343 | - | - | - | 180,830 |
| Stock issued to TAIB Bank to retire \$5,000 debenture plus interest of \$14,245 | 375,146 | 375 | 18,870 | - | - | - | 19,245 |
| Stock issued to Agora as part of contract | 250,000 | 250 | 12,250 | - | - | - | 12,500 |
| Stock issued to Consultant as part of contract | 500,000 | 500 | 34,500 | - | - | - | 35,000 |
| Stock issued for exercise of options at \$0.08 per share | 100,000 | 100 | 7,900 | - | - | - | 8,000 |
| Stock issued to Cornell to retire prom note | 22,789,581 | 22,789 | 1,008,099 | - | - | - | 1,030,888 |
| Vested stock options issued for consulting at an average price of \$0.20 per share | - | - | - | - | 33,500 | - | 33,500 |
| Vested stock options issued for employee and management compensation at an average price of \$0.20 per share | - | - | - | - | 27,840 | - | 27,840 |
| Stock issued to Cornell in exchange for \$700,000 pursuant | 19,268,733 | 19,269 | 680,731 | - | - | - | 700,000 |

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

| | | | | | | | |
|--|-------------|------------|--------------|--------------|--------------|--------------|----------------|
| to SEDA | | | | | | | |
| Cancelled stock options issued for compensation | - | - | 10,500 | - | (10,500) | - | - |
| Vested stock options for consulting at an average price of \$0.20 per share | - | - | - | - | 271,550 | - | 271,550 |
| Beneficial conversion of convertible debt | - | - | 422,096 | - | - | - | 422,096 |
| Net loss for year ended December 31, 2005 | - | - | - | - | - | (4,262,010) | (4,262,010) |
| Balance, December 31, 2005 | 217,600,875 | \$ 217,600 | \$ 6,155,518 | \$ (195,000) | \$ 2,698,984 | (11,347,215) | \$ (2,470,113) |
| Vested stock options issued for consulting at an average price of \$0.20 per share | - | - | - | - | 3,750 | - | 3,750 |
| Stock issued to Cornell in exchange for \$1,084,565 pursuant to the SEDA | 42,941,686 | 42,942 | 1,041,623 | - | - | - | 1,084,565 |
| Shares returned to treasury | (268,639) | (269) | 269 | - | - | - | - |
| Beneficial conversion of convertible debt | - | - | 200,207 | - | - | - | 200,207 |
| Stock issued to Cornell to retire portion of debenture | 1,497,006 | 1,497 | 23,503 | - | - | - | 25,000 |
| Stock issued to Certain Wealth to retire portion of debenture | 664,671 | 665 | 10,435 | - | - | - | 11,100 |
| Stock issued to TAIB Bank to retire portion of debenture | 832,335 | 832 | 13,068 | - | - | - | 13,900 |
| Warrants issued to Cornell Capital for | - | - | - | - | 3,148,413 | - | 3,148,413 |

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

financing services

| | | | | | | | |
|---|-------------|------------|--------------|--------------|--------------|-----------------|-------------|
| Vested stock options for consulting at \$0.10 per share | - | - | - | - | 5,000 | - | 5,000 |
| Vested stock options issued to employees at \$0.02 per share | - | - | - | - | 1,400 | - | 1,400 |
| Expired Consultant stock options | - | - | 961,300 | - | (961,300) | - | - |
| Expired employee stock options | - | - | 311,717 | - | (311,717) | - | - |
| Stock issued to Cornell to retire portion of debenture | 15,371,998 | 15,372 | 95,864 | - | - | - | 111,236 |
| Stock issued to Certain Wealth to retire portion of debenture | 6,825,244 | 6,825 | 42,331 | - | - | - | 49,156 |
| Stock issued to TAIB Bank to retire portion of debenture | 8,546,756 | 8,547 | 53,033 | - | - | - | 61,580 |
| Vested stock options issued to employees at \$0.06 per share | - | - | - | - | 40 | - | 40 |
| Expired consultant stock options | - | - | 38,500 | - | (38,500) | - | - |
| Expired employee stock options | - | - | 99,988 | - | (99,988) | - | - |
| Beneficial conversion of convertible debt | - | - | 67,604 | - | - | - | 67,604 |
| Net loss for period ended | | | | | | | |
| September 30, 2006 | - | - | - | - | - | (6,096,384) | (6,096,384) |
| Balance September 30, 2006 (Unaudited) | 294,011,932 | \$ 294,011 | \$ 9,114,960 | \$ (195,000) | \$ 4,446,082 | \$ (17,443,599) | (3,783,546) |

The accompanying condensed notes are an integral part of these financials

EYI INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Nine Months Ended September 30, 2006 (Unaudited) | Nine Months Ended September 30, 2005 (Unaudited) |
|--|--|--|
| CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Net loss | \$ (6,096,383) | \$ (2,395,153) |
| Loss allocated to minority interest | 121,244 | 47,635 |
| | \$ (6,217,627) | (2,442,778) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation and amortization | 16,007 | 52,504 |
| Stock and warrants issued for employee compensation and consulting | 10,190 | 292,590 |
| Stock issued for options exercised in lieu of debt | - | 11,500 |
| Stock issued for options exercised in lieu of consulting and legal fees | - | 57,500 |
| Stock issued for interest on convertible debt | - | 44,570 |
| Loss (gain) on valuation of derivative | 3,026,541 | - |
| Stock issued for financing guaranty & pledge | - | 40,000 |
| Beneficial conversion of convertible debt | 267,811 | - |
| Discount recognized on convertible debt | 267,931 | 120,276 |
| Liabilities in excess of assets on discontinued operations | - | (30,494) |
| Decrease (increase) in: | | |
| Related party receivables | (31,250) | (800) |
| Accounts receivable | 12,590 | (7,874) |
| Prepaid expenses | (85,408) | 287,187 |
| Inventory | (216,377) | 11,159 |
| Deposits | 41,592 | (45,925) |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | (554,527) | 352,495 |
| Accounts payable - related parties | 132,111 | 535,548 |
| Notes payable, related party | (40,000) | - |
| Interest payable | - | (10,616) |
| Interest payable, convertible debt | 149,681 | - |
| Net cash used by operating activities | (3,220,736) | (733,168) |
| CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES | | |
| Decrease (increase) in restricted cash | - | 100,248 |
| Decrease (increase) in property, plant, and equipment | (40,393) | (50,505) |
| Purchase of trademarks and formulas | - | (674) |
| Net cash provided by investing activities | (40,393) | 49,069 |
| CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES | | |
| Net change in bank indebtedness | - | (72,456) |
| Issuance of stock, net of private placement costs & warrants | - | 16,500 |
| Proceeds from Cornell SEDA | 1,084,565 | - |
| Repayment of convertible debt | - | (250,000) |
| Proceeds from Cornell Promissory Note | - | 1,000,000 |
| Net proceeds from convertible debt | 4,030,000 | - |
| Net cash provided by financing activities | 5,114,565 | 694,044 |

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

| | | |
|---|----------------|------------|
| Net increase in cash and cash equivalents | 1,853,436 | 9,946 |
| CASH - Beginning of Year | 25,639 | - |
| CASH - End of Period | \$ 1,879,075 | \$ 9,946 |
| SUPPLEMENTAL CASH FLOW DISCLOSURES: | | |
| Interest expense paid | \$ 174,537 | \$ 158,159 |
| Income taxes paid | \$ - | \$ - |
| NON-CASH INVESTING AND FINANCING TRANSACTIONS: | | |
| Stock options and warrants vested for consulting and compensation | \$ 10,190 | \$ - |
| Beneficial conversion of convertible debt | \$ 267,811 | \$ - |
| Gain on valuation of derivative | \$ (3,026,541) | \$ - |
| Discount recognized on convertible debt | \$ 267,931 | \$ 120,276 |
| Stock issued for options exercised in lieu of debt | \$ - | \$ 11,500 |
| Stock issued for options exercised in lieu of consulting and legal fees | \$ - | \$ 57,500 |
| Stock options vested for consulting and compensation | \$ - | \$ 292,590 |
| Stock issued for options exercised in lieu of legal fees | \$ - | \$ 10,000 |
| Stock issued to retire part of promissory note | \$ - | \$ 175,000 |
| Stock issued for redemption of convertible debenture | \$ - | \$ 250,000 |
| Stock issued for interest on convertible debenture | \$ - | \$ 44,570 |
| Stock and warrants issued through 506 Private Placement | \$ - | \$ 20,000 |
| Stock issued for financing guaranty & pledge | \$ - | \$ 40,000 |

The accompanying condensed notes are an integral part of these financials

EYI INDUSTRIES, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2006

NOTE 1 - DESCRIPTION OF BUSINESS

Essentially Yours Industries, Inc. (“EYI”) 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 concerning EYI’s reorganization. On December 31, 2003, EYI entered into a share exchange agreement of its stock with Safe ID Corporation (“Safe ID”). This transaction was accounted for as a share exchange and recapitalization. As a result of this transaction, Safe ID 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 primarily through network marketing distributors, which in turn sell the products to the end customers. The Company also sells product directly and through affiliates. The Company maintains its principal business office in Burnaby, British Columbia. Effective for the period ended December 31, 2003, the Company elected to change its year-end from June 30 to December 31.

The Company has six wholly owned subsidiaries. The first subsidiary is Halo Distribution LLC (“Halo”), which was organized on January 15, 1999 in the State of Kentucky. Halo was the distribution center for the Company’s product, in addition to other products, until April 30, 2005 at which time the Company made the decision to discontinue its operations. Halo was dissolved on November 1, 2005. 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 one percent of Halo. The third subsidiary is Essentially Yours Industries (Canada) Inc. (hereinafter “EYI Canada”), which was incorporated on September 13, 2002 under the *Canada Business Corporations Act*. EYI Canada markets health and wellness care products for use in Canada. The fourth subsidiary is 642706 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, customer service and marketing services to the consolidated entity. The fifth subsidiary is Essentially Yours Industries (Hong Kong) Limited (“EYI HK”). EYI HK was organized on August 23, 2005 in Hong Kong. EYI HK markets health and wellness care products for use in Hong Kong and China. The sixth subsidiary is Essentially Yours Industries (International) Limited (“EYI INTL”). EYI INTL was organized on December 6, 2005 to facilitate our expansion throughout other Southeast Asian countries.

In addition, the Company owns approximately 98% of Essentially Yours Industries, Inc. (“EYI”), incorporated on June 21, 2002 in the State of Nevada. EYI markets health and wellness care products for use in USA. The Company also owns 51% of World Wide Buyers’ Club Inc. (“WWBC”), a Nevada corporation, which was organized by a joint venture agreement effective May 6, 2004.

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, 2005. In the opinion of management, all required adjustments which consist of normal re-occurring accruals have been made to the financial statements.

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of

revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company's financial statements. Accordingly, it is possible that the actual results could differ from these estimates and assumptions that could have a material effect on the reported amounts of the Company's financial position and results of operations.

7

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

This summary of significant accounting policies of EYI Industries, Inc., is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America, and have been consistently applied in the preparation of the financial statements.

Concentration of Credit Risk

The Company maintains its cash in one commercial bank. Although the financial institution is considered creditworthy, at September 30, 2006 the Company's cash balance exceeded Federal Deposit Insurance Corporation (FDIC) limits by \$1,768,624 (see Note 13).

Derivative Instruments

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (hereinafter "SFAS No. 133"), as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB No. 133", and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". These statements establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. They require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change.

The Company has determined that derivatives existed because of features of the convertible debt as of the balance sheet date of September 30, 2006 (See Note 4.)

Fair Value of Financial Instruments

The Company's financial instruments as defined by Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," include cash, trade accounts receivable, and accounts payable and accrued expenses. All instruments are accounted for on a historical cost basis, which, due to the short maturity of these financial instruments, approximates fair value at September 30, 2006 and December 31, 2005.

Inventory

The Company records inventories at the lower of cost or market on a first-in, first-out basis. The Company's product inventory is reviewed each month and also when the re-order of the product is necessary. On a monthly basis, the Company's inventory is reviewed based on the expiration of our existing inventory. Product that has a shelf-life of less than 60 days is written off or discounted. The Company expensed \$48,981 and \$6,494 for the nine months ended September 30, 2006 and twelve months ended December 31, 2005 respectively.

A re-order review consists of an evaluation of the Company's current monthly sales volume of the product, cost of product, shelf-life of the product, and the manufacturers minimum purchase requirement, which all determine the overall potential profitability or loss of re-ordering. If the re-order of the product has an assessed loss, then the recommendation to management is to remove the product from the product line.

Revenue Recognition

The Company is in the business of selling nutritional products in three categories: dietary supplements, personal care products, and water filtration systems. Sales of personal care products and water filtration systems represent less than 5% of the overall revenue and therefore are not classified separately in the financial statements. The Company recognizes revenue from product sales when the products are shipped and title passes to the customer. Administrative fees charged to the Independent Business Associates are included in the gross sales and amounted to \$32,620 and \$26,370 for the three months ended September 30, 2006 and September 30, 2005 respectively.

Stock Options and Warrants Granted to Employees and Non-Employees

Statement of Financial Accounting Standards No. 123R, "Accounting for Stock-Based Compensation" ("SFAS No. 123R"), 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.

Going Concern

As shown in the accompanying financial statements, the Company had negative working capital of approximately \$3,382,501 and an accumulated deficit at September 30, 2006. The Company also has a history of recurring losses. These factors 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.

NOTE 3 - CONVERTIBLE DEBT

On April 24, 2006 the Company entered into a Securities Purchase Agreement with Cornell, TAIB Bank, and Certain Wealth (collectively the "Buyers") and together with the Company, the "Parties"). Pursuant to the Securities Purchase Agreement, the Company shall sell to the Buyers, and the Buyers shall purchase from the Company, convertible debentures in the aggregate principal amount of Four Million Five Hundred Thousand Dollars (\$4,500,000), plus accrued interest, which are convertible into shares of the Company's common stock, par value \$0.001 per, at the Buyers discretion. Of this aggregate amount, (a) One Million Five Hundred Thousand Dollars (\$1,500,000) was funded on April 28, 2006, (b) One Million Five Hundred Thousand Dollars (\$1,500,000) was funded two (2) business days prior to the date the registration statement ("Registration Statement") was filed with the U.S. Securities and Exchange Commission ("SEC") and (c) One Million Five Hundred Thousand Dollars (\$1,500,000) was funded two (2) business days prior to the date that such Registration Statement is declared effective by the SEC.

The Debentures mature on April 24, 2009, accrue interest at an annual rate of ten percent (10%) and shall be convertible into shares of the Company's common stock at the option of the holder, in whole or in part at any time and from time to time, at a conversion price equal to (a) \$0.06 or (b) eighty percent (80%) of the lowest Volume Weighted Average Price of the Company's common stock during the five (5) trading days immediately preceding the date of conversion as quoted by Bloomberg, LP. During the quarter ended September 30, 2006, the Company recognized embedded derivatives in the convertible debentures. (See Note 4.)

The Company also executed a registration rights agreement pursuant to which the Company agreed to provide certain registration rights to the Investors. The Parties have also executed a Security Agreement, pursuant to which the Company has agreed to provide to the Buyers, a security interest in Pledged Collateral to secure the Company's obligations under the Debentures, the Securities Purchase Agreement, the Investor Registration Rights Agreement, the Irrevocable Transfer Agent Instructions, the Security Agreement, or any other obligations of the Company to the Buyer.

On April 24, 2006 the Company issued to Cornell seventeen (17) warrants to purchase up to an aggregate 124,062,678 shares of the Company's common stock at \$0.02 and \$0.40 per share. Each Warrant has "piggy back" registration rights and shall expire five (5) years from the date of issuance, on or about April 24, 2011. Following EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settle in, a Company's Own Stock," and SFAS No. 133, the Company has recognized an embedded equity derivative in the warrant. For accounting and fair value purposes, the equity derivative will be accounted for as a stock option, following SFAS No. 123(R) for valuation purposes. (See Note 9.)

NOTE 4 - DERIVATIVES

Derivatives have been accounted for in accordance with SFAS 133, as amended, and EITF No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." The Company

has identified that the debentures described in Notes 3 and 5 have embedded derivatives. These embedded derivatives have been bifurcated from their respective host debt contracts and accounted for as derivative liabilities in accordance with EITF 00-19. When multiple derivatives exist within the loan agreements, they have been bundled together as a single hybrid compound instrument in accordance with SFAS No. 133, Derivatives Implementation Group Implementation Issue No. B-15, "Embedded Derivatives: Separate Accounting for Multiple Derivative Features Embedded in a Single Hybrid Instrument".

The embedded derivatives within the loan agreements have been recorded at fair value at the date of issuance and are marked-to-market each reporting period with changes in fair value recorded on the Company's income statement as gain (loss) on derivatives.

The fair value of the derivative liabilities are subject to the changes in the trading value of the Company's common stock, as well as other factors. As a result, the Company's financial statements may fluctuate from quarter-to-quarter based on factors such as the price of the Company's stock at the balance sheet date and the amount of shares converted by note holders. Consequently, the Company's financial position and results of operations may vary from quarter-to-quarter based on conditions other than its operating revenues and expenses.

The initial fair value of the derivative embedded in the April 2006 \$1,500,000 convertible debenture was \$1,093,089 and at June 30, 2006 the embedded derivative was revalued to its fair value of \$725,565. The initial fair value of the derivative embedded in the June 8, 2006 \$1,500,000 convertible debenture was \$842,338 and at June 30, 2006 the embedded derivative was revalued to its fair value of \$725,565. The initial fair value of the derivative embedded in the June 20, 2006 \$1,500,000 convertible debenture was \$865,425 and at June 30, 2006 the embedded derivative was revalued to its fair value of \$725,565. Any change to the fair value of the derivatives is recognized on the income statement and recorded as gain/(loss) on derivatives. At June 30, 2006 the Company recognized an increase in the fair value of the derivatives of \$624,157 and a corresponding gain on derivatives on the consolidated statements of operation.

At September 30, 2006, the Company revalued the derivative embedded in each of the three convertible debentures at \$440,275 each or a total of \$1,320,825. As a result, the Company recognized a corresponding gain of \$855,870.

At September 30, 2006, the Company also calculated a marked-to-market adjustment for the warrants issued to Cornell Capital in connection with the convertible debenture. The Company recognized a loss of \$3,244,046 as a result of this valuation.

NOTE 5 - ACCOUNTS RECEIVABLE AND CREDIT RISK

Accounts receivable at September 30, 2006 and December 31, 2005 consist primarily of amounts due from direct retail clients of EYI.

NOTE 6 - PROPERTY AND EQUIPMENT

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

NOTE 7 - INTANGIBLE ASSETS

Intangible assets consist of rights, title, and interest in and to the contracts with the Company's independent business associates, as well as the rights and licenses to trademarks and formula for the Company's primary products. These rights and licenses were obtained from the Company's former parent, pursuant to a transfer agreement, as well as from the Company's primary shareholder.

Trademarks and Formulas

Costs relating to the purchase of trademarks and formulas were capitalized and amortized using the straight-line method over ten years, representing the estimated life of the assets.

NOTE 8 - CAPITAL STOCK

Preferred Stock

The Company is authorized to issue 10,000,000 shares of preferred stock with a par value of \$0.001. As of September 30, 2006 and December 31, 2005 the Company has not issued any preferred stock.

Common Stock

The Company is authorized to issue 3,000,000,000 shares of common stock. All shares have equal voting rights, are non-assessable and have one vote per share. Voting rights are not cumulative and, therefore, the holders of more than 50% of the common stock could, if they choose to do so, elect all of the directors of the Company.

Between January 1, 2006 and March 31, 2006, the Company issued 42,941,686 shares to Cornell Capital in exchange for \$1,084,565.

On February 6, 2006 the Jay Sargeant Trust was dissolved and the related shares were disbursed to the beneficiaries. In connection with this transaction, 268,639 common shares were returned to treasury at par value.

On June 27, 2006, The Company issued 1,497,006 common shares to Cornell Capital to retire \$25,000 of the convertible debt.

On June 27, 2006, The Company issued 664,671 common shares to Certain Wealth to retire \$11,100 of the convertible debt.

On June 27, 2006, The Company issued 832,335 common shares to TAIB Bank to retire \$13,900 of the convertible debt.

Between July 1, 2006 and September 30, 2006, the Company issued 15,371,998 shares to Cornell Capital to retire \$111,236 of the convertible debt.

Between July 1, 2006 and September 30, 2006, the Company issued 6,825,244 shares to Certain Wealth to retire \$49,156 of the convertible debt.

Between July 1, 2006 and September 30, 2006, the Company issued 8,546,756 shares to TAIB Bank to retire \$61,580 of the convertible debt.

NOTE 9 - COMMON STOCK OPTIONS AND WARRANTS

Financial Accounting Standards No. 123R, "Accounting for Stock-Based Compensation" (hereinafter "SFAS No. 123R"), 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. 123R, 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 period ended September 30, 2006: estimated risk-free interest rate of 5.125%; no dividends to be paid; estimated volatility of 140% and term of five years.

Stock Options

During the year ending December 31, 2004, the Company's board of directors approved the Stock Compensation Program to allow up to 25,000,000 shares of stock to be issued under the program. This plan enables the Company to grant stock options to directors, officers, employees and eligible consultants of the Company. There was no Company stock option plan in effect prior to 2004.

During the three months ended September 30, 2006, the Company recognized an expense to wages of \$40 for all vested options.

Following is a summary of the status of the stock options during the nine months:

| | Number of Shares | Weighted Average Exercise Price |
|--|------------------|--|
| Outstanding at December 31, 2005 | 16,252,390 | \$ 0.14 |
| Granted | 20,000 | 0.06 |
| Exercised | - | - |
| Forfeited or cancelled | 9,562,390 | - |
| Options outstanding at September 30, 2006 | 6,710,000 | \$ 0.10 |
| Options exercisable at September 30, 2006 | 6,640,000 | \$ 0.10 |
| Weighted average fair value of options granted | | \$ 0.06 |

Summarized information about stock options outstanding and exercisable at September 30, 2006 is as follows:

| Exercise Price Range | Number of Shares | Options Outstanding Weighted Ave. Remaining Life | Weighted Ave. Exercise Price |
|----------------------------|---------------------|--|---------------------------------------|
| \$0.02 - \$0.26 | 6,710,000 | 0.76 | \$ 0.09 |

| Exercise Price Range | Options Exercisable | | Weighted Ave. Remaining Life | Weighted Ave. Exercise Price |
|----------------------|---------------------|--|------------------------------|------------------------------|
| | Number of Shares | | | |
| \$0.02 - \$0.26 | 6,640,000 | | 0.75 | \$ 0.10 |

Summarized information about non-vested but granted stock options outstanding at September 30, 2006 is as follows:

| Exercise Price Range | Non-vested Granted Options Outstanding | | |
|----------------------|--|------------------------------|------------------------------|
| | Number of Shares | Weighted Ave. Remaining Life | Weighted Ave. Exercise Price |
| \$0.02 - \$0.10 | 70,000 | 1.16 | \$ 0.02 |

Warrants

In consideration of the Convertible Debenture (See Note 3), the Company has also issued an aggregate of 124,062,678 common stock purchase warrants dated April 24, 2006 to Cornell, each exercisable for a period of five years commencing April 24, 2006 for the purchase of one share of common stock. The warrants provide that the holder cannot exercise the warrants to the extent such exercise would cause the holder and its affiliates to own more than 4.99% of our outstanding common shares. The warrants have exercise prices, subject to adjustment, ranging from \$0.02 to \$0.40 per share. Each Warrant has "piggy back" registration rights and shall expire five (5) years for the date of issuance, on or about April 24, 2011.

| | Number of Warrants | Weighted Average Remaining Life | Average Exercise Price |
|-----------------------------|--------------------|---------------------------------|------------------------|
| Outstanding and exercisable | 129,538,868 | 4.56 | \$ 0.09 |

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Joint Venture Agreement

On August 12, 2006 we entered into a joint venture agreement with Internet Marketing Consortium to provide multi media strategies, promotional, direct and targeted marketing services for an undetermined period of time. In consideration for the services provided by IMC, we paid a fee of \$25,000.

Purchase Agreement

On June 30, 2002, EYI entered into a distribution and license agreement with a company in which one of EYI's directors has an ownership interest. The agreement gives EYI the exclusive right to market, sell and distribute certain products for a five-year renewable term. Management estimates that 87% of EYI's sales volume results from products supplied under this licensing agreement.

Pursuant to the agreement, EYI is required to purchase a minimum amount of \$6,035,000 of product in each of the remaining years.

In the event that EYI is unable 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 purchase requirements have not been made. The period for which the Licensor could request payment per the penalty clause has expired for the year and therefore we have not made any accrual to the Financial Statements. EYI continues to purchase Nutri Diem products on a regular basis.

Lease Payments

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

| <u>Year ended</u> <u>December 31,</u> | Minimum Amount |
|--|-------------------|
| 2006 | \$ 218,679 |
| 2007 | 164,546 |
| 2008 | 143,101 |
| 2009 | 148,064 |
| 2010 and thereafter | 309,544 |

Regulatory Risks and Claims

The Company's products are subject to regulation by a number of federal and state entities, as well as those of foreign countries in which the Company's products are sold. These regulatory entities may prohibit or restrict the sale, distribution, or advertising of the Company's products for legal, health or safety related reasons. In addition to the potential risk of adverse regulatory actions, the Company is subject to the risk of potential product liability claims.

Standby Equity Distribution Agreement

On May 13, 2005 the Company entered into a Standby Equity Distribution Agreement with Cornell Capital Partners, LP ("Cornell") pursuant to which we entered into the following agreements: a Registration Rights Agreement, an Escrow Agreement, and a Placement Agent Agreement. Pursuant to the terms of the new Standby Equity Distribution Agreement, we may, at our discretion, periodically issue and sell shares of our common stock for a total purchase price of \$10 million. If we request advances under the Standby Equity Distribution Agreement, Cornell will purchase shares of our common stock for 98% of the lowest volume weighted average price on the Over-the-Counter Bulletin Board or other principal market on which our common stock is traded for the 5 days immediately following the advance notice date. Cornell will retain 5% of each advance under the new Standby Equity Distribution Agreement. We may not request advances in excess of a total of \$10 million. Pursuant to the terms of our Registration Rights Agreement and the Standby Equity Agreement with Cornell, we agreed to register and qualify, among other things, the additional shares due to Cornell under the Standby Equity Agreement under a registration statement filed with the SEC.

On April 3, 2006 we signed a Termination Agreement with Cornell Capital Partners, L.P for the purpose of terminating our Standby Equity Distribution Agreement, Registration Rights Agreement and Escrow Agreement all of which are dated as of May 13, 2005.

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 sales 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.

Action By Suhl, Harris and Babich

In 2003, a consolidated action was brought by the plaintiffs Wolf Suhl, Christine Harris and Edward Babich in the Supreme Court of British Columbia pursuant to an order pronounced in the New Westminster Registry under Action No. S061589 on May 7, 2003, which allowed the plaintiffs to proceed with an action against EYIC. In February 2006, the Supreme Court of British Columbia made an order that the Company and Mr. Jay Sargeant be added to the lawsuit. The Plaintiffs' total claim was approximately \$478,000. On April 13, 2006, the plaintiffs amended their pleadings to assert claims against the Company and Jay Sargeant. An order was pronounced on August 15, 2006 for the substitutional service of Mr. Jay Sargeant. On September 5, 2006 the Company paid \$200,000 in full and final settlement of this matter.

On September 20, 2006 Essentially Yours Industries (International) Limited entered into a consignment and distribution licensing agreement with Orientrends, Inc. Orientrends will act as an exclusive agent and qualified distributor to market EYI Products within the Philippines. The agreement is for a period of five years.

NOTE 11 - DISCONTINUED OPERATIONS

During the year ended December 31, 2005, the Company elected to discontinue the operations of Halo Distribution LLC (hereinafter "Halo"), a subsidiary of the Company. The Company's balance sheet reports net liabilities from discontinued operations of \$375,344 as at September 30, 2006 and December 31, 2005.

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards, No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (hereinafter "SFAS No. 146"). SFAS No. 146 addresses significant issues regarding the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS No. 146 also addresses recognition of certain costs related to terminating a contract that is not a capital lease, costs to consolidate facilities or relocate employees, and termination benefits provided to employees that are involuntarily terminated under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. SFAS No. 146 was issued in June 2002, effective December 31, 2002. The Company's financial position and results of operations have not been affected by adopting SFAS No. 146.

NOTE 12 - RELATED PARTY NOTE PAYABLE

The Company issued a promissory note for a total of \$40,000 in December 2003. The note is unsecured, non-interest bearing and payable upon demand.

NOTE 13 - CONCENTRATIONS

Bank Accounts

The Company maintains its cash accounts in one commercial bank. During the year, the Company may maintain balances in excess of the federally insured amounts in the accounts that are maintained in the United States. The Company also maintains funds in commercial banks in Vancouver, British Columbia, in which funds in U.S. dollars are not insured. Additionally, the Company maintains funds in Hong Kong where none of the funds are insured. At September 30, 2006 and December 31, 2005, a total of \$1,768,624 and \$56,088 respectively, was not insured.

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 10.)

NOTE 14 - RELATED PARTY TRANSACTIONS

On May 27, 2002, Mr. Jay Sargeant, a shareholder of Essentially Yours Industries, Corp. ("EYI Corp.") agreed to acquire all of the shares of the Essentially Yours Industries, Inc. ("EYI"), along with the transfer agreement, license agreement, and agency appointment agreement, in settlement of amounts owed to him. As part of this transaction, EYI Corp. agreed to provide to EYI the services outlined in a management agreement.

The Company acquired, through agreements with Essentially Yours Industries, Corp. ("EYI Corp"), the rights, title, and interest in and to the contracts with the Company's Independent Business Associates as well as the rights and licenses to trademarks and formula for the Company's primary products.

Accounts payable to related parties represents amounts due to the President and Chief Executive Officer and to the Chief Operations Officer for services preformed during the last year, as well as to other related parties and the

company with which they have a signed management agreement. These payables are non-interest bearing and non-collateralized.

The Company purchases approximately 90% of its products for resale from one company, Nutri-Diem Inc., which is owned in part by a director of the Company.

On September 19, 2006 the Company entered into a letter agreement with James Toll and Fred Erickson whereby the Company has agreed to compensate their sales efforts during the pre-launch phase of the ME2 product.

Promissory Notes

At September 30, 2006, the Company is owed \$31,250 from two consultants pursuant to terms of Promissory Notes and advances made pursuant to a letter agreement.

NOTE 15 - SUBSEQUENT EVENTS

On October 19, 2006 the Company entered into a consulting agreement with Creative Life Enterprises, Inc. on a month to month basis. Creative Life received 500,000 shares of the Company's restricted common stock as compensation for their services.

On October 12, 2006 the Company entered into a definitive agreement with Mach 3 Technologies Group, LLC. ("Mach 3") who will provide EYI with the exclusive rights to the fuel enhancement product ME2 in the US, Canada and Mexico for a period of three years. Pursuant to the agreement, the Company must purchase \$1,000,000, \$6,000,000, and \$12,000,000 respectively in each of the three years. In addition to the unit price of the ME2 product, Mach 3 will also receive warrants to purchase the Company's common stock with each product purchase order. The maximum number of warrants that can be issued to Mach 3 is 15,000,000. In connection with purchase orders issued in October 2006, the Company issued Mach 3 a total of 967,680 warrants with an exercise price of \$0.06.

On October 1, 2006 the Company entered into a two year agreement with Agoracom Investor Relations Corp. to provide investor relations services. Agoracom will receive \$2,500 per month plus a warrant to purchase up to 500,000 shares of the Company's common stock at \$0.06 per share.

Between October 1, 2006 and November 7, 2006, The Company issued 12,681,159 common shares to Cornell Capital to retire \$60,000 of the convertible debt.

Between October 1, 2006 and November, 2006, The Company issued 12,922,254 common shares to Certain Wealth to retire \$55,269 of the convertible debt.

Between October 1, 2006 and November, 2006, The Company issued 16,152,007 common shares to TAIB Bank to retire \$69,081 of the convertible debt.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

FORWARD LOOKING STATEMENTS

The information in this discussion contains forward-looking statements. These forward-looking statements involve risks and uncertainties, including statements regarding EYI's 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 we file with the Securities and Exchange Commission (the "SEC"). These factors may cause our actual results to differ materially from any forward-looking statement.

OVERVIEW

We are in the business of selling, marketing, and distributing a product line consisting of approximately 25 products in four categories, dietary supplements, personal care products, water filtration systems and a fuel additive product. 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 385,000 IBAs, of which approximately 7,400 we consider "active". An "active" IBA is one who purchased our products within the preceding 12 months. Approximately 1,300 of these IBAs are considered "very active". A "very active" IBA is one

who is on our automatic Auto-ship Program and is current with their annual administration fee. Our Auto-ship Program, recently re-named Convenience Program, allows our IBAs to set up a reoccurring order that is automatically shipped to them each month.

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. Qualified IBAs may also earn additional commissions under the Management Matching Bonus ("MMB") program.

On an ongoing basis we review our product line for duplication and sales trends and make adjustments accordingly. As of September 30, 2006, our product line consisted of: (i) 17 dietary supplement products; (ii) 5 personal care products consisting primarily of cosmetic and skin care products; (iii) 2 water filtration system products and (iv) 1 fuel additive product. 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 or retail customers located in the United States, Canada and Asia.

We believe that our network marketing system is suited to marketing dietary supplements, personal care products, water filtration systems, and fuel additive products because sales of such products are strengthened by ongoing personal contact between IBAs and their customers. We also believe that 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

We experienced the following significant developments through the date of this filing and during fiscal 2006:

- On October 20, 2006 EYI entered into a non-binding letter of intent with Mach 3 Technologies, LLC ("Mach 3") for the exclusive distribution rights for the fuel enhancement product Ultimate ME2 in the Philippines.
- On October 19, 2006 EYI entered into a consulting agreement with Creative Life Enterprises, Inc. ("Creative Life") on a month to month basis. Creative Life received 500,000 shares of restricted common stock as compensation for their services.
- On October 12, 2006 EYI entered into a definitive agreement with Mach 3 for the exclusive residential rights for the fuel enhancement product ME2 in the US, Canada and Mexico for a period of three years. Pursuant to the agreement, Mach 3 received 967,680 warrants at \$0.06 per share expiring October 12, 2008.
- On October 1, 2006 we entered into an agreement with Agoracom Investor Relations Corp. ("Agoracom") to provide investor relations services. Agoracom is to receive \$2,500 per month compensation along with a warrant for the purchase of up to 500,000 shares of common stock at \$0.06 for a period of two years. The agreement expires on October 1, 2007.
- On September 20, 2006 Essentially Yours Industries (International) Limited entered into a consignment and distribution licensing agreement with Orientrends, Inc. The agreement is for five years commencing January 1, 2007 for the sale of our products in the Philippines.
- On August 12, 2006 we entered into a Joint Venture Agreement with Internet Marketing Consortium ("IMC") to provide multi media strategies, promotional, direct and targeted marketing services for an undetermined period of time. In consideration for the services provided by IMC, we paid a fee of \$25,000.
- On July 27, 2006 we entered into an addendum (the "Addendum") to the China Agency Agreement dated September 15, 2005 between Essentially Yours Industries (Hong Kong) Limited and Guangzhou Zhongdian Enterprises (Group) Co. Ltd. and China Electronics Import and Export South China Corporation. Pursuant to the Addendum, we agreed to extend the purchasing and exclusivity terms of the China Agency Agreement for an additional one year period.
- On July 12, 2006 and July 14, 2006 we received letters from Metals & Arsenic Removal Technology, Inc. ("MARTI") advising that the worldwide license for the ARTI-64 technology used for the production of the Code Blue™ product had been transferred from Hydroflo, Inc. to MARTI. MARTI has also transferred some of its inventory to Markus Group Ltd. ("Markus Group") and in the event MARTI is unable to meet production requirements they have granted the rights to produce Code Blue™ to Markus Group. On July 20, 2006 Markus Group provided EYI with an Indemnity in connection with the letters provided by MARTI.
-

On July 1, 2006 EYII entered into a Consulting Agreement with James Toll. Mr. Toll provided training and marketing services for a period of three (3) months. Mr. Toll received \$3,750 per month as compensation for his services.

2006 Growth Strategy

New Product Introduction. In 2005, we introduced Code Blue™, a water filtration system product. The initial shipment of Code Blue Filters did not meet EYI's product specifications. However, these product concerns were corrected with a later version of the Code Blue filter called the G-4 which we introduced and began promoting in 2006. It was our intent to create mass awareness of this new product through a year long promotional tour campaign. Early results of this campaign indicated that product sales were not meeting sales targets and objectives. Management assessed these results and concluded that the problems surrounding the initial product version significantly hindered the public's confidence in the Code Blue product line. Management still believes that this is a quality product with the unique performance feature of removing arsenic and other contaminants from water through a tabletop unit. Management intends to continue to market this product along side it's other products but has scaled back the allocation of future marketing dollars earmarked for the tour campaign.

In September 2006, EYI entered into a Letter of Intent with Mach 3 Technologies, Inc. (“Mach 3”) and subsequently, in October 2006, EYI signed a definitive agreement with Mach 3. Through this agreement, Mach 3 has granted EYI the right to market the fuel enhancement product Ultimate ME2 (“ME2”). ME2 is a non-polluting fuel enhancement additive that enhances and creates efficient combustion that cools the engine of vehicles. Test results indicate that automobiles using ME2 will create fewer emissions for the environment, their engines will run smoother and will consume less fuel. In October 2006, EYI placed its first purchase order of the ME2 product and is expecting delivery in the middle of November. In anticipation of this delivery, EYI has created a pre-launch campaign which will allow interested individuals to secure their initial bottle of the product.

International Expansion. Our Hong Kong office was opened in September 2005 with the fundamental objective to service the local Hong Kong distributors and provides a product pick up depot for Code Blue™, Calorad®, Prosoteine®, Agrisept-L® and Definition® drops and cream, and Calorad® Cream. Although sales in the region have not met management’s expectations to-date, we intend to maintain this facility as it also serves as our resource and support center for other international expansion projects including the CEIEC agency agreement.

In April 2006, our subsidiary, Essentially Yours Industries (International) Limited, signed a Letter of Intent and Good Faith Commitment with Raul Bautista and Rommel Panganiban to act as managing partners and distributors for the Philippines. On September 20, 2006 we signed a definitive agreement with Orientrends, Inc. (“Orientrends”) in connection with the Letter of Intent. Orientrends has since leased a new office in Makati which will be used for training new Filipino IBAs and will serve as a distribution center of EYI’s products within that region.

Distributor Commission Pay Plan Enhancement. On July 28, 2006 the Company launched a new component of its commission pay plan for its independent distributors called the Management Matching Bonus (“MMB”). We believe that this enhancement will give our distributors additional incentive to sell more of our products, recruit new sales people and assist their existing and new customers.

RESULTS OF OPERATIONS

Three Months and Ninth Months Summary

Summary of Quarterly Results

| | Three months ended | | | | Nine months ended | | | |
|---|--------------------|--------------|-------------|-------|-------------------|-----------|-----------|-------|
| | 30-Sep-06 | 30-Sep-05 | Variance | | 30-Sep-06 | 30-Sep-05 | Variance | |
| Revenue | \$ 949,429 | \$ 1,335,963 | (\$386,534) | (29%) | 3,068,166 | 3,850,246 | (782,080) | (20%) |
| Cost of goods sold | \$ 268,763 | \$ 350,188 | (\$81,425) | (23%) | 947,611 | 840,125 | 107,486 | 13% |
| Gross profit before commissions expense | \$ 680,666 | \$ 985,775 | (305,109) | (31%) | 2,120,555 | 3,010,121 | (889,566) | (30%) |
| Commission expense | \$ 355,556 | \$ 513,449 | (\$157,893) | (31%) | 1,120,273 | 1,435,911 | (315,638) | (22%) |
| Gross profit after cost of goods sold and commissions | \$ 325,110 | \$ 472,326 | (\$147,216) | (31%) | 1,000,282 | 1,574,210 | (573,928) | (36%) |
| | \$ 1,260,264 | \$ 1,169,630 | \$ 90,634 | 8% | 3,448,685 | 3,362,927 | 85,758 | 3% |

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

Operating
expenses

| | | | | | | | | |
|----------------|-------------|-------------|-------------|-----|-------------|-------------|-----------|-----|
| Operating loss | (\$935,154) | (\$697,304) | (\$237,850) | 34% | (2,448,403) | (1,788,717) | (659,686) | 37% |
|----------------|-------------|-------------|-------------|-----|-------------|-------------|-----------|-----|

17

Revenues

During the three months ended September 30, 2006 we had total revenues of \$949,429 as compared to revenues of \$1,335,963 for the same period in 2005 which represents a decline of \$386,534 or 29%. The year-to-date results for 2006 compared with 2005 indicate a revenue decline of \$782,080 or 20%. The decrease in our revenues can be primarily attributed to:

- Our inability to attract new IBA's
- Lack of IBA participation in our auto-ship program

Gross Profit before Commission Expense

During the three months ended September 30, 2006, as compared to the same period in 2005, we had gross profits of \$680,666 and \$985,775 respectively. This represents a decline of \$305,109 or 31%. The nine month period ending September 30, 2006 compared with the same period in 2005 indicate that the gross profit has declined \$889,566 or 30%. The decline in our gross profit is primarily attributed to our decreased binary sales in relation to other revenue segments that have a higher percentage of cost-of-goods.

Revenue by Segments

The following table summarizes our four revenue segments as a percentage of total revenue, respectively, for the periods indicated:

Revenue by Segments

| | Three months ended | | | | Nine months ended | | | |
|---------------------|--------------------|--------------|-------------|-------|-------------------|--------------|-------------|-------|
| | 30-Sep-06 | 30-Sep-05 | Variance | | 30-Sep-06 | 30-Sep-05 | Variance | |
| Administration fees | \$ 32,620 | \$ 26,370 | \$ 6,250 | 24% | \$ 111,581 | \$ 101,016 | \$ 10,565 | 10% |
| Binary Sales | \$ 670,514 | \$ 1,050,894 | (\$380,380) | (36%) | \$ 2,147,295 | \$ 2,901,814 | (\$754,519) | (26%) |
| Direct sales | \$ 159,634 | \$ 188,210 | (\$28,576) | (15%) | \$ 517,016 | \$ 614,482 | (\$97,465) | (16%) |
| Affiliate sales | \$ 85,501 | \$ 67,466 | \$ 18,035 | 27% | \$ 285,388 | \$ 224,266 | \$ 61,121 | 27% |
| Sales Aids | \$ 1,160 | \$ 3,022 | (\$1,862) | (62%) | \$ 6,886 | \$ 8,669 | (\$1,782) | (21%) |
| | \$ 949,429 | \$ 1,335,963 | (\$386,536) | (29%) | \$ 3,068,166 | \$ 3,850,246 | (\$782,080) | (20%) |

Details of the most significant changes for the periods presented are detailed below:

Binary sales - The binary sales segment represents \$670,514 or 71% of the total revenue earned during the quarter ended September 30, 2006, as compared to \$1,050,894 or 79% of the total revenues earned during the quarter ended September 30, 2005. A comparison of the three month and nine month results for 2006 and 2005 indicate a decline of 36% and 26% respectively.

Direct sales - The direct sales segment represents \$159,634 or 17% of the total revenue earned during the quarter ended September 30, 2006, as compared to \$188,210 or 14% of the total revenues earned during the quarter ended September 30, 2005. A comparison of the quarterly and nine month results for 2006 and 2005 indicate a decline of 15% and 16% respectively.

Affiliate sales - The affiliate sales segment represents \$85,501 or 9% of the total revenue earned during the quarter ended September 30, 2006, as compared to \$67,466 or 5% of the total revenues earned during the quarter ended

September 30, 2005. A comparison of the quarterly and nine month results for 2006 and 2005 indicate a increase of 27% and 27% respectively.

ExpensesOperating expenses:

The following table summarizes operating expenditures for the periods indicated:

| Operating Expenses | Three months ended | | | | Nine months ended | | | |
|-----------------------------|--------------------|--------------|------------|-------|-------------------|--------------|-------------|-------|
| | 30-Sep-06 | 30-Sep-05 | Variance | | 30-Sep-06 | 30-Sep-05 | Variance | |
| Consulting fees | \$ 259,639 | \$ 273,026 | (\$13,387) | (5%) | \$ 743,738 | \$ 751,836 | (\$8,098) | (1%) |
| Legal and professional fees | \$ 266,908 | \$ 107,333 | \$ 159,575 | 149% | \$ 428,150 | \$ 254,090 | \$ 174,060 | 69% |
| Customer service | \$ 62,718 | \$ 9,771 | \$ 52,947 | 542% | \$ 169,721 | \$ 161,776 | \$ 7,945 | 5% |
| Finance and administration | \$ 214,835 | \$ 299,735 | (\$84,900) | (28%) | \$ 643,529 | \$ 663,213 | (\$19,684) | (3%) |
| Sales and marketing | \$ 59,339 | \$ 42,569 | \$ 16,770 | 39% | \$ 271,631 | \$ 47,560 | \$ 224,071 | 471% |
| Telecommunications | \$ 32,930 | \$ 118,881 | (\$85,951) | (72%) | \$ 97,955 | \$ 361,139 | (\$263,184) | (73%) |
| Wages and benefits | \$ 264,899 | \$ 252,095 | \$ 12,804 | 5% | \$ 864,292 | \$ 995,247 | (\$130,955) | (13%) |
| Warehouse expense | \$ 98,995 | \$ 66,220 | \$ 32,775 | 49% | \$ 229,668 | \$ 128,066 | \$ 101,602 | 79% |
| | \$ 1,260,264 | \$ 1,169,630 | \$ 90,634 | 8% | \$ 3,448,685 | \$ 3,362,927 | \$ 85,758 | 3% |

Operating Expenses

We incurred total operating expenses in the amount of \$3,448,685 during the nine months ended September 30, 2006, compared to \$3,362,927 for the nine months ended September 30, 2005. The results for the three and nine months ended September 30, 2006 compared with the same periods in 2005 indicate that the total Operating expenses increased 8% and 3% respectively. The following explains the most significant changes for the periods presented:

Legal and Professional fees - The results for the three and nine months ended September 30, 2006 compared with the same periods in 2005 indicate that Legal and Professional fees increased 149% and 69% respectively. This increase is associated with the additional fees incurred in connection with the review of SEC filings. In addition, during the September 2006 quarter, the Company paid out \$200,000 in connection with the settlement of the Suhl, Harris, and Babich legal matter.

Sales & Marketing - The results for the three and nine months ended September 30, 2006 compared with the same periods in 2005 indicate that Sales & Marketing expenses increased 39% and 471% respectively. This increase is largely associated with the following:

- Hong Kong marketing initiatives for the Grand Opening
- Registration costs for Code Blue in China
- North American Training event expenditures

Telecommunications - The results for the three and nine months ended September 30, 2006 compared with the same periods in 2005 indicate that Telecommunications expenses declined 72% and 73% respectively. This decrease is attributed to the elimination of a third party service provider of our website and shopping cart. We have replaced these systems with systems built and managed in-house.

Wages and benefits - The results for the three and nine months ended September 30, 2006 compared with the same periods in 2005 indicate that Wages and Benefits increased 5% and declined 13% respectively. The year-to-date decline is the result of less stock options issued and vesting during 2006 over the same periods in 2005.

Warehouse expenses - The results for the three and nine months ended September 30, 2006 compared with the same periods in 2005 indicate that Warehouse expenses increased 49% and 79% respectively. The increase is primarily attributed to the rental fees associated with the Hong Kong operation.

Other Income (Expense):

At September 30, 2006, the Company revalued the derivative embedded in each of the three convertible debentures at \$440,275 each or a total of \$1,320,825. As a result, the Company recognized a corresponding gain of \$855,870.

At September 30, 2006, the Company also calculated a marked-to-market adjustment for the warrants issued to Cornell Capital in connection with the convertible debenture. The Company recognized a loss of \$3,244,046 as a result of this valuation.

FINANCIAL CONDITION

Cash and Working Capital

| | As at 30-Sep-06 | As at 31-Dec-05 | Variance | |
|---------------------------|--------------------|--------------------|---------------|------|
| Current assets | \$ 2,555,938 | \$ 382,057 | \$ 2,173,881 | 569% |
| Current Liabilities | \$ 5,938,439 | \$ 2,347,087 | \$ 3,591,352 | 153% |
| Working Capital (deficit) | (\$3,382,501) | (\$1,965,030) | (\$1,417,471) | 72% |

We had cash of \$1,879,075 as at September 30, 2006, compared with cash of \$25,639 as at December 31, 2005. We had a working capital deficit at September 30, 2006 and December 31, 2005 of \$3,382,501 and \$1,965,030 respectively.

Cash Used in Operating Activities

Cash used in operating activities for the nine months ended September 30, 2006 was \$3,220,735 compared to \$733,168 for the comparative period in 2005.

Cash Provided by Financing Activities

Cash provided by financing activities for the nine months ended September 30, 2006 was \$5,114,565, compared to \$694,044 for the nine months ended September 30, 2005. Our financing activities are primarily through our financing agreements with Cornell Capital Partners, L.P.

Financing Requirements

Our consolidated interim financial statements included with this Quarterly Report on Form 10-QSB have been prepared assuming that we will continue as a going concern. As shown in the accompanying financial statements, we had negative working capital of approximately \$3,382,501 and an accumulated deficit of approximately \$17,443,599 incurred through September 30, 2006.

Our current sources of working capital are sufficient to satisfy our anticipated current working capital needs. On April 24, 2006 we entered into a Securities Purchase Agreement with the Cornell, TAIB Bank, and Certain Wealth (the "Buyers"). Pursuant to this agreement, we agreed to sell to the Buyers convertible debentures in the aggregate principal amount of \$4,500,000. We believe that this financing arrangement will provide the necessary cash flow to meet our operational needs.

In the event that this financing does not support our operational cash flow requirements, 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.

20

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.

Stock Options and Warrants Granted to Employees and Non-Employees

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

Derivative Instruments

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (hereinafter "SFAS No. 133"), as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB No. 133", and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". These statements establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. They require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change.

Recent Accounting Pronouncements

New accounting pronouncements that have a current or future potential impact on our financial statements are as follows:

In December 2004, the Financial Accounting Standards Board issued a revision to Statement of Financial Accounting Standards No. 123R, "Accounting for Stock Based Compensation." This statement supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This statement does not change the accounting guidance for share based payment transactions with parties other than employees provided in Statement of Financial Accounting Standards No. 123. This

statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans." We have previously adopted SFAS 123 and the fair value of accounting for stock options and other equity instruments. We have determined that there was no impact to its financial statements from the adoption of this new statement.

RISKS AND UNCERTAINTIES

We have an accumulated deficit and may have continued losses for the foreseeable future with no assurance of profitability.

As of September 30, 2006, we had an accumulated deficit of \$17,443,599. 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.

Management has established plans designed to attempt 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, and international sales, but there are no assurances that we will eventually be able to reverse the present deficit. Management intends to utilize the cash proceeds from the Securities Purchase Agreement with Cornell, TAIB Bank, and Certain Wealth to assist in its operating cash flow shortages.

We have been subject to a going concern opinion from our independent auditors

Our independent auditors have added an explanatory paragraph to their audit issued in connection with the financial statements for the period ended December 31, 2005, relative to our ability to continue as a going concern. We have negative working capital of approximately \$3,382,501 and an accumulated deficit incurred through September 30, 2006, which raises substantial doubt about our ability to continue as a going concern. Accordingly, there is substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We are dependent on our IBAs for our product marketing efforts, the loss of a significant number of IBAs or the loss of a key IBA could adversely affect our sales.

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. Also, if our IBAs do not accept recent changes to our commission plan, our business may be adversely affected.

Government regulation by the Food and Drug Administration and other federal and state entities of our products can impact our ability to market products.

The manufacturing, processing, formulation, packaging, labeling and advertising of nutritional products are subject to regulation by one or more federal agencies, including the Food and Drug Administration, the Federal Trade Commission, the Consumer Product Safety Commission, the United States Department of Agriculture, the United States Postal Service, the United States Environmental Protection Agency and the Occupational Safety and Health Administration. These activities are also regulated by various agencies of the states and localities, as well as of foreign countries, in which our products may be sold. We may incur significant costs in complying with these regulations. In the event we cannot comply with government regulations affecting our business and products, we may be forced to curtail or cease our business operations.

On March 7, 2003, the FDA proposed a new regulation to require current good manufacturing practices, or cGMPs, affecting the manufacturing, packing and holding of dietary supplements. The proposed regulation would establish standards to ensure that dietary supplements and dietary ingredients are not adulterated with contaminants or impurities and are labeled to accurately reflect the active ingredients and other ingredients in the products. It also includes proposed requirements for designing and constructing physical plants, establishing quality control procedures, and testing manufactured dietary ingredients and dietary supplements, as well as proposed requirements for maintaining records for handling consumer complaints related to current good manufacturing practices. The final rule resulting from this rulemaking process is currently undergoing review by the Office of Management and Budget. Publication of the final rule is expected in the next several months. Because of the long delay in issuing the final rule, there is considerable uncertainty as to the provisions of the final rule, and as to how large an impact the rule will have

on the dietary supplement industry. The adoption of the final rule may adversely affect our operations and increase the cost of compliance with government regulations.

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 that are dietary supplements or personal care products do not require governmental approvals to market in the United States. Our key products are classified as follows:

Dietary Supplements

- Calorad®
- Agrisept-L®
- Triomin
- Noni Plus®
- Iso-Greens®
- Definition ® (drops)
- Prosoteine®

Personal Care Products

- Definition® (cream)
Calorad ® (cream)

Water Filtration Products

- Code Blue™

Code Blue™ Filter

Fuel Additive Product

Ultimate ME2™

Environmental Protection Agency (“EPA”) regulations require that each manufacture or importer of gasoline, diesel fuel or fuel additive have its product registered prior to its introduction into commerce. Our manufacturer has registered ME2 with the United States EPA.

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.

Our IBAs act as independent sales people and are not closely supervised by EYI or supervised by us at all. We have little or no control or knowledge of our IBAs' actual sales activities and therefore we have little or no ability to ensure that our IBAs comply with regulations and rules regarding how they market and sell our products. It is possible that we may be held liable for the actions of our IBAs. Proceedings resulting from any complaints in connection with our IBAs' marketing and sales activities may result in significant defense costs, settlement payments or judgments and could force to curtail or cease our business operations.

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 \$3,000,000 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, if Calorad loses market share or loses favor in the marketplace, our financial results will suffer

A significant portion of our net sales is expected to be dependent upon our Calorad product. Calorad has traditionally represented more than 65% 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, which could reduce our sales significantly

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, or customers will accept 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. In addition, if we are forced to hold longer quantities of inventory, we face the risk that our inventory becomes obsolete with the passage of large amounts of time.

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 consultants 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 Dori O'Neill, our Executive Vice President, Chief Operations Officer, Secretary, Treasurer and Director. As we are a development stage company, the further implementation of our business plan is dependent on the entrepreneurial skills and direction of management. Mr. Sargeant and 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 two key consultants.

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 Colvera, 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 Tahitian International 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.

We, like any other retailers and distributors of products that are designed to be ingested, face an inherent risk of exposure to product liability claims in the event that the use of products contain contaminants or include inadequate instructions with other substances. With respect to product liability claims, we have coverage of \$2,000,000 per occurrence and \$2,000,000 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 products 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", which may make it more difficult for investors to sell their shares due to suitability requirements

Our common stock is deemed to be a "penny stock" as that term is defined in Rule 3a51-1 promulgated under the Securities Exchange Act of 1934. Penny stocks are stock:

- With a price of less than \$5.00 per share;
- That are not traded on a "recognized" national exchange;

- Whose prices are not quoted on the Nasdaq automated quotation system (Nasdaq listed stock must still have a price of not less than \$5.00 per share; or
- In issuers with net tangible assets less than \$2.0 million (if the issuer has been in continuous operation for at least three years) or \$5.0 million (if in continuous operation for the last three years).

Broker/dealers dealing in penny stocks are required to provide potential investors with a document disclosing the risks of penny stocks. Moreover, broker/dealers are required to determine whether an investment in a penny stock is a suitable investment for a prospective investor. These requirements may reduce the potential market for our common stock to sell shares to third parties or to otherwise dispose of them. This could cause our stock price to decline.

ITEM 3. CONTROLS AND PROCEDURES.

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Other than as described below, we are not a party to any material legal proceedings and to our knowledge, no such proceedings are threatened or contemplated that have not been reported in our previous Quarterly Reports:

Action By Suhl, Harris and Babich

In 2003 a consolidated action was brought by the plaintiffs Wolf Suhl, Christine Harris and Edward Babich in the Supreme Court of British Columbia pursuant to an order pronounced in the New Westminster Registry under Action No. S061589 on May 7, 2003, which allowed the plaintiffs to proceed with an action against Essentially Yours Industries, Inc. The plaintiffs allege that Essentially Yours Industries, Inc. holds certain of its products or revenues derived therefrom as trust property for the benefit of the plaintiffs.

The claim is for an aggregate of 4.9% of the wholesale volume of sales generated by Essentially Yours Industries, Inc. from the alleged trust property, and for damages and costs. A consolidated statement of defense has been filed by Essentially Yours Industries, Inc., and interrogatories have been responded to. Management believes this claim to be without merit and intends to vigorously defend against this claim. In February 2006, the Supreme Court of British Columbia made an order that the Company and Mr. Jay Sargeant be added to the lawsuit, and the Writ of Summons and Statement of Claim be amended to add the following claims: (a) against the Company, damages for unjust enrichment and breach of trust for any amount found to be owing by Essentially Yours Industries, Inc. plus interest and costs; and (b) against Jay Sargeant, damages for unjust enrichment and breach of trust for any amount found to be owing by Essentially Yours Industries, Inc. or Barry La Rose, plus interest and costs. The Plaintiffs' total claim is approximately \$478,000. On April 13, 2006, the plaintiffs amended their pleadings to assert claims against the Company and Jay Sargeant. The Company has entered an Appearance to the action and plans to file a Defence. An order was pronounced on August 15, 2006 for the substitutional service of Mr. Jay Sargeant. On September 5, 2006 we paid \$200,000 in full and final settlement of this matter and a consent dismissal order was pronounced on September 13, 2006 concluding the action.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

During the nine months ended September 30, 2006 we issued the following shares that were not registered pursuant to the Securities Act of 1933 and have not been reported on our previous Quarterly Reports on Form 10-QSB during the year:

On October 1, 2006 Agoracom Investor Relations Corp. received a warrant for the purchase of up to 500,000 shares of the Company's common stock at \$0.06 per share for a period of two years.

On October 12, 2006 Mach 3 Technologies Group, LLC received a warrant for the purchase of up to 967,680 shares of the Company's common stock at \$0.06 per share for a period of two years.

On October 20, 2006 the Company issued 500,000 shares of restricted common stock to Creative Life Enterprises, Inc.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

On August 22, 2006 we held our special meeting of shareholders, at the meeting our shareholders approved an amendment to our Articles of Incorporation to increase the number of authorized shares from 1,000,000,000 to 3,000,000,000. The votes received for the increase are as follows:

| For | Against | Withheld/Abstained |
|-------------|----------------|---------------------------|
| 175,943,541 | 3,429,460 | 279,998 |

ITEM 5. OTHER INFORMATION.

None.

28

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

| Exhibit Number | Description of Exhibit |
|-----------------------|--|
| 3.1 | Articles of Incorporation. ⁽¹⁾ |
| 3.2 | Certificate of Amendment to Articles of Incorporation dated December 29, 2003. ⁽¹¹⁾ |
| 3.3 | Certificate of Amendment to Articles of Incorporation dated December 31, 2003. ⁽¹¹⁾ |
| 3.4 | Bylaws. ⁽¹⁾ |
| 3.5 | Amended Bylaws. ⁽¹²⁾ |
| 3.6 | Certificate of Amendment to Articles of Incorporation dated March 30, 2006 ⁽²³⁾ |
| 3.7 | Certificate of Amendment to Articles of Incorporation dated August 31, 2006 |
| 10.1 | Consulting Agreement, dated as of November 5, 2002, between Essentially Yours Industries, Inc., a Nevada corporation, and Flaming Gorge, Inc. ⁽¹⁾ |
| 10.2 | Consulting Agreement, dated as of November 5, 2002, between Essentially Yours Industries, Inc., a Nevada corporation, and O'Neill Enterprises, Inc. ⁽¹⁾ |
| 10.3 | 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. ⁽⁵⁾ |
| 10.4 | Stock Compensation Program ⁽⁴⁾ |
| 10.5 | Consulting Agreement dated December 27, 2003 between Rajesh Raniga Inc. and Safe ID Corporation. ⁽⁶⁾ |
| 10.6 | Consulting Agreement dated January 1, 2004 between EYI Industries, Inc. and O'Neill Enterprises Inc. ⁽⁶⁾ |
| 10.7 | Consulting Agreement dated January 1, 2004 between EYI Industries, Inc. and Flaming Gorge, Inc. ⁽⁶⁾ |
| 10.8 | Addendum to the Distribution and License Agreement between Essentially Yours Industries, Inc. and Nutri-Diem Inc. dated April 30, 2004. ⁽⁶⁾ |
| 10.9 | Letter Agreement dated May 4, 2004 between Eye Wonder, Inc. and EYI Industries, Inc. ⁽⁶⁾ |
| 10.10 | Standby Equity Distribution Agreement, dated June 22, 2004 by and between EYI Industries, Inc. and Cornell Capital Partners, LP ⁽⁶⁾ |

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

- 10.11 Registration Rights Agreement, dated June 22, 2004 by and between EYI Industries, Inc. and Cornell Capital Partners, LP⁽⁶⁾
- 10.12 Escrow Agreement, dated June 22, 2004 by and between EYI Industries, Inc. and Cornell Capital Partners, LP⁽⁶⁾
- 10.13 Placement Agent Agreement, dated June 22, 2004 by and between EYI Industries, Inc. and Cornell Capital Partners, LP⁽⁶⁾
- 10.14 Compensation Debenture, dated June 22, 2004⁽⁷⁾
- 10.15 Securities Purchase Agreement, dated June 22, 2004 by and between EYI Industries, Inc. and Cornell Capital Partners, LP⁽⁶⁾
- 10.16 Investor Registration Rights Agreement, dated June 22, 2004 by and between EYI Industries, Inc. and Cornell Capital Partners, LP⁽⁶⁾
- 10.17 Security Agreement, dated June 22, 2004 by and between EYI Industries, Inc. and Cornell Capital Partners, LP⁽⁶⁾
- 10.18 Irrevocable Transfer Agent Instructions, dated June 22, 2004, by and among EYI Industries, Inc., Cornell Capital Partners, LP and Corporate Stock Transfer⁽⁶⁾
- 10.19 Escrow Agreement, dated June 22, 2004 by and among EYI Industries, Inc., Cornell Capital Partners, L.P. and Butler Gonzalez, LLP⁽⁶⁾
- 10.20 Form of Secured Convertible Debenture⁽⁶⁾
- 10.21 Form of Warrant⁽⁷⁾
- 10.22 Letter Agreement dated May 25, 2004 between EYI Industries, Inc. and Source Capital Group, Inc.⁽⁸⁾
- 10.23 Lease Agreement dated May 1, 2003 among 468058 B.C. Ltd., 642706 B.C. Ltd., Essentially Yours Industries Corp., and Essentially Yours Industries, Inc. ⁽⁸⁾

| Exhibit Number | Description of Exhibit |
|----------------|---|
| 10.24 | 5% Secured Convertible Debenture dated September 24, 2004 between EYI Industries, Inc. and Cornell Capital Partners, LP ⁽⁸⁾ |
| 10.25 | 5% Secured Convertible Debenture dated September 27, 2004 between EYI Industries, Inc. and Kent Chou ⁽⁸⁾ |
| 10.26 | 5% Secured Convertible Debenture dated September 27, 2004 between EYI Industries, Inc. TAIB Bank, E.C. ⁽⁸⁾ |
| 10.27 | Assignment Agreement dated September 27, 2004 between Cornell Capital Partners, LP and TAIB Bank, E.C. ⁽⁸⁾ |
| 10.28 | Assignment Agreement dated September 27, 2004 between Cornell Capital Partners, LP and Kent Chou ⁽⁸⁾ |
| 10.29 | Joint Venture Agreement dated May 28, 2004 between EYI Industries, Inc., World Wide Buyer's Club Inc. and Supra Group, Inc ⁽⁹⁾ |
| 10.30 | Indenture of Lease Agreement dated January 3, 2005 between Golden Plaza Company Ltd., 681563 B.C. Ltd., and 642706 B.C. Ltd. ⁽¹⁰⁾ |
| 10.31 | Consulting Services Agreement dated March 5, 2004 between EYI Industries, Inc. and EQUIS Capital Corp. ⁽¹³⁾ |
| 10.32 | Letter dated May 25, 2004 between Source Capital Group, Inc. and EYI Industries, Inc. ⁽¹⁴⁾ |
| 10.33 | Loan Agreement between Janet Carpenter and EYI Industries, Inc., dated February 10, 2005 ⁽¹⁵⁾ |
| 10.34 | Promissory Note dated February 10, 2005 between Janet Carpenter and EYI Industries ⁽¹⁵⁾ |
| 10.35 | Bonus Share Agreement between Janet Carpenter and EYI Industries, Inc. dated February 14, 2005 ⁽¹⁵⁾ |
| 10.36 | Pledge and Escrow Agreement dated February 24, 2005 between Janet Carpenter, Cornell Capital Partners, LP and David Gonzalez. ⁽¹⁵⁾ |
| 10.37 | Guaranty Agreement dated February 24, 2005 between Janet Carpenter, Cornell Capital Partners, LP ⁽¹⁵⁾ |
| 10.38 | Secured Promissory Note dated February 24, 2005 between EYI Industries, Inc. and Cornell Capital Partners, LP ⁽¹⁵⁾ |
| 10.39 | Agreement dated April 22, 2005 between Essentially Yours Industries Inc. and Source 1 Fulfillment ⁽¹⁷⁾ |

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

- 10.40 Reseller Agreement dated May 11, 2005 between Essentially Yours Industries Inc. and Metals & Arsenic Removal Technology, Inc. ⁽¹⁶⁾
- 10.41 Termination Agreement dated May 13, 2005 between EYI Industries Inc. and Cornell Capital Partners, LP⁽¹⁷⁾
- 10.42 Standby Equity Distribution Agreement dated May 13, 2005 between EYI Industries Inc. and Cornell Capital Partners, LP⁽¹⁷⁾
- 10.43 Registration Rights Agreement dated May 13, 2005 between EYI Industries Inc. and Cornell Capital Partners, LP⁽¹⁷⁾
- 10.44 Escrow Agreement dated May 13, 2005 between EYI Industries Inc. and Cornell Capital Partners, LP⁽¹⁷⁾
- 10.45 Placement Agent Agreement dated May 13, 2005 between EYI Industries Inc. and Cornell Capital Partners, LP⁽¹⁷⁾
- 10.46 Consulting Agreement dated June 1, 2005 between EYI Industries, Inc. and Eliza Fung⁽¹⁸⁾
- 10.47 Addendum to the Reseller Agreement dated June 1, 2005 between Essentially Yours Industries Inc. and Metals & Arsenic Removal Technology, Inc. ⁽¹⁸⁾
- 10.48 Non-Circumvention and Non-Disclosure Agreement dated July 14, 2005 between Essentially Yours Industries Inc. and Metals & Arsenic Removal Technology, Inc. ⁽¹⁸⁾
- 10.49 Promissory Note dated August 1, 2005 between EYI Industries Inc. and Cornell capital Partners, LP⁽¹⁸⁾
- 10.50 Investor Relations Agreement dated July 28, 2005 between EYI Industries, Inc. and Agora Investor Relations Corp. ⁽¹⁸⁾
- 10.51 China Agency Agreement entered into with Guangzhou Zhongdian Enterprises (Group) Co. Ltd. and China Electronics Import and Export South China Corporation. Dated September 15, 2005⁽¹⁹⁾
- 10.52 Logistics Management Agreement dated September 1, 2005 between Essentially Yours Industries (Hong Kong) Limited and All In One Global Logistics Ltd. ⁽²⁰⁾
- 10.53 Contract for Legal Services dated September 1, 2005 between EYI Industries Inc. and M. Ali Lakhani Law Corporation⁽²¹⁾
- 10.54 Amended Investor Relations Agreement dated October 5, 2005 between EYI Industries, Inc. and Agora Investor Relations Corp. ⁽²²⁾
- 10.55 Settlement Agreement dated December 21, 2005 between EYI Industries, Inc., Halo Distribution, LLC and Business Centers, LLC. ⁽²³⁾

| Exhibit Number | Description of Exhibit |
|-----------------------|--|
| 10.56 | Global Consulting Group Agreement dated January 19, 2006 entered into with Global Consulting Group Inc. and EYI Industries Inc. ⁽²³⁾ |
| 10.57 | Consulting Agreement dated January 27, 2006 entered into with Lou Prescott and Essentially Yours Industries, Inc. ⁽²³⁾ |
| 10.58 | Termination Agreement dated April 3, 2006 between EYI Industries Inc. and Cornell Capital Partners, LP ⁽²⁵⁾ |
| 10.59 | Letter of Intent dated April 6, 2006 between Essentially Yours Industries (International) Limited and Rommel Panganiban and Raul Batista ⁽²⁵⁾ |
| 10.60 | Securities Purchase Agreement, dated as of April 24, 2006, by and between EYI Industries, Inc. and the Buyers listed therein ⁽²⁴⁾ |
| 10.61 | Registration Rights Agreement, dated as of April 24, 2006, by and between EYI Industries, Inc. and the Buyers listed therein ⁽²⁴⁾ |
| 10.62 | \$750,000 Secured Convertible Debenture No. CCP-1, dated as of April 24, 2006, issued to Cornell Capital Partners, LP ⁽²⁴⁾ |
| 10.63 | \$333,333 Secured Convertible Debenture CW-1, dated as of April 24, 2006, issued to Cornell Capital Partners, LP ⁽²⁴⁾ |
| 10.64 | \$416,667 Secured Convertible Debenture TAIB-1, dated as of April 24, 2006, issued to Cornell Capital Partners, LP ⁽²⁴⁾ |
| 10.65 | Security Agreement, dated as of April 24, 2006, issued to Cornell Capital Partners, LP ⁽²⁴⁾ |
| 10.66 | Warrant No. CCP-001, dated April 24, 2006, issued by the Company to Cornell Capital Partners, LP ⁽²⁴⁾ |
| 10.67 | Warrant No. CCP-002, dated April 24, 2006, issued by the Company to Cornell Capital Partners, LP ⁽²⁴⁾ |
| 10.68 | Warrant No. CCP-003, dated April 24, 2006, issued by the Company to Cornell Capital Partners, LP ⁽²⁴⁾ |
| 10.69 | Warrant No. CCP-004, dated April 24, 2006, issued by the Company to Cornell Capital Partners, LP ⁽²⁴⁾ |
| 10.70 | Warrant No. CCP-005, dated April 24, 2006, issued by the Company to Cornell Capital Partners, LP ⁽²⁴⁾ |
| 10.71 | Warrant No. CCP-006, dated April 24, 2006, issued by the Company to Cornell Capital Partners, LP ⁽²⁴⁾ |

- 10.72 Warrant No. CCP-007, dated April 24, 2006, issued by the Company to Cornell Capital Partners, LP⁽²⁴⁾
- 10.73 Warrant, No. CCP-008, dated April 24, 2006, issued by the Company to Cornell Capital Partners, LP⁽²⁴⁾
- 10.74 Warrant No. CCP-009, dated April 24, 2006, issued by the Company to Cornell Capital Partners, LP⁽²⁴⁾
- 10.75 Warrant No. CCP-010, dated April 24, 2006, issued by the Company to Cornell Capital Partners, LP⁽²⁴⁾
- 10.76 Warrant No. CCP-011, dated April 24, 2006, issued by the Company to Cornell Capital Partners, LP⁽²⁴⁾
- 10.77 Warrant No. CCP-012, dated April 24, 2006, issued by the Company to Cornell Capital Partners, LP⁽²⁴⁾
- 10.78 Warrant No. CCP-013, dated April 24, 2006, issued by the Company to Cornell Capital Partners, LP⁽²⁴⁾
- 10.79 Warrant No. CCP-014, dated April 24, 2006, issued by the Company to Cornell Capital Partners, LP⁽²⁴⁾
- 10.80 Warrant No. CCP-015, dated April 24, 2006, issued by the Company to Cornell Capital Partners, LP⁽²⁴⁾
- 10.81 Warrant No. CCP-016, dated April 24, 2006, issued by the Company to Cornell Capital Partners, LP⁽²⁴⁾
- 10.82 Warrant No. CCP-017, dated April 24, 2006, issued by the Company to Cornell Capital Partners, LP⁽²⁴⁾

| Exhibit Number | Description of Exhibit |
|-----------------------|--|
| 10.83 | Irrevocable Transfer Agent Instructions, dated April 24, 2006, by and among the Company, the Buyers listed therein and Corporate Stock Transfer, Inc. ⁽²⁴⁾ |
| 10.84 | Consulting Agreement dated May 1, 2006 between Essentially Yours Industries (Hong Kong) Limited and Siu Chung (Freeda) Chan ⁽²⁵⁾ |
| 10.85 | Amended Logistics Management Agreement dated May 1, 2006 between Essentially Yours Industries (Hong Kong) Limited and All In One Global Logistics Ltd. ⁽²⁹⁾ |
| 10.86 | Distribution Agreement dated May 17, 2006 between Essentially Yours Industries (Hong Kong) Limited and Nozin, LLC ⁽²⁷⁾ |
| 10.87 | Consulting Agreement dated July 1, 2006 between Essentially Yours Industries, Inc. and James Toll ⁽²⁹⁾ |
| 10.88 | Letters dated July 12, 2006 and July 14, 2006 from Metals & Arsenic Removal Technology ⁽²⁹⁾ |
| 10.89 | Addendum to the China Agency Agreement dated September 15, 2005 between EYI HK and Guangzhou Zhondian Enterprises (Group) Co. Ltd. and China Electronics Import and Export South China Corporation ⁽²⁸⁾ |
| 10.90 | Consignment and Distribution Agreement dated September 20, 2006 between Essentially Yours Industries (International) Limited and Orientrends, Inc. ⁽³⁰⁾ |
| 10.91 | Investor Relations Agreement between EYI Industries, Inc and Agoracom Investor Relations Corp. |
| 10.92 | Settlement Agreement dated September 1, 2006 between Barry LaRose, Jay Sargeant and EYI Industries Inc. |
| 10.93 | Settlement Agreement and Release dated September 5, 2006 |
| 10.94 | Agreement dated October 12, 2006 between Essentially Yours Industries, Inc. and Mach 3 Technologies Group, LLC ⁽³¹⁾ |
| 10.95 | Consulting Agreement between Essentially Yours Industries, Inc. and Creative Life Enterprises Inc. dated October 19, 2006 |
| 14.1 | Code of Ethics ⁽⁵⁾ |
| 21.1 | List of Subsidiaries ⁽²³⁾ |
| 23.1 | Consent of Williams & Webster, P.S. ⁽²⁶⁾ |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |

- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 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
- 32.2 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

-
- (1) Filed as an exhibit to the registration statement on Form 10-SB/A of Safe ID Corporation, filed with the SEC on September 21, 2000.
- (2) 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.
- (3) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on January 8, 2004.
- (4) Filed as an exhibit to our Registration Statement on Form S-8, filed with the SEC on March 30, 2004.
- (5) 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.
- (6) Filed as an exhibit to our quarterly report on Form 10-QSB for the period ended March 31, 2004, filed with the SEC on May 24, 2004.
- (7) Filed as an exhibit to our registration statement on Form SB-2, filed with the SEC on September 17, 2004.
- (8) Filed as an exhibit to our quarterly report on Form 10-QSB for the period ended September 30, 2004, filed with the SEC on November 22, 2004.
- (9) Filed as an exhibit to our Amendment No. 1 to our registration statement on Form SB-2 on December 23, 2004.
- (10) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on January 12, 2005.
- (11) Filed as an exhibit to our quarterly report on Form 10-QSB for the period ended September 30, 2004, filed with the SEC on November 22, 2004.
- (12) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on March 10, 2005.
- (13) Filed as an exhibit to our quarterly report on Form 10-QSB/A for the period ended March 31, 2004, filed with the SEC on December 15, 2004.
- (14) Filed as an exhibit to our quarterly report on Form 10-QSB/A for the period ended June 30, 2004, filed with the SEC on December 15, 2004.
- (15) Filed as an exhibit to our annual report on Form 10-KSB for the period ended December 31, 2004, filed with the SEC on April 18, 2005.
- (16) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on May 17, 2005.
- (17) Filed as an exhibit to our Quarterly Report on Form 10-QSB for the period ended March 31, 2005, filed with the SEC on May 23, 2005.

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

- (18) Filed as an exhibit to our Quarterly Report on Form 10-QSB for the period ended June 30, 2005, filed with the SEC on August 19, 2005.
- (19) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on September 27, 2005.
- (20) Filed as an exhibit to our quarterly report on Form 10-QSB for the period ended September 30, 2005, filed with the SEC on November 21, 2005.
- (21) Filed as an exhibit to our quarterly report on Form 10-QSB for the period ended September 30, 2005, filed with the SEC on November 21, 2005.
- (22) Filed as an exhibit to our quarterly report on Form 10-QSB for the period ended September 30, 2005, filed with the SEC on November 21, 2005.
- (23) Filed as an exhibit to our annual report on Form 10-KSB for the period ended December 31, 2005, filed with the SEC on March 31, 2006.
- (24) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on April 28, 2006.
- (25) Filed as an exhibit to our Quarterly Report on Form 10-QSB for the period ended March 31, 2006, filed with the SEC on May 16, 2006.
- (26) Filed as an exhibit to our registration statement on Form SB-2/A on June 21, 2006.
- (27) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on April 28, 2006
- (28) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on August 3, 2006
- (29) Filed as an exhibit to our Quarterly Report on Form 10-QSB for the period ended June 30, 2006, filed with the SEC August 21, 2006
- (30) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on September 25, 2006
- (31) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on October 16, 2006

(b) Reports on Form 8-K:

| Date of Event | Date of filing | Description of the Form 8-K |
|----------------------|-----------------------|--|
| October 25, 2006 | October 27, 2006 | Disclosure of news release dated October 25 , 2006 regarding a non-binding letter of intent with Mach 3 Technologies Group, LLC |
| October 12, 2006 | October 16, 2006 | Disclosure of an agreement between Essentially Yours Industries, Inc. and Mach 3 Technologies Group, LLC |
| September 20, 2006 | September 25, 2006 | Disclosure of agreement between Essentially Yours Industries (International) Limited and Orientrends, Inc. |
| July 27, 2006 | August 3, 2006 | Disclosure of an Addendum to the China Agency Agreement dated September 15, 2005 between EYI HK and Guangzhou Zhongdian Enterprises (Group) Co. Ltd. and China Electronics Import and Export South China Corporation |
| July 21, 2006 | July 24, 2006 | Disclosure of news release dated July 21, 2006 regarding a non-binding letter of intent with Mach 3 Technologies Group, LLC |
| May 17, 2006 | May 24, 2006 | Disclosure of Distribution Agreement dated May 17, 2006 with Nozin, LLC |

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

| | | |
|----------------|---------------|---|
| May 11, 2006 | May 11, 2006 | Amendment No. 1 to Form 8-K filed on May 1, 2006 |
| April 24, 2006 | May 1, 2006 | Disclosure of securities purchase agreement pursuant to which EYI will sell convertible debentures and issuance of warrants to Cornell Capital Partners, LP |
| April 3, 2006 | April 4, 2006 | Disclosure of Termination Agreement with Cornell Capital Partners |

SIGNATURES

In accordance with requirements 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: November 20, 2006

By: /s/ Rajesh Raniga
Rajesh Raniga
Chief Financial Officer
(Principal Accounting Officer)

Date: November 20, 2006