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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB/A

Amendment No. 1

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

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

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

For the transition period ___________ to ___________

Commission File Number: **000-29803**

EYI INDUSTRIES, INC.

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

NEVADA	**88-0407078**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
3960 Howard Hughes Parkway, Suite 500 **Las Vegas, Nevada**	**89109**
(Address of principal executive offices)	(Zip Code)

Issuer s telephone number, including area code: **(702) 296-8034**

NOT APPLICABLE
(Former name, former address and former fiscal year end, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes **x** No ¨

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

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

Explanatory Note

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

(i) correct a typographical error in respect of the registrant's anticipated working capital needs under the heading "Item 2. Management's Discussion and Analysis or Plan of Operation - Financing Requirements"; and

(ii) correct an arithmetic error in the number of shares and average price of shares sold in private placement transactions by the registrant during the three months ended March 31, 2004 disclosed under the heading "Item 2. Management's Discussion and Analysis or Plan of Operation - Cash Provided by Financing Activities", and in the accompanying interim unaudited financial statements for the three months ended March 31, 2004; and

(iii) make the corresponding changes described in (ii) to the consolidated balance sheets and consolidated statement of stockholders' equity in the accompanying interim unaudited financial statements for the three months ended March 31, 2004.

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

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EYI INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS

		March 31, 2004 Unaudited		December 31, 2003 Restated
ASSETS				
CURRENT ASSETS				
Cash	$	42,640	$	52,075
Restricted cash		210,196		223,682
Accounts receivable		167,544		52,323
Related party receivables		5,241		5,465
Prepaid expenses		75,474		28,600
Inventory		221,755		254,367
TOTAL CURRENT ASSETS		722,850		616,512
PROPERTY, PLANT AND EQUIPMENT, NET		116,403		143,439
INTANGIBLE ASSETS		19,801		19,801
TOTAL ASSETS	$	859,054	$	779,752
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)				
CURRENT LIABILITIES				
Bank indebtedness	$	222,313	$	259,977
Accounts payable and accrued liabilities		905,067		836,751
Accounts payable - related parties		873,624		779,367
Customer deposits		74,226		6,250
TOTAL CURRENT LIABILITIES		2,075,230		1,882,345
COMMITMENTS AND CONTINGENCIES		-		-
MINORITY INTEREST IN SUBSIDIARY		463,387		468,877
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; 537,278,000 shares authorized, 149,647,125 and 148,180,670 share s issued and outstanding, respectively		149,647		148,181
Discount on common stock		(53,598)		(53,598)
Additional paid-in capital		974,902		827,972
Stock warrants		199,229		128,385
Accumulated deficit		(2,949,743)		(2,622,410)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)		(1,679,563)		(1,571,470)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$	859,054	$	779,752

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

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EYI INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

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

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

Recapitalization and share exchange (restated)							
Net loss for fiscal year ended December 31, 2003	-	-	-	-	-	(969,987)	(969,987)
Balance, December 31, 2003 (restated)	148,180,670	148,181	827,972	(53,598)	128,385	(2,622,410)	(1,571,470)
Common stock issued at an average price of $0.17 including warrants less expenses of $28,715	1,466,455	1,466	146,930	-	70,844	-	219,240
Net loss for fiscal year ended March 31, 2004	-	-	-	-	-	(327,333)	(327,333)
Balance, March 31, 2004 (unaudited)	149,647,125	$ 149,647	$ 974,902	$ (53,598)	$ 199,229	$ (2,949,743)	$ (1,679,563)

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

EYI INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

EYI INDUSTRIES, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2004
NOTE 1 DESCRIPTION OF BUSINESS

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

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

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

Basis of Presentation

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

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

Recent Accounting Pronouncements

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

Restricted Cash

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

Going Concern

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

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

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

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

NOTE 3 PROPERTY AND EQUIPMENT

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

NOTE 4 NOTES PAYABLE

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

NOTE 5 CAPITAL STOCK

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

NOTE 6 COMMON STOCK WARRANTS

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

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

Warrants and Prior Year Adjustment

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

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

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

NOTE 7 COMMITMENTS

Purchase Agreement

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

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

June 1, 2003 to May 31, 2004	$	1,530,000
June 1, 2004 to May 31, 2005	$	3,825,000

For each year thereafter during the term of this agreement, the minimum amount of $5,355,000.

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

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

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

Lease Payments

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

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

NOTE 8 CONTINGENCIES

Other Matters

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

NOTE 9 CONCENTRATIONS

Economic Dependence

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

NOTE 10 RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

FORWARD LOOKING STATEMENTS

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

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

OVERVIEW

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

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

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

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

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Recent Corporate Developments

- On May 4, 2004 we entered into a letter agreement with Eyewonder, Inc. (Eyewonder), pursuant to which Eyewonder agreed to manage an advertising and lead generation campaign to promote and sell our products utilizing Eyewonder s proprietary audio-video streaming technology. In consideration of the services provided by Eyewonder under the agreement, we agreed to pay the following fees: a fee of $100,000 for product promotions, a fee of $770,000 for the implementation of a communications component for the campaign, and a fee of $140,000 for each consumer application. Under the terms of the agreement we have the option to pay fees to Eyewonder through the issuance to Eyewonder of units of our stock, each consisting one share at a price of $0.21 per share and one share purchase warrant exercisable at a price of $0.30 per share for a period of five years from the date of issuance. Eyewonder is also entitled to a fee of 8% of the gross revenue generated through all sales of products that result from responses to advertising by Eyewonder. In addition, on execution of the agreement, we agreed to issue options to purchase 1,100,000 shares of our common stock at a price of $0.22 per share to certain individuals designated by Eyewonder.

- On June 30, 2002 we entered into a distribution and license agreement (the License and Distribution Agreement) with Nutri-Diem Inc. (Nutri-Diem), the principal of which is Michel Grise a holder of more than 10% of our outstanding common stock and director of our subsidiaries. Pursuant to the terms the License and Distribution Agreement, as amended on November 7, 2002, we were granted by Nutri-Diem an exclusive license and right to market, sale and distribute in Canada and the United States certain products owned by Michel Grise Consultant, Inc. In consideration of the grant of exclusive license and right to distribute the products specified in the License and Distribution Agreement we agreed to expend the following amounts on purchasing products of Nutri-Diem over a five year period: (i) from June 1, 2002 to May 31, 2003, $3,000,000 CDN, (ii) from June 1, 2003 to May 31, 2004, $7,000,000 CDN, (iii) from June 1, 2004 to May 31, 2005, $20,000,000 CDN, and (iv) for each year commencing on June 1, and ending on May 31 thereafter during the term of that agreement we were required to purchase products totalling $50,000,000 CDN.

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

- Our core business is in network marketing development and sales. In 2004 we implemented some critical changes to our network marketing development and sales strategy. We analyzed our compensation structure and realized that although the plan paid the sales force more than industry standard, it was still not encouraging sales, growth, duplication or retention. After months of study, outside consulting, field leader's focus groups and senior management discussion, we made key adjustments during our first fiscal quarter in 2004 that are intended to cap the sales commission expense while at the same time promote increased network sales. We anticipate retaining a higher percentage of both customers and distributors with this new plan.

- To further facilitate growth and benefit from certain competitive advantages conferred by the new commission plan, we have upgraded our Internet support sites, created a trainer field certification program, developed a regional training program and increased our face to face training capability. These support tools are intended to ensure compliance, mature team and territory development and assist sales growth.

- We see international sales as a key component for our growth in the next 5 years. During the first quarter of fiscal 2004, we signed a letter of intent with Supra Group, Inc. to assist in the expansion of our marketing efforts in Spanish speaking countries including Spain, Portugal and Latin America. We believe Supra Group, Inc. have significant international experience, expertise and contacts and that this alliance will assist in our ability to expand into Spanish-speaking countries.

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

PLAN OF OPERATIONS

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

1. We plan to expand the marketing of our Calorad product over the next twelve months. We feel that our main product Calorad, a 21 year old market proven product, is positioned to expand into the significant weight loss industry. We see market conditions in the US and Canada amenable to a significant growth of Calorad sales.

2. We have plans to turn Halo, our wholly-owned warehouse facility into a profitable operation. All sales increases translate into more shipping for Halo. We have some contracts in negotiation which may increase sales at Halo. There is no assurance that the contracts we enter into will increase our sales at Halo or that Halo will become a profitable operation.

3. We intend to upgrade our computer systems over the next twelve months. These upgrades are intended to result in improved operational efficiency and reduced overhead costs.

4. We anticipate spending approximately $314,455 in administrative expenses over the next twelve months in maintaining our head office and our warehouse and distribution centers in Louisville, Kentucky and Surrey, British Columbia, Canada.

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

EXPENSE	AMOUNT
Consulting Fees	$656,400
Legal and Professional Fees	$200,000
Finance and Administration	$314,455
Customer Service	$856,446
Sales and Marketing	$25,000
Telecommunications	$681,600
Wages and Benefits	$1,481,146
Warehouse Expense	$256,000