

EYI INDUSTRIES INC  
Form SB-2  
September 17, 2004

---

As filed with the Securities and Exchange Commission on September 17, 2004  
Registration No. 333-\_\_\_\_\_

---

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

**FORM SB-2  
REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933**

**EYI INDUSTRIES INC.**

(Name of registrant as specified in its charter)

**Nevada**

(State or Other Jurisdiction  
of Incorporation or Organization)

**2833**

(Primary Standard Industrial  
Classification Code Number)

**88-0407078**

(I.R.S. Employer  
Identification No.)

**3960 Howard Hughes Parkway  
Suite 500  
Las Vegas, Nevada 89109  
(702) 296-8034**

(Address and telephone number  
of principal executive offices)

**Jay Sargeant  
3960 Howard Hughes Parkway  
Suite 500  
Las Vegas, Nevada 89109  
(702) 296-8034**

(Name, address, and telephone  
number of agent for service)

Copies to:

Clayton E. Parker, Esq.  
Kirkpatrick & Lockhart LLP  
201 South Biscayne Boulevard  
Suite 2000  
Miami, Florida 33131  
Telephone:(305) 539-3300  
Telecopier: (305) 358-7095

Ronald S. Haligman, Esq.  
Kirkpatrick & Lockhart LLP  
201 South Biscayne Boulevard  
Suite 2000  
Miami, Florida 33131  
Telephone:(305) 539-3300  
Telecopier: (305) 358-7095

Approximate date of commencement of proposed sale of the securities to the public: **As soon as practicable after this registration statement becomes effective.**

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. **x**

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier of the effective registration statement for the offering. "

If this is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. "

#### CALCULATION OF REGISTRATION FEE

Title Of Each Class Of Securities To Be Registered	Amount To Be Registered	Proposed Maximum Offering Price Per Share <sup>(1)</sup>	Proposed Maximum Aggregate Offering Price <sup>(1)</sup>	Amount Of Registration Fee
Common Stock, par value \$0.001 per share, to be acquired pursuant to the Standby Equity Distribution Agreement	71,382,289 shares	\$0.14	\$9,993,520.46	\$1,266.18
Common Stock, par value \$0.001 per share, underlying a convertible debenture	8,352,823 shares	\$0.14	\$1,169,395.22	\$148.16
Common Stock, par value \$0.001 per share, to be issued as a commitment fee pursuant to the Standby Equity Distribution Agreement	1,266,589 shares	\$0.14	\$177,322.46	\$22.47
Common Stock, par value \$0.001 per share, to be issued as a placement agent fee in connection with the Standby Equity Distribution Agreement	33,411 shares	\$0.14	\$4,677.54	\$0.59
Common Stock, par value \$0.001 per share, previously issued to investors	2,611,735 shares	\$0.14	\$365,642.90	\$46.33
<b>TOTAL</b>	83,646,847 shares	\$0.14	\$11,710,558.58	\$1,483.73

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended. For the purposes of this table, we have used the average of the closing bid and asked prices as of September 14, 2004.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

**PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED SEPTEMBER 17, 2004**

**EYI INDUSTRIES INC.  
83,646,847 SHARES OF COMMON STOCK**

This Prospectus relates to the sale of up to 83,646,847 shares of EYI Industries' common stock by certain persons, who are, or will become, stockholders of EYI Industries. The selling stockholders consist of:

- Cornell Capital Partners, L.P., which intends to sell up to an aggregate amount of 80,918,173 shares of common stock, which includes 71,382,289 pursuant to a Standby Equity Distribution Agreement, 8,269,295 shares of common stock underlying convertible debentures, and 1,266,589 shares of common stock issued as a commitment fee pursuant to the Standby Equity Distribution Agreement.
- Newbridge Securities Corporation, an unaffiliated registered broker-dealer retained by EYI Industries in connection with the Standby Equity Distribution Agreement, which intends to sell 33,411 shares of common stock issued as a placement agent fee.
- Other selling stockholders, who intend to sell up to 83,528 shares of common stock underlying convertible debentures.
- Other selling stockholders, who intend to sell up to 2,611,735 shares of common stock previously issued by EYI Industries.

Please refer to "Selling Stockholders" beginning on page 18.

EYI Industries is not selling any shares of common stock in this offering and therefore will not receive any proceeds from this offering. We will, however, receive proceeds from the sale of common stock under the Standby Equity Distribution Agreement. All costs associated with this registration will be borne by us.

The shares of common stock are being offered for sale by the selling stockholders at prices established on the Over-the-Counter Bulletin Board during the term of this offering. These prices will fluctuate based on the demand for the shares of common stock. On August 24, 2004, the last reported sales price of our common stock was \$0.19 per share.

Cornell Capital Partners is an "underwriter" within the meaning of the Securities Act of 1933 in connection with the sale of common stock under the Standby Equity Distribution Agreement. Pursuant to the Standby Equity Distribution Agreement, Cornell Capital Partners will pay EYI Industries 98% of the market price of our common stock. Cornell Capital Partners is entitled to retain 5% of the proceeds raised by us under the Standby Equity Distribution Agreement.

EYI Industries engaged Newbridge Securities Corporation, an unaffiliated registered broker-deal, to advise us in connection with the Standby Equity Distribution Agreement. Newbridge Securities Corporation was paid a fee of \$10,000 by the issuance of 33,411 shares of EYI Industries' common stock.

Brokers or dealers effecting transactions in these shares should confirm that the shares are registered under applicable state law or that an exemption from registration is available.

Our common stock is quoted on the Over-the-Counter Bulletin Board under the symbol "EYII."

**These securities are speculative and involve a high degree of risk. Please refer to "Risk Factors" beginning on page 5.**

With the exception of Cornell Capital Partners, which is an "underwriter" within the meaning of the Securities Act of 1933, no other underwriter or person has been engaged to facilitate the sale of shares of common

stock in this offering. This offering will terminate 24 months after the accompanying registration statement is declared effective by the Securities and Exchange Commission. None of the proceeds from the sale of stock by the selling stockholder will be placed in escrow, trust or any similar account.

**The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this Prospectus is September 17, 2004

**TABLE OF CONTENTS**

<u>PROSPECTUS SUMMARY</u>	<u>1</u>
<u>THE OFFERING</u>	<u>2</u>
<u>SUMMARY CONSOLIDATED FINANCIAL INFORMATION</u>	<u>3</u>
<u>RISK FACTORS</u>	<u>5</u>
<u>FORWARD-LOOKING STATEMENTS</u>	<u>16</u>
<u>SELLING STOCKHOLDERS</u>	<u>17</u>
<u>USE OF PROCEEDS</u>	<u>20</u>
<u>DILUTION</u>	<u>21</u>
<u>STANDBY EQUITY DISTRIBUTION AGREEMENT</u>	<u>22</u>
<u>PLAN OF DISTRIBUTION</u>	<u>24</u>
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>26</u>
<u>DESCRIPTION OF BUSINESS</u>	<u>34</u>
<u>MANAGEMENT</u>	<u>46</u>
<u>FISCAL YEAR END OPTIONS/SAR VALUES</u>	<u>49</u>
<u>DESCRIPTION OF PROPERTY</u>	<u>49</u>
<u>LEGAL PROCEEDINGS</u>	<u>50</u>
<u>PRINCIPAL SHAREHOLDERS</u>	<u>51</u>
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	<u>53</u>
<u>MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND OTHER SHAREHOLDER MATTERS</u>	<u>55</u>
<u>DESCRIPTION OF SECURITIES</u>	<u>59</u>
<u>EXPERTS</u>	<u>62</u>
<u>LEGAL MATTERS</u>	<u>62</u>
<u>AVAILABLE INFORMATION</u>	<u>62</u>
<u>INDEX TO FINANCIAL STATEMENTS</u>	<u>i</u>
<u>PART II</u>	<u>II-1</u>

Our audited financial statements for the fiscal year December 31, 2003 are contained in our Annual Report on Form 10-KSB.

## PROSPECTUS SUMMARY

The following Prospectus Summary contains the most material information on EYI Industries Inc. You should read the entire Prospectus carefully, including "Risk Factors" and our Financial Statements and the notes to the Financial Statements before making any investment decision.

### OUR COMPANY

We are in the business of selling, marketing, and distributing a product line consisting of approximately 34 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 11,000 we consider "active". An "active" IBA is one who purchased our products within the preceding 12 months. Over 1,600 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. Currently, our product line consists of: (i) 23 dietary supplement products; and (ii) 11 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, Inc. 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.

### ABOUT US

Our principal place of business is located at 3960 Howard Hughes Parkway, Suite 500, Las Vegas, Nevada 89109, and our telephone number at that address is (702) 296-8034.

**THE OFFERING**

This offering relates to the sale of common stock by certain persons who are, or will become, our stockholders. The selling stockholders consist of:

- Cornell Capital Partners, which intends to sell up to an aggregate amount of 80,918,173 shares of common stock, which includes 71,382,289 pursuant to a Standby Equity Distribution Agreement, 8,269,295 common stock issued as a commitment fee pursuant to the Standby Equity Distribution Agreement.
- Newbridge Securities Corporation, an unaffiliated broker-dealer retained by EYI Industries in connection with the Standby Equity Distribution Agreement, which intends to sell up to 33,411 shares of common stock issued as a placement agent fee.
- Other selling stockholders, who intend to sell up to 83,528 shares of common stock underlying convertible debentures.
- Other selling stockholders, who intend to sell up to 2,611,735 shares of common stock previously issued.

Pursuant to the Standby Equity Distribution Agreement, we may, at our discretion, periodically issue and sell to Cornell Capital Partners shares of our common stock for a total purchase price of \$10 million. Cornell Capital Partners will purchase the shares of common stock for 98% of the lowest volume weighted average price of our common stock during the 5 trading days immediately following notice of our intent to make a draw down under the Standby Equity Distribution Agreement. Cornell Capital Partners intends to sell any shares purchased under the Standby Equity Distribution Agreement at the then prevailing market price.

Based on our recent stock price of \$0.19, we would have to issue to Cornell Capital Partners 53,705,693 shares of our common stock in order to draw down the entire \$10 million available to us under the Standby Equity Distribution Agreement. As of August 24, 2004, we had 162,103,042 shares of common stock issued and outstanding.

**Common Stock Offered** 83,646,847

**Offering Price** Market price

**Common Stock Outstanding Before The Offering** <sup>(1)</sup> 162,103,042 shares

**Common Stock Outstanding After The Offering** <sup>(2)</sup> 241,838,154

**Use Of Proceeds** We will not receive any of the proceeds from the sale of stock by the selling stockholder. Any proceeds we receive from the sale of common stock under the Standby Equity Distribution Agreement will be used to finance acquisitions and general working capital purposes. See "Use of Proceeds."

**Risk Factors** The securities offered hereby involve a high degree of risk and immediate substantial dilution and should not be purchased by investors who cannot afford the loss of their entire investment. See "Risk Factors" and "Dilution."

**Dividend Policy** We do not intend to pay dividends on our common stock. We plan to retain any earnings for use in the operation of our business and to find future growth.

**Over-The-Counter Bulletin Board Symbol** EYII

- 
- (1) Based on shares outstanding as of August 24, 2004.
  - (2) Assumes that all shares available for our Standby Equity Distribution Agreement, which are offered under this Prospectus, are issued.



**SUMMARY CONSOLIDATED FINANCIAL INFORMATION**

The following is a summary of our Financial Statements, which are included elsewhere in this Prospectus. You should read the following data together with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this Prospectus as well as with our Financial Statements and the notes therewith.

	<b>For the Six Months Ended June 30, 2004 (Unaudited) (Restated)</b>	<b>For the Six Months Ended June 30, 2003 (Unaudited)</b>	<b>For the Six Months Ended December 31, 2003 (Audited)</b>	<b>For The Year Ended December 31, 2002 (Audited)</b>
<b>STATEMENT OF OPERATION DATA:</b>				
Revenue	\$ 3,494,932	\$ 6,974,710	\$ 4,313,579	\$ 14,390,049
Cost Of Goods Sold	2,176,014	4,761,924	2,845,800	10,511,706
Gross Profit	1,318,918	2,212,786	1,467,779	3,878,343
Operating Expenses				
Consulting fees	505,894	386,080	394,200	765,580
Legal and professional	171,049	150,664	145,001	354,356
Customer service	219,084	623,223	488,944	1,270,297
Finance and administration	269,024	456,743	324,853	835,008
Sales and marketing	133,508	86,481	92,834	506,276
Telecommunications	256,098	313,381	231,318	550,480
Wages and benefits	559,714	567,457	547,076	959,526
Warehouse expense	359,956	416,232	221,882	282,252
Total Operating Expenses	2,474,327	3,000,261	2,446,108	5,523,775
Operating Loss	(1,155,409)	(787,475)	(978,329)	(1,645,432)
Other Income (Expenses)	23,477	(22,336)	(7,928)	(27,776)
Net Loss Before Taxes	(1,131,932)	(809,811)	(986,257)	(1,673,208)
Provision For Taxes	--	--	--	--
Net Loss Before Allocation To Minority Interest	(1,131,932)	(809,811)	(986,257)	(1,673,208)
Allocation Of Loss To Minority Interest	21,683	--	16,270	28,752
Net Loss	\$ (1,110,249)	\$ (809,811)	\$ (969,987)	\$ (1,644,456)
Basic And Diluted Net Loss Per Common Share	\$ nil	\$ nil	\$ nil	\$ nil
Weighted Average Number Of Common Stock				

Edgar Filing: EYI INDUSTRIES INC - Form SB-2

Shares Outstanding	152,325,753	118,045,603	128,090,625	116,102,534
--------------------	-------------	-------------	-------------	-------------

3

---

<b>BALANCE SHEET DATA:</b>	<b>June 30, 2004 (Unaudited) (Restated)</b>	<b>December 31, 2003 (Audited) (Restated)</b>	<b>June 30, 2003 (Audited)</b>
<b>Current Assets</b>			
Cash	\$ 60,524	\$ 52,075	\$ 16,184
Restricted cash	210,314	223,682	223,682
Accounts receivable	38,519	52,323	26,596
Related party receivables	4,995	5,465	6,162
Prepaid expenses	1,056,084	28,600	36,484
Inventory	208,318	254,367	302,604
<b>Total Current Assets</b>	<b>1,578,754</b>	<b>616,512</b>	<b>611,712</b>
Property, Plant and Equipment, Net	95,106	143,439	160,611
Deferred Offering Costs	390,000	--	--
Intangible Assets	17,641	19,801	19,801
<b>Total Assets</b>	<b>\$ 2,081,501</b>	<b>\$ 779,752</b>	<b>\$ 802,531</b>
<b>Current Liabilities</b>			
Bank indebtedness	\$ 42,819	\$ 259,977	\$ 274,880
Accounts payable and accrued liabilities	786,836	836,751	554,830
Accounts payable – related parties	572,789	779,367	545,075
Convertible debt-related party, net of discount	185,287		
Customer deposits	6,250	6,250	46,292
<b>Total Current Liabilities</b>	<b>1,593,981</b>	<b>1,882,345</b>	<b>1,421,077</b>
Commitments And Contingencies	--	--	--
Minority Interest in Subsidiary	413,891	468,877	485,148
<b>Stockholders' Equity (Deficit)</b>			
Common stock	162,067	148,181	118,046
Discount on common stock	(53,598)	(53,598)	(53,598)
Additional paid-in capital	2,777,578	827,972	484,281
Stock warrants	935,241	128,385	--
Subscription Receivable	(15,000)	--	--
Accumulated deficit	(3,732,659)	(2,622,410)	(1,652,423)
<b>Total Stockholders' Equity (Deficit)</b>	<b>73,629</b>	<b>(1,571,470)</b>	<b>(1,103,694)</b>
<b>Total Liabilities And Stockholders' Equity (Deficit)</b>	<b>\$ 2,081,501</b>	<b>\$ 779,752</b>	<b>\$ 802,531</b>

## **RISK FACTORS**

**WE ARE SUBJECT TO VARIOUS RISKS THAT MAY MATERIALLY HARM OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS. YOU SHOULD CAREFULLY CONSIDER THE RISKS AND UNCERTAINTIES DESCRIBED BELOW AND THE OTHER INFORMATION IN THIS FILING BEFORE DECIDING TO PURCHASE OUR COMMON STOCK. IF ANY OF THESE RISKS OR UNCERTAINTIES ACTUALLY OCCUR, OUR BUSINESS, FINANCIAL CONDITION OR OPERATING RESULTS COULD BE MATERIALLY HARMED. IN THAT CASE, THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT.**

### **RISKS RELATED TO OUR BUSINESS**

#### **We Have Historically Lost Money And Losses May Continue In The Future**

We have a history of losses. We have incurred an operating loss since inception and had an accumulated deficit of \$3,732,659 as of June 30, 2004. For the six months ended June 30, 2004 and 2003, we incurred a net loss of \$1,110,249 and \$809,811, respectively. For the six months ended December 31, 2003 and for the year ended June 30, 2003, we incurred a net loss of \$969,987 and \$1,644,456, respectively. Consequently, we will in all likelihood, have to rely on external financing for all of our capital requirements. Future losses are likely to continue unless we successfully implement our business plan, which calls for us to secure both debt and equity financing while pursuing acquisitions and/or joint ventures with companies in the nutritional supplement industry. Our ability to continue as a going concern will be dependent upon our ability to draw down on our Standby Equity Distribution Agreement that we have established with Cornell Capital Partners. If we incur any problems in drawing down our Standby Equity Distribution Agreement, we may experience significant liquidity and cash flow problems. If we are not successful in reaching and maintaining profitable operations, we may not be able to attract sufficient capital to continue our operations. Our inability to obtain adequate financing will result in the need to curtail business operations and will likely result in a lower stock price.

#### **We May Need To Raise Additional Capital To Finance Operations**

We have relied on significant external financing to fund our operations. As of June 30, 2004, we had \$60,524 in cash and our total current assets were \$1,587,754. Our current liabilities were \$1,593,981 as of June 30, 2004. We will need to raise additional capital to fund our anticipated operating expenses and future expansion. Among other things, external financing may be required to cover our operating costs. Unless we obtain profitable operations, it is unlikely that we will be able to secure additional financing from external sources. As of August 24, 2004, we estimate that we will require \$1,800,000 to fund our anticipated operating expenses for the next twelve months. The sale of our common stock to raise capital may cause dilution to our existing shareholders. Our inability to obtain adequate financing will result in the need to curtail business operations. Any of these events would be materially harmful to our business and may result in a lower stock price. Our inability to obtain adequate financing will result in the need to curtail business operations and you could lose your entire investment. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

#### **Our Common Stock May Be Affected By Limited Trading Volume And May Fluctuate Significantly**

Our common stock is traded on the Over-the-Counter Bulletin Board. Prior to this offering, there has been a limited public market for our common stock and there can be no assurance that an active trading market for our common stock will develop. As a result, this could adversely affect our shareholders' ability to sell our common stock in short time periods, or possibly at all. Our common stock is thinly traded compared to larger, more widely known companies in the nutritional supplement industry. Thinly traded common stock can be more volatile than common stock traded in an active public market. The average daily trading volume of our common stock in July 2004 and

August 2004 was 233,606 and 218,834 shares, respectively. The high and low bid price of our common stock for the last two years has \$0.45 and \$0.05, respectively. Our common stock has experienced, and is likely to experience in the future, significant price and volume fluctuations, which could adversely affect the market price of our common stock without regard to our operating performance. In addition, we believe that factors such as quarterly fluctuations in our financial results and changes in the overall economy or the condition of the financial markets could cause the price of our common stock to fluctuate substantially.

**We May Not Be Able To Access Sufficient Funds When Needed Under The Standby Equity Distribution Agreement And The Price Of Our Common Stock Will Affect Our Ability To Draw Down On The Standby Equity Distribution Agreement**

Currently, we are dependent upon external financing to fund our operations. Our financing needs are expected to be provided, in large part, by our Standby Equity Distribution Agreement. The amount of each advance under the Standby Equity Distribution Agreement is subject to a maximum amount equal to \$250,000. Because of this maximum advance restriction, we may not be able to access sufficient funds when needed.

In addition, there is an inverse relationship between the price of our common stock and the number of shares of common stock which will be issued under the Standby Equity Distribution Agreement. Based on our recent stock price of \$0.19, we would have to issue to Cornell Capital partners 53,705,693 shares of our common stock in order to draw down the entire \$10 million available to us under the Standby Equity Distribution Agreement. We are registering 71,382,289 shares of our common stock under the Standby Equity Distribution Agreement in the accompanying registration statement. Our Articles of Incorporation currently authorize EYI Industries to issue 300,000,000 common shares and, as of August 24, 2004, we had 162,103,042 shares of common stock issued and outstanding. In the event we desire to draw down any available amounts remaining under the Standby Equity Distribution Agreement after we have issued the 71,382,289 shares being registered in the accompanying registration statement, we will have to file a new registration statement to cover such additional shares that we would issue for additional draw downs on the Standby Equity Distribution Agreement. Unless we obtain profitable operations, it is unlikely that we will be able to secure additional financing from external sources other than our Standby Equity Distribution Agreement. Therefore, if we are unable to draw down on our Standby Equity Distribution Agreement, we may be forced to curtail or cease our business operations.

**Our Common Stock Is Deemed To Be "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 "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 less than three years), or with average revenues of less than \$6.0 million 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 by reducing the number of potential investors. This may make it more difficult for investors in

our common stock to sell shares to third parties or to otherwise dispose of them. This could cause our stock price to decline.

**We May Be Unable To Manage Growth**

Successful implementation of our business strategy requires us to manage our growth. Growth could place an increasing strain on our management and financial resources. To manage growth effectively, we will need to:

- Hire in-house counsel to help us, with our securities filings and compliance. In addition, we intend to establish a full-time product department to deal with the labeling, FDA and FTC rules;
- Expand and maintain our computerized operating systems; and
- Attract and retain qualified personnel, as well as, develop, train and manage management-level and other employees.

If we fail to manage our growth effectively, our business, financial condition or operating results could be materially harmed, and our stock price may decline.

### **The Issuance Of Preferred Stock May Entrench Management Or Discourage A Change Of Control**

Directors. Accordingly, our Board of Directors is empowered, without stockholder approval, to issue preferred stock with dividends, liquidation, conversion, voting, or other rights that could adversely affect the voting power or other rights of the holders of our common stock. In the event of issuance, the preferred stock could be used, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of the company or, alternatively, granting the holders of preferred stock such rights as to entrench management. If the holders of our common stock desired to remove current management, it is possible that our Board of Directors could issue preferred stock and grant the holders thereof such rights and preferences so as to discourage or frustrate attempts by the common stockholders to remove current management. In doing so, management would be able to severely limit the rights of common stockholders to elect the Board of Directors.

### **Our Standby Equity Distribution Agreement Could Have An Adverse Effect On Our Ability To Make Acquisitions With Our Common Stock**

We cannot predict the actual number of shares of common stock that will be issued pursuant to our Standby Equity Distribution Agreement, in part, because the purchase price of the shares will fluctuate based on prevailing market conditions and we have not determined the total amount of advances we intend to draw. It may be necessary for our shareholders to approve an increase in our authorized common stock for us to register additional shares of common stock in order to have sufficient authorized shares available to make acquisitions using our common stock. As we issue shares of common stock pursuant to the Standby Equity Distribution Agreement, we may not have sufficient shares of our common stock available to successfully attract and consummate future acquisitions.

### **We Expect Intense Competition In Our Industry**

Many of our competitors have significantly greater name recognition and financial and other resources. If we are not able to compete effectively against our competitors, we will be forced to curtail or cease our business operations. Our main competitors are Usana Health Sciences, Reliv International and Mannatech Incorporated. Our market share in the nutrition supplement industry is very small at this time.

### **Future Acquisitions May Disrupt Our Business And Deplete Our Financial Resources**

Any future acquisitions we make could disrupt our business and seriously harm our financial condition. We intend to consider investments in complementary companies, products and technologies. While we have no current agreements to do so, we anticipate buying businesses, products and/or technologies in the future in order to fully implement our business strategy. In the event of any future acquisitions, we may:

- issue stock that would dilute our current stockholders' percentage ownership;
  
- incur debt;
  
- assume liabilities;



- incur amortization expenses related to goodwill and other intangible assets; or
  
- incur large and immediate write-offs.

The use of debt or leverage to finance our future acquisitions should allow us to make acquisitions with an amount of cash in excess of what may be currently available to us. If we use debt to leverage up our assets, we may not be able to meet our debt obligations if our internal projections are incorrect or if there is a market downturn. This may result in a default and the loss in foreclosure proceedings of the acquired business or the possible bankruptcy of our business.

Our operation of any acquired business will also involve numerous risks, including:

- integration of the operations of the acquired business and its technologies or products;
- unanticipated costs;
- diversion of management's attention from our core business;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have limited prior experience; and
- potential loss of key employees, particularly those of the purchased organizations.

#### **Investors Should Not Rely On An Investment In Our Stock For The Payment Of Cash Dividends**

We have not paid any cash dividends on our capital stock and we do not anticipate paying cash dividends in the future. Investors should not make an investment in our common stock if they require dividend income. Any return on an investment in our common stock will be as a result of any appreciation, if any, in our stock price.

#### **There Are No Conclusive Studies Regarding The Medical Benefits Of Nutritional Products**

Many of the ingredients in our current products, and we anticipate in our future products, will be vitamins, minerals, herbs and other substances for which there is not a long history of human consumption. Although we believe all of our products to be safe when taken as directed by us, there is little experience with human consumption of certain of these product ingredients in concentrated form. In addition, we are highly dependent upon consumers' perception of the safety and quality of our products as well as similar products distributed by other companies, we could be adversely affected in the event any of our products or any similar products distributed by other companies should prove or be asserted to be harmful to consumers. In addition, because of our dependence upon consumer perceptions, adverse publicity associated with illness or other adverse effects resulting from consumers' failure to consume our products as we suggest or other misuse or abuse of our products or any similar products distributed by other companies could have a material adverse effect on the results of our operations and financial condition.

#### **The Distribution Of Nutritional Products Could Result In Product Liability Claims**

We, like any other retailer and distributor 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 our products results in injury. Such claims may include, among others, that our products contain contaminants or include inadequate instructions as to use or inadequate warnings concerning side effects and interactions with other substances. We do not anticipate obtaining

contractual indemnification from parties supplying raw materials, manufacturing or marketing our products. In any event, any such indemnification if obtained will be limited by our terms and, as a practical matter, to the creditworthiness of the indemnifying party. In the event that we do not have adequate insurance or contractual indemnification, product liabilities relating to defective products could have a material adverse effect on our operations and financial conditions.

### **Potential Effect Of Adverse Publicity**

We believe the growth experienced by the nutritional product market is based in part on national media attention regarding scientific research suggesting potential health benefits from regular consumption of certain vitamins and other nutritional products. Such research has been described in major medical journals, magazines, newspapers and television programs. The scientific research to date is preliminary.

In the future, scientific research and/or publicity may not be favorable to the nutritional product market or any particular product, or may be inconsistent with earlier favorable research or publicity. Future reports of research that are perceived as less favorable or that question such earlier research could have a material adverse effect on our operations and financial condition. Because of our dependence upon consumer perceptions, adverse publicity associated with illness or other adverse effects resulting from the consumption of our products or any similar products distributed by other companies could

have a material adverse effect on our operations. Such adverse publicity could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products as directed. In addition, we may not be able to counter the effects of negative publicity concerning the efficacy of our products. Any such occurrence could have a negative effect on our operations.

### **Any Future Acquisitions Will Have To Develop New Products In Order To Keep Pace With Changing Consumer Demands**

The dietary supplement industry is highly competitive and characterized by changing consumer preferences and continuous introduction of new products. Our goal is to expand our portfolio of dietary supplement products through acquisition of existing companies and/or products serving niche segments of the industry. New products must be introduced in a timely and regular basis to maintain distributor and consumer interest and appeal to varying consumer preferences.

We believe that any future success of our company will depend, in part, on our ability to anticipate changes in consumer preferences and acquire, manage, develop and introduce, in a timely manner, new products that adequately address such changes. If we are unable to develop and introduce new products or if our new products are not successful, our sales may be adversely affected as customers seek competitive products. Any reduction in purchases or consumption of our existing products could have a material adverse effect on our business, operating results and financial condition.

### **We Are Dependent On Our IBAs For Our Product Marketing Efforts**

Our success and growth depend upon our ability to attract, retain and motivate our network of IBAs who market our products. IBAs are independent contractors who purchase products directly from us for resale and their own use. IBAs typically offer and sell our products on a part-time basis and may engage in other business activities, possibly including the sale of products offered by our competitors. Typically, we have non-exclusive arrangements with our IBAs which may be canceled on short notice and contain no minimum purchase requirements. While we encourage IBAs to focus on the purchase and sale of our products, they may give higher priority to other products, reducing their efforts devoted to marketing our products. Also, our ability to attract and retain IBAs could be negatively affected by adverse publicity relating to us, our products or our operations. In addition, as a result of our network marketing program, the down-line organizations headed by a relatively small number of key IBAs are responsible for a significant percentage of total sales.

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

### **Government Regulation By The Food And Drug Administration And Other Federal And State Entities Of Our Products Can Impact Our Ability To Market Products**

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.

We market products that fall under two types of Food and Drug Administration regulations: dietary supplements and personal care products. In general, a dietary supplement:

- is a product (other than tobacco) that is intended to supplement the diet that bears or contains one or more of the following dietary ingredients: a vitamin, a mineral, a herb or other botanical, an amino acid, a dietary substance for use by man to supplement the diet by increasing the total daily intake, or a concentrate, metabolite, constituent, extract, or combinations of these ingredients.
- is intended for ingestion in pill, capsule, tablet, or liquid form.
- is not represented for use as a conventional food or as the sole item of a meal or diet.

- is labeled as a "dietary supplement."

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

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

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

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

#### **Dietary Supplements**

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

- Essential Omega

**Personal Care Products**

- Definition ®(cream)

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

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

**If The Federal Trade Commission Or Certain States Object To Our Product Claims And Advertising We May Be Forced To Give Refunds, Pay Damages, Stop Marketing Certain Products Or Change Our Business Methods**

The Federal Trade Commission and certain states regulate advertising, product claims, and other consumer matters, including advertising of our products. In the past several years the Federal Trade Commission has instituted enforcement actions against several dietary supplement companies for false or deceptive advertising of certain products. We provide no assurance that:

- the Federal Trade Commission will not question our past or future advertising or other operations; or
- a state will not interpret product claims presumptively valid under federal law as illegal under that state's regulations.

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

- entries of consent decrees;
- refunds of amounts paid by the complaining IBA or consumer;
- refunds to an entire class of IBAs or customers;
- other damages; and
- changes in our method of doing business.

**A Complaint Based On The Activities Of One IBA, Whether Or Not Such Activities Were Authorized By Us, Could Result In An Order Affecting Some Or All IBAs In A Particular State, And An Order In One State Could Influence Courts Or Government Agencies In Other States**

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

If our network marketing program is shown to violate federal or state regulations, we may be unable to market our products. Our network marketing program is subject to a number of federal and state laws and regulations administered by the Federal Trade Commission and various state agencies. These laws and regulations include securities, franchise investment, business opportunity and criminal laws prohibiting the use of "pyramid" or "endless chain" types of selling organizations. These regulations are generally directed at ensuring that product sales are



ultimately made to consumers (as opposed to other IBAs) and that advancement within the network marketing program is based on sales of products, rather than investment in the company or other non-retail sales related criteria.

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

- the evolving interpretations of existing laws and regulations, and
  
- the enactment of new laws and regulations pertaining in general to network marketing organizations and product distribution.

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

### **The Legality Of Our Network Marketing Program Is Subject To Challenge By Our IBAs**

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

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

### **Proceedings Resulting From Claims Could Result In Significant Defense Costs, Settlement Payments Or Judgments, And Could Have A Material Adverse Effect On Us**

One of our competitors, Nutrition for Life International, Inc., a multi-level seller of personal care and nutritional supplements, announced in 1999 that it had settled class action litigation brought by distributors alleging fraud in connection with the operation of a pyramid scheme. Nutrition for Life International agreed to pay in excess of \$3 million to settle claims brought on behalf of its distributors and certain purchasers of its stock.

We believe that our marketing program is significantly different from the program allegedly promoted by Nutrition for Life International and that our marketing program is not in violation of anti-pyramid laws or regulations. However, there can be no assurance that claims similar to the claims brought against Nutrition for Life International and other multi-level marketing organizations will not be made against us, or that we would prevail in the event any such claims were made. Furthermore, even if we were successful in defending against any such claims, the costs of conducting such a defense, both in dollars spent and in management time, could be material and adversely affect our operating results and financial condition. In addition, the negative publicity of such a suit could adversely affect our sales and ability to attract and retain IBAs.

### **A Large Portion Of Our Sales Is Attributable To Calorad**

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

### **Our Products Are Subject To Obsolescence**

The introduction by us or our competitors of new dietary supplement or personal care products offering increased functionality or enhanced results may render our existing products obsolete and unmarketable. Therefore, our ability to successfully introduce new products into the market on a timely basis and achieve acceptable levels of sales has and will continue to be a significant factor in our ability to grow and remain competitive and profitable. In addition, the nature and mix of our products are important factors in attracting and maintaining our network of IBAs, which consequently affects demand for our products. Although we seek to introduce additional products, the success of new products is subject to a number of conditions, including customer acceptance. There can

be no assurance that:

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

In addition, no assurance can be given that new products currently experiencing strong popularity will maintain their sales over time. In the event we are unable to successfully increase the product mix and maintain competitive product

replacements or enhancements in a timely manner in response to the introduction of new products, competitive or otherwise, our sales and earnings will be materially and adversely affected.

### **We Have No Manufacturing Capabilities And We Are Dependent Upon Nutri-Diem, Inc. And Other Companies To Manufacture Our Products**

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

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

### **We Are Materially Dependent Upon Our Key Personnel And The Loss Of Such Key Personnel Could Result In Delays In The Implementation Of Our Business Plan Or Business Failure**

We depend upon the continued involvement of Jay Sargeant, our President, Chief Executive Officer and Director, and Dori O'Neill, our Executive Vice President, Chief Operations Officer, Secretary, Treasurer and Director. As we are a developing company, the further implementation of our business plan is dependent on the entrepreneurial skills and direction of management. Mr. Sargeant 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 Morinda and others. Our other products have similar well-funded and sophisticated competitors. Increased competitive activity from such companies could make it more

difficult for us to increase or keep market share, since such companies have greater financial and other resources available to them and possess far more extensive manufacturing, distribution and marketing capabilities.

**We May Be Subject To Products Liability Claims And May Not Have Adequate Insurance To Cover Such Claims. As With Other Retailers, Distributors And Manufacturers Of Products That Are Designed To Be Ingested, We Face An Inherent Risk Of Exposure To Product Liability Claims In The Event That The Use Of Our Products Results In Injury**

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

**We May Be Adversely Affected By Unfavorable Publicity Relating To Our Product Or Similar Products Manufactured By Our Competitors**

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

**Because We Have Few Proprietary Rights, Others Can Provide Products And Services Substantially Equivalent To Ours**

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

**RISKS RELATED TO THIS OFFERING**

**Future Sales By Our Stockholders May Adversely Affect Our Stock Price And Our Ability To Raise Funds In New Stock Offerings**

Sales of our common stock in the public market following this offering could lower the market price of our common stock. Sales may also make it more difficult for us to sell equity securities or equity-related securities in the future at a time and price that our management deems acceptable or at all. Some of our shareholders, including officers and directors are the holders of "restricted securities". These restricted securities may be resold in the public market only if registered or pursuant to an exemption from registration. Some of these shares may be resold under Rule 144. As of August 24, 2004, approximately 140,500,000 shares of our common stock are deemed restricted.

Upon completion of this offering, and assuming all shares registered in this offering are resold in the public market, there will be an additional 79,735,112 shares of common stock outstanding. All of these shares of common stock may be immediately resold in the public market upon effectiveness of the accompanying registration statement.

**Existing Shareholders Will Experience Significant Dilution From Our Sale Of Shares Under The Standby Equity Distribution Agreement**

The sale of shares pursuant to the Standby Equity Distribution Agreement will have a dilutive impact on our stockholders. At a recent stock price of \$0.19, we would have to issue 53,705,693 shares of common stock to draw down the entire \$10 million available to us under the Standby Equity Distribution Agreement. These shares would represent approximately 24.9% of our outstanding common stock upon issuance.

**The Selling Stockholders Intend To Sell Their Shares Of Common Stock In The Market, Which Sales May Cause Our Stock Price To Decline**

The selling stockholders intend to sell in the public market the shares of common stock being registered in this offering. That means that up to 83,646,847 shares of common stock, the number of shares being registered in this offering may be sold. Such sales may cause our stock price to decline.

**The Sale Of Material Amounts Of Common Stock Under The Accompanying Registration Statement Could Encourage Short Sales By Third Parties**

The significant downward pressure on our stock price caused by the sale of a significant number of shares under the Standby Equity Distribution Agreement could cause our stock price to decline, thus allowing short sellers of our stock an opportunity to take advantage of any decrease in the value of our stock. The presence of short sellers in our common stock may further depress the price of our common stock. Cornell Capital Partners can cover any short positions only with shares received from us under the Standby Equity Distribution Agreement.

**The Price You Pay In This Offering Will Fluctuate**

The price in this offering will fluctuate based on the prevailing market price of the common stock on the Over-the-Counter Bulletin Board. Accordingly, the price you pay in this offering may be higher or lower than the prices paid by other people participating in this offering.

**The Issuance Of Shares Of Common Stock Under This Offering Could Result In A Change Of Control**

We are registering 83,646,847 shares of common stock in this offering. These shares represent 27.9% of our authorized capital stock and would upon issuance represent approximately 34.2% of the then-issued and outstanding common stock and we anticipate all such shares will be sold in this offering. If all or a significant block of these shares are held by one or more shareholders working together, then such shareholder or shareholders would have enough shares to exert significant influence on EYI Industries.



## FORWARD-LOOKING STATEMENTS

### Risks Associated With Forward-Looking Statements

This Prospectus contains certain forward-looking statements regarding management's plans and objectives for future operations including plans and objectives relating to our planned marketing efforts and future economic performance. The forward-looking statements and associated risks set forth in this Prospectus include or relate to, among other things, (a) our projected sales and profitability, (b) our growth strategies, (c) anticipated trends in our industry, (d) our ability to obtain and retain sufficient capital for future operations, and (e) our anticipated needs for working capital. These statements may be found under "Management's Discussion and Analysis or Plan of Operations" and "Business," as well as in this Prospectus generally. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under "Risk Factors" and matters described in this Prospectus generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this Prospectus will in fact occur.

The forward-looking statements herein are based on current expectations that involve a number of risks and uncertainties. Such forward-looking statements are based on assumptions that we will be able to make acquisitions on a timely basis, that we will retain the acquiree's customers, that there will be no material adverse competitive or technological change in conditions in our business, that demand for our products will significantly increase, that our President and Chief Executive Officer will remain employed as such, that our forecasts accurately anticipate market demand, and that there will be no material adverse change in our operations or business or in governmental regulations affecting us or our manufacturers and/or suppliers. The foregoing assumptions are based on judgments with respect to, among other things, future economic, competitive and market conditions, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Accordingly, although we believe that the assumptions underlying the forward-looking statements are reasonable, any such assumption could prove to be inaccurate and therefore there can be no assurance that the results contemplated in forward-looking statements will be realized. In addition, as disclosed elsewhere in the "Risk Factors" section of this prospectus, there are a number of other risks inherent in our business and operations which could cause our operating results to vary markedly and adversely from prior results or the results contemplated by the forward-looking statements. Growth in absolute and relative amounts of cost of goods sold and selling, general and administrative expenses or the occurrence of extraordinary events could cause actual results to vary materially from the results contemplated by the forward-looking statements. Management decisions, including budgeting, are subjective in many respects and periodic revisions must be made to reflect actual conditions and business developments, the impact of which may cause us to alter marketing, capital investment and other expenditures, which may also materially adversely affect our results of operations. In light of significant uncertainties inherent in the forward-looking information included in this prospectus, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives or plans will be achieved.

Some of the information in this prospectus contains forward-looking statements that involve substantial risks and uncertainties. Any statement in this prospectus and in the documents incorporated by reference into this prospectus that is not a statement of an historical fact constitutes a "forward-looking statement". Further, when we use the words "may", "expect", "anticipate", "plan", "believe", "seek", "estimate", "internal", and similar words, we intend to identify statements and expressions that may be forward-looking statements. We believe it is important to communicate certain of our expectations to our investors. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions that could cause our future results to differ materially from those expressed in any forward-looking statements. Many factors are beyond our ability to control or predict. You are accordingly cautioned not to place undue reliance on such forward-looking statements. Important factors that may cause our actual results to differ from such forward-looking statements include, but are not limited to, the risk factors discussed below. Before you invest in our common stock, you should be aware that the occurrence of any of the events described under "Risk Factors" below or elsewhere in this prospectus could have a material adverse

effect on our business, financial condition and results of operation. In such a case, the trading price of our common stock could decline and you could lose all or part of your investment.

**SELLING STOCKHOLDERS**

The following table presents information regarding the selling stockholders. A description of each selling shareholder's relationship to EYI Industries and how each selling shareholder acquired the shares to be sold in this offering is detailed in the information immediately following this table.

<b>Selling Stockholder</b>	<b>Shares Beneficially Owned Before Offering</b>	<b>Percentage of Outstanding Shares Beneficially Owned Before Offering <sup>(1)</sup></b>	<b>Shares to be Acquired Under the Standby Equity Distribution Agreement</b>	<b>Percentage of Outstanding Shares to be Acquired Under the Standby Equity Distribution Agreement</b>	<b>Shares to be Sold in the Offering</b>	<b>Percentage of Outstanding Shares Beneficially Owned After Offering</b>
Cornell Capital Partners, L.P.	8,448,589 <sup>(2)</sup>	4.99%	71,382,289 <sup>(3)</sup>	30.57%	76,761,362	0%
Newbridge Securities Corporation	33,411	*	--	--	33,411	0%
Kent Chou	83,528	*	--	--	83,528	0%
Lloyd and Alberta Sargeant	4,781,774 <sup>(4)</sup>	2.95%	--	--	478,177	2.65%
Bayonne Holdings, Inc.	4,605,240	2.84%	--	--	460,524	2.56%
Winslow Drive Corp.	4,605,240	2.84%	--	--	460,524	2.56%
Dartmouth Productions	4,605,240	2.84%	--	--	460,524	2.56%
649645 BC Ltd.	4,605,240	2.84%	--	--	460,524	2.56%
Good Companion Broadcasting	767,540	*	--	--	76,754	*
Thomas Diehl	383,770	*	--	--	38,377	*
W. Donald Diehl	383,770	*	--	--	38,377	*
Michel Grise	268,639	*	--	--	26,864	*

Edgar Filing: EYI INDUSTRIES INC - Form SB-2

Louise Desmarais	268,639	*	--	--	26,864	*
Health Inc.	204,680	*	--	--	20,468	*
Patrick Grise	153,508	*	--	--	15,351	*
Herbert Keay	107,456	*	--	--	10,746	*
Doug Moore	102,359	*	--	--	10,236	*
Frank Shaw	69,815	*	--	--	6,982	*
Gregg Trigg	66,776	*	--	--	6,678	*
Daniel Boisvert	46,052	*	--	--	4,605	*
Deacon & Traill Innovations	34,539	*	--	--	3,454	*
Gerry Nehra	25,590	*	--	--	2,559	*
Steven Petrosino	15,351	*	--	--	1,535	*
Healthy Solutions	8,443	*	--	--	844	*
Ruby Miller-Lyman	7,675	*	--	--	768	*

---

\* Less than 1%

- (1) Applicable percentage of ownership is based on 162,066,682 shares of common stock outstanding as of August 24, 2004, together with securities exercisable or convertible into shares of common stock within 60 days of August 24, 2004, for each stockholder. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to securities exercisable or convertible into shares of common stock that are currently exercisable or exercisable within 60 days of August 24, 2004 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Note that affiliates are subject to Rule 144 and Insider trading regulations – percentage computation is for form purposes only.
- (2) The 8,448,589 shares of common stock represent: (a) 1,266,589 shares that represent the number of shares was issued as a commitment fee under the Standby Equity Distribution Agreement and (b) 7,182,000 shares that represent the approximate number of shares underlying the Secured

Convertible Debentures that may be converted by Cornell Capital Partners. Please note that the terms of the Secured Convertible Debentures held by Cornell Capital Partners provide that in no event shall Cornell Capital Partners be entitled to convert the Secured Convertible Debentures for a number of shares which, upon giving effect to the conversion, would cause the aggregate number of shares beneficially owned by Cornell Capital Partners and its affiliates to exceed 4.99% of the outstanding shares of EYI Industries following such conversion. Please note that for the debenture conversions, we are assuming a market price of \$0.1862 (i.e., 80% of \$0.19) per share for the Secured Convertible Debentures. Because the conversion price may fluctuate based on the market price of our stock, the actual number of shares to be issued upon conversion of the debentures may be higher or lower. We are registering 8,352,823 shares to cover such conversions for all convertible debenture holders. We are registering 71,382,289 shares of common stock to be resold by Cornell Capital Partners under the Standby Equity Distribution Agreement. In the event we desire to draw down any available amounts remaining under the Standby Equity Distribution Agreement after we have issued the 71,382,289 shares being registered in the accompanying registration statement, we will have to file a new registration statement to cover such additional shares that we would issue for additional draw downs under the Standby Equity Distribution Agreement.

- (3) Represents up to 71,382,289 shares, which are being registered for issuance under the Standby Equity Distribution Agreement.
- (4) Lloyd and Alberta Sargeant are the brother and sister-in-law to Mr. Jay Sargeant, our President, Chief Executive Officer and a Director.

The following information contains a description of each selling shareholder's relationship to EYI Industries and how each selling shareholder acquired the shares to be sold in this offering. None of the selling stockholders have held a position or office, or had any other material relationship, with EYI Industries, except as follows:

#### **Shares Acquired In Financing Transactions With EYI Industries**

***Cornell Capital Partners.*** Cornell Capital Partners is the investor under the Standby Equity Distribution Agreement and a holder of secured convertible debentures. All investment decisions of Cornell Capital Partners are made by its general partner, Yorkville Advisors, LLC. Mark Angelo, the managing member of Yorkville Advisors, makes the investment decisions on behalf of Yorkville Advisors. Cornell Capital Partners acquired all shares being registered in this offering in financing transactions with EYI Industries. These transactions are explained below:

***Standby Equity Distribution Agreement.*** On June 22, 2004, we entered into a Standby Equity Distribution Agreement with Cornell Capital Partners. Pursuant to the Standby Equity Distribution Agreement, we may, at our discretion, periodically issue and sell to Cornell Capital Partners shares of common stock for a total purchase price of \$10.0 million. The maximum amount of each advance is \$250,000. Cornell Capital Partners will purchase shares of our common stock for a 2% discount to the lowest volume weighted average price of our common stock for the 5 days immediately following the notice date. In addition, Cornell Capital Partners will retain 5% of each advance under the Standby Equity Distribution Agreement and received a one-time commitment fee of 1,266,589 shares of our common stock. Cornell Capital Partners intends to sell any shares purchased under the Standby Equity Distribution Agreement at the then prevailing market price.

***Secured Convertible Debentures.*** On June 22, 2004, we entered into a Securities Purchase Agreement whereby we sold secured convertible debentures in the principal amount of \$500,000. The Secured Convertible Debentures are convertible at the holder's option any time up to maturity at a conversion price equal to the lower of (i) 120% of the closing bid price of the common stock as of the date of issuance, or (ii) 80% of the average of the lowest daily volume weighted average price of our common stock for the 5 trading days immediately preceding the

conversion date. At maturity, the remaining unpaid principal and accrued interest under the debentures shall be, at our option, either paid or converted into shares of common stock at a conversion price equal to the lower of (i) 120% of the closing bid price of the common stock as of the date of issuance or (ii) 80% of the lowest closing bid price of the common stock for the lowest trading days of the 5 trading days immediately preceding the conversion date. The Secured Convertible Debenture is secured by all of EYI Industries' assets. The Secured Convertible Debentures accrue interest at a rate of 5% per year and have a term of 3 years. In the event the Secured Convertible Debentures are redeemed, then EYI Industries will issue to the holders a warrant to purchase 50,000 shares for every \$100,000 redeemed at an exercise price of 120% of the closing bid price as of June 22, 2004. The holders purchased the Secured Convertible Debentures from EYI Industries in a private placement on June 22, 2004. EYI Industries is registering in this offering 8,352,823 shares of common stock underlying the Secured Convertible Debentures. EYI Industries received \$250,000 from the issuance of the first Secured Convertible Debenture on June 22, 2004, and we will receive \$250,000 five business days following the filing of the accompanying registration statement.

There are certain risks related to sales by Cornell Capital Partners, including:

- The outstanding shares will be issued based on discount to the market rate. As a result, the lower the stock price, the greater number of shares that will be issued to Cornell Capital Partners. This could result in substantial dilution to the interests of other holders of common stock.
- To the extent Cornell Capital Partners sells its common stock, the common stock price may decrease due to the additional shares in the market. This could allow Cornell Capital Partners to sell greater amounts of common stock, the sales of which would further depress the stock price.

- The significant downward pressure on the price of the common stock as Cornell Capital Partners sells material amounts of common stocks could encourage short sales by Cornell Capital Partners or others. This could place further downward pressure on the price of the common stock.

***Newbridge Securities Corporation.*** Newbridge Securities Corporation is an unaffiliated registered broker-dealer that has been retained by us. For its services in connection with the Standby Equity Distribution Agreement, Newbridge Securities Corporation received a fee of \$10,000, which we paid by the issuance of 33,411 shares of common stock of EYI Industries. These shares are being registered in this offering. All investment decisions of Newbridge Securities Corporation are made by its President, Guy Amico.

#### **Other Selling Shareholders**

***649645 B.C. Ltd.*** received its shares pursuant to a Share Exchange Agreement, dated December 31, 2003, by and among Safe ID Corporation, EYI Industries and the shareholders of EYI Industries. All investment decisions of 649645 B.C Ltd. are made by Clifford and Clara O'Neill. Mr. and Mrs. O'Neill are the parents to Mr. Dori O'Neill, Secretary, Chief Operations Officer and a Director.

***Bayonne Holdings, Inc.*** received its shares pursuant to a Share Exchange Agreement, dated December 31, 2003, by and among Safe ID Corporation, EYI Industries and the shareholders of EYI Industries. All investment decisions of Bayonne Holdings are made by Evan Wryde.

***Winslow Drive Corp.*** received its shares pursuant to a Share Exchange Agreement, dated December 31, 2003, by and among Safe ID Corporation, EYI Industries and the shareholders of EYI Industries. All investment decisions of Winslow Drive Corp. are made by Gladys Sargeant. Mrs. Sargeant is the mother to Mr. Jay Sargeant, our President, Chief Executive Officer and a Director.

***Dartmouth Productions*** received its shares pursuant to a Share Exchange Agreement, dated December 31, 2003, by and among Safe ID Corporation, EYI Industries and the shareholders of EYI Industries. All investment decisions of Dartmouth Productions are made by Robert Katz. Mr. Katz is the son-in-law to Mr. Jay Sargeant, our President, Chief Executive Officer and a Director.

***Good Companion Broadcasting*** received its shares pursuant to a Share Exchange Agreement, dated December 31, 2003, by and among Safe ID Corporation, EYI Industries and the shareholders of EYI Industries. All investment decisions of Good Companion Broadcasting are made by Jerry Jacobs. Mr. Jacobs has a Distribution Agreement with our subsidiary.

***Health Inc.*** received its shares pursuant to a Share Exchange Agreement, dated December 31, 2003, by and among Safe ID Corporation, EYI Industries and the shareholders of EYI Industries. All investment decisions of Health Inc. are made by Jack and Barbara Herd. Mr. and Mrs. Herd are Independent Business Associates of our subsidiary.

***Deacon & Traill Innovations*** received its shares pursuant to a Share Exchange Agreement, dated December 31, 2003, by and among Safe ID Corporation, EYI Industries and the shareholders of EYI Industries. All investment decisions of Deacon & Traill Innovations are made by Tim and Cathy Deacon.

***Healthy Solutions*** received its shares pursuant to a Share Exchange Agreement, dated December 31, 2003, by and among Safe ID Corporation, EYI Industries and the shareholders of EYI Industries. All investment decisions of Healthy Solutions are made by Lorey Torrieri. Ms. Torrieri has a Distribution Agreement with our subsidiary.





**USE OF PROCEEDS**

This Prospectus relates to shares of our common stock that may be offered and sold from time to time by Cornell Capital Partners. There will be no proceeds to us from the sale of shares of common stock in this offering. However, we will receive the proceeds from the sale of shares of common stock to Cornell Capital Partners under the Standby Equity Distribution Agreement, which we intend to use for general working capital purposes, including, among other things, sales and marketing, product development and debt retirement. The purchase price of the shares purchased under the Standby Equity Distribution Agreement will be equal to 98% of the lowest volume weighted average price of our common stock on the Over-the-Counter Bulletin Board for the 5 consecutive trading days immediately following an advance date. Cornell Capital Partners will retain 5% of each advance pursuant to the terms of our Standby Equity Distribution Agreement

**Determination Of Offering Price**

The price at which the shares may actually be sold will be determined by the market price of the common stock as of the date of sale by Cornell Capital Partners.

For illustrative purposes, EYI Industries has set forth below its intended use of proceeds for the range of net proceeds indicated below to be received under the Standby Equity Distribution Agreement. The table assumes estimated offering expenses of \$85,000, plus the 5% retainage. In addition, pursuant to an agreement dated May 25, 2004 between EYI Industries and Source Capital Group, Inc., we are obligated to pay to Source Capital Group from any proceeds we receive from sources introduced to us by Source Capital Group, a cash amount equal to 4.5% of such proceeds received by us and warrants to purchase shares of our common stock equal to 6% of such proceeds received by us. Source Capital Group introduced us to Cornell Capital Group.

<b>GROSS PROCEEDS</b>	\$	<b>1,000,000</b>	\$	<b>5,000,000</b>	\$	<b>10,000,000</b>
<b>NET PROCEEDS</b>		<b>825,000</b>		<b>4,465,000</b>		<b>9,015,000</b>
<b>USE OF PROCEEDS:</b>						
<b>General and working capital</b>	\$	825,000	\$	1,600,000	\$	2,600,000
<b>Debt retirement</b>		--	\$	500,000	\$	1,250,000
<b>Equipment</b>						
Computer equipment		--	\$	250,000	\$	365,000
Phone equipment		--	\$	50,000	\$	50,000
<b>Sales and Marketing</b>						
Direct mail campaign		--	\$	300,000	\$	500,000
Affiliate program/ Eyewonder		--	\$	150,000	\$	750,000
Network Marketing Support		--	\$	600,000	\$	1,250,000
Spanish Network Marketing Support		--	\$	150,000	\$	250,000
TV & Radio promotion		--	\$	100,000	\$	350,000
"Win Back" campaign		--	\$	50,000	\$	150,000
Other					\$	250,000
<b>Product Development</b>		--	\$	500,000	\$	1,000,000
<b>Hispanic buyers club</b>		--	\$	215,000	\$	250,000
<b>Total</b>	\$	825,000	\$	4,465,000	\$	9,015,000

**DILUTION**

The net tangible book value of EYI Industries as of June 30, 2004 was \$55,988 or \$0.0003 per share of common stock. Net tangible book value per share is determined by dividing the tangible book value of EYI Industries (total tangible assets less total liabilities) by the number of outstanding shares of our common stock. Since this offering is being made solely by the selling stockholders and none of the proceeds will be paid to EYI Industries, our net tangible book value will be unaffected by this offering. Our net tangible book value, however, will be impacted by the common stock to be issued under the Standby Equity Distribution Agreement. The amount of dilution will depend on the offering price and number of shares to be issued under the Standby Equity Distribution Agreement. The following example shows the dilution to new investors at an offering price of \$0.1862 per share.

If we assume that EYI Industries had issued 53,705,693 shares of common stock under the Standby Equity Distribution Agreement at an assumed offering price of \$0.1862 per share (i.e., the maximum number of shares needed in order to raise a total of \$10 million available under the Standby Equity Distribution Agreement), less a retention fee of \$500,000 and offering expenses of \$85,000, our net tangible book value as of June 30, 2004 would have been \$9,470,988 or \$0.0439 per share. Such an offering would represent an immediate increase in net tangible book value to existing stockholders of \$0.0436 per share and an immediate dilution to new stockholders of \$0.1423 per share. The following table illustrates the per share dilution:

Assumed public offering price per share		\$0.1862
Net tangible book value per share before this offering	\$0.0003	
Increase attributable to new investors	\$0.0436	
Net tangible book value per share after this offering		\$0.439
Dilution per share to new stockholders		\$0.1423

The offering price of our common stock is based on the then-existing market price. In order to give prospective investors an idea of the dilution per share they may experience, we have prepared the following table showing the dilution per share at various assumed offering prices:

<b>ASSUMED OFFERING PRICE</b>	<b>NO. OF SHARES TO BE ISSUED <sup>(1)</sup></b>	<b>DILUTION PER SHARE TO NEW INVESTORS</b>
0.1862	53,705,693	\$0.1423
0.1397	71,581,961	\$0.0991
0.0931	107,411,386	\$0.0580
0.0466	214,592,275	\$0.0214

(1) EYI Industries is registering 71,382,289 shares of common stock pursuant to the Standby Equity Distribution Agreement.

## STANDBY EQUITY DISTRIBUTION AGREEMENT

Pursuant to the 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. We are registering 71,382,289 shares to be issued pursuant to the Standby Equity Distribution Agreement in the accompanying registration statement. If we request advances under the Standby Equity Distribution Agreement, Cornell Capital Partners will purchase shares of common stock of EYI Industries 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 Capital Partners intends to sell any shares purchased under the Standby Equity Distribution Agreement at the market price. This Prospectus relates to the shares of common stock to be issued to Cornell Capital Partners under the Standby Equity Distribution Agreement, as well as shares of our common stock issued to Cornell Capital Partners as a commitment fee under the Standby Equity Distribution Agreement and shares of our common stock that may be issued to Cornell Capital Partners pursuant to the conversion of a secured convertible debenture and the exercise of warrants. Cornell Capital Partners cannot transfer its interest in the Standby Equity Distribution Agreement to any other person.

We will not receive any advances pursuant to the Standby Equity Distribution Agreement until the accompanying registration statement is declared effective by the Securities and Exchange Commission. Based on a recent stock price of \$0.19, we would have to issue 53,705,693 shares of our common stock to draw down the entire \$10 million available to us under the Standby Equity Distribution Agreement. Our current Articles of Incorporation authorize us to issue 300,000,000 shares of common stock. We are registering 71,382,289 shares of our common stock in the accompanying registration statement to be issued pursuant to the Standby Equity Distribution Agreement. As a result, if we need to issue more than 71,382,289 shares to draw down the entire \$10 million available under the Standby Equity Distribution Agreement, we will have to file a new registration statement covering any additional shares.

**Advances.** Pursuant to the Standby Equity Distribution Agreement, we may periodically sell shares of common stock to Cornell Capital Partners to raise capital to fund our working capital needs. The periodic sale of shares is known as an advance. Cornell Capital Partners will retain 5% of each advance under the Standby Equity Distribution Agreement.

**Mechanics.** We may, at our discretion, request advances from Cornell Capital Partners by written notice, specifying the amount requested up to the maximum advance amount. A closing will be held 5 trading days after such written notice at which time we will deliver shares of common stock and Cornell Capital Partners will pay the advance amount. We have the ability to determine when and if we desire to draw an advance.

**Commitment Period.** We may request an advance at any time during the commitment period. The commitment period begins on the date the Securities and Exchange Commission first declares the accompanying registration statement effective. The commitment period expires on the earliest to occur of (i) the date on which Cornell Capital Partners has made advances totaling \$10 million or (ii) two years after the effective date of the accompanying registration statement.

**Maximum Advance Amount.** We may not request advances in excess of a total of \$10 million. The maximum amount of each advance is equal to \$250,000. In addition, in no event shall the number of shares issuable to Cornell Capital Partners cause it to own in excess of 9.9% of the then outstanding shares of common stock of EYI Industries.

**Number Of Shares To Be Issued.** We cannot predict the actual number of shares of common stock that will be issued pursuant to the Standby Equity Distribution Agreement, in part, because the purchase price of the shares will fluctuate based on prevailing market conditions and we have not determined the total amount of advances we intend to draw. Nonetheless, we can estimate the number of shares of common stock that will be issued using

certain assumptions. Based upon a recent price of our common stock of \$0.19, we would have to issue 53,705,693 shares of our common stock to draw down the entire \$10 million available to us under the Standby Equity Distribution Agreement. You should be aware that there is an inverse relationship between our stock price and the number of shares to be issued under the Standby Equity Distribution Agreement. That is, as our stock price declines, we would be required to issue a greater number of shares under the Standby Equity Distribution Agreement for a given advance. This inverse relationship is demonstrated by the following table, which shows the number of shares of our common stock to be issued to Cornell Capital Partners, under the Standby Equity Distribution Agreement, at various prices.

Market Price:	\$0.19	\$0.1425	\$0.095	\$0.0475
Purchase Price:	\$0.1862	\$0.1397	\$0.0931	\$0.0466
Number Of Shares Required To Draw Down the \$10 Million Under The Standby Equity Distribution Agreement:	53,705,693	71,581,961	107,411,386	214,592,275
Total Outstanding(2) :	215,772,375	233,648,643	269,478,068	376,658,957
Percent Outstanding(3) :	24.89%	30.64%	39.86%	56.97%

- (1) Our current Articles of Incorporation do not permit us to issue more than 300,000,000 shares of common stock.
- (2) Represents the total number of shares of common stock outstanding after the issuance of the shares to Cornell Capital Partners.
- (3) Represents the numbers shares of common stock to be issued to fully draw down on the \$10 million available under the Standby Equity Distribution Agreement as a percentage of the total number shares outstanding.

In addition to showing the inverse relationship, the above table also shows that the issuance of shares under the Standby Equity Distribution Agreement may result in a change of control. If all or a significant block of these shares are held by one or more shareholders working together, then such shareholder or shareholders would have enough shares to exert significant influence of EYI Industries.

**Registration Rights.** We granted to Cornell Capital Partners certain registration rights. The registration statement accompanying this Prospectus will register such shares upon effectiveness. The cost of this registration will be borne by us.

**Net Proceeds.** We cannot predict the total amount of proceeds to be raised in this transaction, in part, because we have not determined the total amount of the advances we intend to draw. However, we expect to incur expenses of approximately \$85,000 consisting primarily of professional fees incurred in connection with registering 83,646,847 shares in this offering. In addition, we are obligated to pay an underwriting discount to Cornell Capital Partners equal to 5% of each advance.

**Use Of Proceeds.** We intend to use the net proceeds received under the Standby Equity Distribution Agreement for general corporate purposes, as well as any future acquisitions. Please see "Use of Proceeds."

**Source Capital Group, Inc.** On May 25, 2004 we entered into an agreement with Source Capital Group, Inc. pursuant to which we are obligated to pay to Source Capital Group from any proceeds we receive from sources introduced to us by Source Capital Group a cash amount equal to 4.5% of such proceeds received by us and warrants to purchase shares of our common stock equal to 6% of such proceeds received by us.

## PLAN OF DISTRIBUTION

The selling stockholders have advised us that the sale or distribution of EYI Industries' common stock owned by the selling stockholders may be effected directly to purchasers by the selling stockholders or by pledgees, transferees or other successors in interest, as principals or through one or more underwriters, brokers, dealers or agents from time to time in one or more transactions (which may involve crosses or block transactions) (i) on the over-the-counter market or in any other market on which the price of EYI Industries' shares of common stock are quoted or (ii) in transactions otherwise than on the over-the-counter market or in any other market on which the price of EYI Industries' shares of common stock are quoted. Any transferees and pledges will be identified by a post-effective amendment to the accompanying registration statement. Any of such transactions may be effected at market prices prevailing at the time of sale, at prices related to such prevailing market prices, at varying prices determined at the time of sale or at negotiated or fixed prices, in each case as determined by a selling stockholder or by agreement between a selling stockholder and underwriters, brokers, dealers or agents, or purchasers. If the selling stockholders effect such transactions by selling their shares of EYI Industries' common stock to or through underwriters, brokers, dealers or agents, such underwriters, brokers, dealers or agents may receive compensation in the form of discounts, concessions or commissions from the selling stockholders or commissions from purchasers of common stock for whom they may act as agent (which discounts, concessions or commissions as to particular underwriters, brokers, dealers or agents may be in excess of those customary in the types of transactions involved). Any brokers, dealers or agents that participate in the distribution of the common stock may be deemed to be underwriters, and any profit on the sale of common stock by them and any discounts, concessions or commissions received by any such underwriters, brokers, dealers or agents may be deemed to be underwriting discounts and commissions under the Securities Act.

Cornell Capital Partners is an "underwriter" within the meaning of the Securities Act of 1933 in connection with the sale of common stock under the Standby Equity Distribution Agreement. Cornell Capital Partners will pay EYI Industries 98% of the lowest volume weighted average price of EYI Industries' common stock on the Over-the-Counter Bulletin Board or other principal trading market on which our common stock is traded for the 5 days immediately following the advance date. In addition, Cornell Capital Partners will retain 5% of the proceeds received by EYI Industries under the Standby Equity Distribution Agreement, plus a one-time commitment fee of 1,266,589 shares of common stock to be issued to Cornell Capital Partners. The 5% retainage and the commitment fee are underwriting discounts. In addition, EYI Industries engaged Newbridge Securities Corporation, a registered broker-dealer, to advise us in connection with the Standby Equity Distribution Agreement. For its services, Newbridge Securities Corporation received 33,411 shares of EYI Industries' common stock.

Cornell Capital Partners was formed in February 2000 as a Delaware limited partnership. Cornell Capital Partners is a domestic hedge fund in the business of investing in and financing public companies. Cornell Capital Partners does not intend to make a market in EYI Industries' stock or to otherwise engage in stabilizing or other transactions intended to help support the stock price. Prospective investors should take these factors into consideration before purchasing EYI Industries' common stock.

Under the securities laws of certain states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. The selling stockholders are advised to ensure that any underwriters, brokers, dealers or agents effecting transactions on behalf of the selling stockholders are registered to sell securities in all fifty states. In addition, in certain states the shares of common stock may not be sold unless the shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

Our common stock is deemed to be "penny stock" as that term is defined in Rule 3a51-1 promulgated under the Securities Exchange Act of 1934. Penny stocks are stock: (i) with a price of less than \$5.00 per share; (ii) that are not traded on a "recognized" national exchange; (iii) 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 (iv) 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 less than three years), or with average revenues of less than \$6.0 million 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 by reducing the number of potential investors. This may make it more difficult for investors in our common stock to sell shares to third parties or to otherwise dispose of them. This could cause our stock price to decline.

We will pay all the expenses incident to the registration, offering and sale of the shares of common stock to the public hereunder other than commissions, fees and discounts of underwriters, brokers, dealers and agents. We have agreed to indemnify Cornell Capital Partners and its controlling persons against certain liabilities, including liabilities under the Securities

Act. We estimate that the expenses of the offering to be borne by us will be approximately \$85,000, as well as retention of 5% of the gross proceeds received under the Standby Equity Distribution Agreement. In addition, EYI Industries engaged Newbridge Securities Corporation, a registered broker-dealer, to advise us in connection with the Standby Equity Distribution Agreement. For its services, Newbridge Securities Corporation received 33,411 shares of EYI Industries' common stock. The estimated offering expenses consist of: a SEC registration fee of \$1,500, printing expenses of \$5,000, accounting fees of \$20,000, legal fees of \$50,000 and miscellaneous expenses of \$8,500. We will not receive any proceeds from the sale of any of the shares of common stock by the selling stockholders. We will, however, receive proceeds from the sale of common stock under the Standby Equity Distribution Agreement.

The selling stockholders should be aware that the anti-manipulation provisions of Regulation M under the Exchange Act will apply to purchases and sales of shares of common stock by the selling stockholders, and that there are restrictions on market-making activities by persons engaged in the distribution of the shares. Under Registration M, the selling stockholders or their agents may not bid for, purchase, or attempt to induce any person to bid for or purchase, shares of common stock of EYI Industries while such selling stockholder is distributing shares covered by this Prospectus. Accordingly, except as noted below, the selling stockholders are not permitted to cover short sales by purchasing shares while the distribution is taking place. Cornell Capital Partners can cover any short positions only with shares received from EYI Industries under the Standby Equity Distribution Agreement. The selling stockholders are advised that if a particular offer of common stock is to be made on terms constituting a material change from the information set forth above with respect to the Plan of Distribution, then, to the extent required, a post-effective amendment to the accompanying registration statement must be filed with the Securities and Exchange Commission.



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

THE FOLLOWING INFORMATION SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS OF EYI AND THE NOTES THERETO APPEARING ELSEWHERE IN THIS FILING. STATEMENTS IN THIS MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION AND ELSEWHERE IN THIS PROSPECTUS THAT ARE NOT STATEMENTS OF HISTORICAL OR CURRENT FACT CONSTITUTE "FORWARD-LOOKING STATEMENTS."

**Overview**

We are in the business of selling, marketing, and distributing a product line consisting of approximately 34 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 11,000 we consider "active". An "active" IBA is one who purchased our products within the preceding 12 months. Over 1,600 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 June 30, 2004, our product line consisted of: (i) 23 dietary supplement products; and (ii) 11 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 Inc. Certain of our own products are manufactured for us by third party manufacturers pursuant to formulations developed for us. Our products are sold to our IBAs located in all 50 states, the District of Columbia and Canada.

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

**Recent Corporate Developments**

In July, 2004 we entered into a letter of intent with a private Canadian company for the purpose of acquiring all of its assets (the "Assets") including a worldwide marketing and distribution license of certain products manufactured by Kawahara Co. Ltd. Of Japan. The letter of intent is subject to the consummation of a definitive agreement between the parties by November 1, 2004, and the completion of our due diligence review of the company's Assets. The purchase price for the Assets will be mutually agreed upon, upon completion of our due diligence inspections.

Edgar Filing: EYI INDUSTRIES INC - Form SB-2

During the quarter ended June 30, 2004, we constructed and completed our first video-streaming ads and developed a Calorad customer training series of video-streams. We are prepared to share this video-streaming training model with our core Network channel. Additionally, both EyeWonder, Inc. and our internet web-marketing division have begun to test the ads in real time. In the next phase we intend to commence a sales initiative to capture sales, create brand awareness and support sales campaigns.

On May 4, 2004 we entered into a letter agreement with Eyewonder, Inc., 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 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 our second quarter of fiscal 2004, we entered into a joint venture agreement with World Wide Buyers' Club Inc. and Supra Group, Inc., dated as of May 28, 2004, for the purpose of jointly marketing and distributing our products through the existing Supra Group distribution system in the Latin American countries identified in the Joint Venture Agreement and the products of Supra Group using the existing EYI distribution system to residents in the U.S. We believe Supra Group has 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.

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 weight loss industry.
2. We intend to upgrade our computer systems over the next twelve months. These upgrades are intended to result in improved operational efficiency with the objective of reducing overhead costs.

**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.

#### **Accounts Receivable and Bad Debts**

EYI Industries estimates bad debts utilizing the allowance method, based upon past experience and current market conditions. At December 31, 2003 and June 30, 2004, EYI determined that no allowance was required, as most sales are transacted via credit card or electronic transfer and therefore are considered immediately collectible.

#### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, EYI Industries considers all highly liquid investments and short-term debt instruments with original maturities of three months or less to be cash equivalents.

#### **Restricted Cash**

Restricted cash includes deposits held in a reserve account in the amount of \$223,682 at December 31, 2003 and in the amount of \$210,314 at June 30, 2004. Such deposits are required by the bank as protection against unfunded charge backs and returns of credit card transactions.

#### **Compensated Absences**

Employees of EYI Industries are entitled to paid vacation, and sick days, depending on job classification, length of service, and other factors. EYI Industries accrued vacation pay in the amounts of \$38,000 and \$59,000 at December 31, 2003 and June 30, 2004, respectively.

#### **Cost of Sales**

Cost of sales consist of the purchase price of products sold, commissions, inbound shipping charges, net of freight recovered from customers, and packaging supplies.

#### **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.

At December 31, 2003 and June 30, 2004, EYI Industries has not engaged in any transactions that would be considered derivative instruments or hedging activities.



## **Earnings Per Share**

EYI Industries has adopted Statement of Financial Accounting Standards No. 128, which provides for calculation of "basic" and "diluted" earnings per share. Basic earnings per share includes no dilution and is computed by dividing net income (loss) available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity similar to fully diluted earnings per share. Basic and diluted loss per share were the same, at the reporting dates, as there were no common stock equivalents outstanding.

## **Fair Value of Financial Instruments**

EYI Industries' 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 December 31, 2003 and June 30, 2004.

## **Foreign Currency Translation and Other Comprehensive Income**

EYI Industries has adopted Financial Accounting Standard No. 52. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at rates of exchange in effect at the balance sheet date. Gains or losses are included in income for the year. Non-monetary assets, liabilities and items recorded in income arising from transactions denominated in foreign currencies are translated at rates of exchange in effect at the date of the transaction.

As EYI Industries' functional currency is the U.S. dollar, and all translation gains and losses are transactional, EYI Industries has no assets with value recorded in Canadian dollar and there is no recognition of other comprehensive income in the financial statements.

## **Foreign Currency Valuation and Risk Exposure**

While EYI Industries' functional currency is the U.S. dollar and the majority of its operations are in the United States, EYI Industries maintains its main operations office in Surrey, British Columbia. The assets and liabilities relating to the Canadian operations are exposed to exchange rate fluctuations. Assets and liabilities of EYI Industries' foreign operations are translated into U.S. dollars at the year-end exchange rates, and revenue and expenses are translated at the average exchange rate during the period. The net effect of exchange difference arising from currency translation is disclosed as a separate component of stockholders' equity. Realized gains and losses from foreign currency transactions are reflected in the results of operations.

## **Income Taxes**

EYI Industries accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". This statement requires the recognition of deferred tax liabilities and assets for the future consequences of events that have been recognized in EYI Industries consolidated financial statement or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of EYI Industries assets and liabilities results in a deferred tax asset, SFAS No. 109 requires an evaluation of the probability of being able to realize the future benefits indicated by such an asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

## **Inventories**

EYI Industries records inventories at the lower of cost or market on a first-in, first-out basis.





## **Long-lived Assets**

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This standard establishes a single accounting model for long-lived assets to be disposed of by sale, including discontinued operations, and requires that these long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or discontinued operations. Accordingly, EYI Industries reviews the carrying amount of long-lived assets for impairment where events or changes in circumstances indicate that the carrying amount may not be recoverable. The determination of any impairment would include a comparison of estimated future cash flows anticipated to be generated during the remaining life of the assets to the net carrying value of the assets. For the years ended December 31, 2003 and June 30, 2004, no impairments have been identified.

## **Property and Equipment**

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

## **Principles of Consolidation**

The consolidated financial statements include the accounts of EYI Industries and its wholly owned subsidiaries. All significant transactions and balances among the companies included in the consolidated financial statements have been eliminated.

## **Revenue Recognition**

EYI Industries recognizes revenue from product sales upon shipment to independent distributors, EYI Industries' customers. Revenue from administration fees is recognized upon collection from independent distributors.

## **Use of Estimates**

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

## **Segment Information**

EYI Industries adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," (hereafter "SFAS No. 131") which supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," replacing the "industry segment" approach with the "management" approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of EYI Industries reportable segments. SFAS No. 131 also requires disclosures about products and services, geographic areas and major customers. The adoption of SFAS No. 131 did not affect EYI Industries results of operations or financial position.

## **Recent Accounting Pronouncements**

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

In May 2003, the Financial Account Standards Board issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (hereinafter "SFAS No. 150"). SFAS No. 150 establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in statements of financial position. Previously, many of those instruments were classified as equity. SFAS

No. 150 is effective for financial instruments entered

into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We have determined that there was no impact on us from the adoption of the statement.

## Results Of Operations

### *Results Of Operations For The Three And Six Month Periods Ended June 30, 2004, As Compared To The Three And Six Month Periods Ended June 30, 2003.*

#### **Net Sales**

Net sales for six months ended June 30, 2004 was \$3,494,932, compared to net sales of \$6,974,710 during the comparative period in 2003. This represents a decline of \$3,479,778 or 49.9% . Net sales for the three months ended June 30, 2004 were \$1,965,737 compared to net sales of \$2,775,506 during the comparative period in 2003, representing a decrease of \$809,769 or 29.2% . The decrease in our net sales during the period ended June 30, 2004 was primarily the result of adjustments to our sales commission plan for our independent business associates ("IBAs") implemented during our first fiscal quarter in 2004 that were intended to cap the sales commission expenses.

For the six months ended June 30, 2004, the cost of goods sold was \$2,176,014 compared to \$4,761,924 for the comparative period in 2003. This represents a decline of \$2,585,910 or 54.3% . For the three months ended June 30, 2004, the cost of goods sold was \$1,343,919 compared to \$1,750,595 for the comparative period in 2003, representing a decrease of \$406,676 or 23.2% . The decline in cost of goods sold during the period ended June 30, 2004 is attributed to the implementation of our new compensation plan for our IBAs.

#### **Operating Expenses**

Our operating expenses decreased to \$2,474,327 during the six months ended June 30, 2004 compared to operating expenses of \$3,000,261 as at June 30, 2003. Our operating expenses during the three months ended June 30, 2004 increased to \$1,370,449 compared to operating expenses of \$1,225,136 during the three months ended June 30, 2003, representing an increase of \$145,313 or 11.9%. The increase of our operating expenses during the period ended June 30, 2004 was primarily due to the increased telecommunications and advertising expenditures. Our operating expenses consist principally of salaries and other personnel costs for our administrative staff, rent, legal and professional fees, consulting fees, sales and marketing expenses and warehouse expenses.

#### **Compensation Expense**

For the six months ended June 30, 2004, compensation expense was \$559,714 compared to \$567,458 for the six months ended June 30, 2003. The increase in our compensation expense during the period is attributed to the hiring of additional customer service staff.

#### **Net Loss**

Our net loss for the six months ended June 30, 2004 increased to \$1,110,249 from a net loss of \$809,811 for the comparative period in 2003. Our net loss for the three months ended June 30, 2004 increased to \$734,964 from a net loss of \$188,665 during the same period in 2003, representing an increase of \$546,299 or 289%. The increased net loss for the period ended June 30, 2004 is primarily attributed to the decline in gross profit and increases to advertising and telecommunication expenses.

### *Results of Operations For The Six Month Period Ended December 31, 2003 As Compared To The Twelve Month Period Ended June 30, 2003*

During the six-month period ended December 31, 2003 we had total revenues of \$4,313,579 and gross profits of \$1,467,779 compared to revenues of \$14,390,049 and gross profits of \$3,878,343 during the year ended June 30, 2003.



We incurred operating expenses in the amount of \$2,446,108 for the six months ended December 31, 2003, compared to \$5,523,775 for the year ended June 30, 2003. Our operating expenses consist principally of salaries and other personnel costs for our administrative staff, rent, legal and professional fees, consulting fees, sales and marketing expenses and warehouse expenses. As a percentage of revenues, operating expenses increased from 38.3% during the year ended June 30, 2003 to 56.7% during the six months ended December 31, 2003, primarily as a result of lower revenues.

We incurred professional fees in the amount of \$145,001 during the six months ended December 31, 2003, compared to \$354,356 for the year ended June 30, 2003. These professional fees were primarily attributable to our filing a registration statement under the Securities Act of 1933, the reorganization of our company and our becoming reporting company under the Securities Exchange Act of 1934.

### **Net Loss**

We incurred a loss before other items of \$969,987 for the six months ended December 31, 2003, compared to a loss before other items of \$1,644,456 for the year ended June 30, 2003. Our loss before other items was attributable entirely to operating expenses.

### **Liquidity And Capital Resources**

#### ***Cash And Working Capital***

We had cash of \$60,524 as at June 30, 2004, compared with cash of \$52,075 as at December 31, 2003. Our working capital deficit decreased to \$15,227 as at June 30, 2004, compared to a working capital deficit of \$1,265,833 as at December 31, 2003. The decrease in our working capital deficit was primarily attributed to our agreement with Eyewonder during the quarter, pursuant to which we prepaid \$770,000 towards the communications component of the agreement.

#### ***Liabilities***

The largest component of our working capital deficit are accounts payable and accrued liabilities in the amount of \$1,359,625 as at June 30, 2004 including amounts payable to related parties, compared to \$1,616,118 as at December 31, 2003.

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

Cash used in operating activities for the six months ended June 30, 2004 was \$475,306 compared to \$605,346 for the comparative period in 2003, representing a decrease of \$130,040 or 21%.

#### ***Cash Provided By Financing Activities***

We have continued to finance our business primarily through private placement sales of our common stock, exercises of stock options, short term loans, conversion of accrued liabilities into stock and through increases in our accrued liabilities and accounts payable. Cash provided by financing activities for the six months ended June 30, 2004 was \$470,387, compared to \$51,704 for the six months ended June 30, 2003.

Financing activities included the issuance of common stock for aggregate proceeds of \$470,387 during the six months ended June 30, 2004 in private placement and other financing transactions. The private placement transactions



included the issue of an aggregate of 566,833 shares of our common stock and associated share purchase warrants, representing an average price of \$0.25 per share. During the three months ended June 30, 2004 we issued 4,200,000 and 300,000 shares upon exercise of options with an exercise price of \$0.165 per share and \$0.20 per share, respectively. All shares issued pursuant to stock option exercises during our first quarter were registered on Form S-8 registration statements that we filed with the SEC. During the three months ended June 30, 2004 we made the following issuances: 50,000 restricted shares of our common stock at a price of \$0.22 per share in payment of consulting fees to a consultant; 1,266,589 restricted shares of our common stock to Cornell in payment of certain fees owed to Cornell under the terms of the Standby Equity Agreement; and 33,411 restricted shares of our common stock to Newbridge under the terms of the Placement Agent Agreement. During the three months ended June 30, 2004 we issued 5,476,190 restricted shares of our common stock to Eyewonder, Inc. in payment of fees. During the six months ended June 30, 2004 we issued 350,000 restricted shares of our common stock at a price of \$0.28 per share in payment of consulting fees to two consultants. On June 22, 2004, we issued a secured convertible debenture to Cornell Capital Partners in the principal amount of \$250,000. The secured convertible debentures are convertible at the holder's option any time up to maturity at a conversion price equal to the lower of (i) 120% of the closing bid price of the common stock as of the date of issuance, or (ii) 80% of the average of the lowest daily volume weighted average price of our common stock for the 5 trading days immediately preceding the conversion date. At maturity, the remaining unpaid principal and accrued interest under the debentures shall be, at our option, either paid or converted into shares of common stock at a conversion price equal to the lower of (i) 120% of the closing bid price of the common stock as of the date of issuance or (ii) 80% of the lowest closing bid price of the common stock for the lowest trading days of the 5 trading days immediately preceding the conversion date. The secured convertible debenture is secured by all of EYI Industries' assets. The secured convertible debentures accrues interest at a rate of 5% per year and has a term of 3 years. In the event the secured convertible debentures are redeemed, then EYI Industries will issue to Cornell Capital Partners a warrant to purchase 50,000 shares for every \$100,000 redeemed at an exercise price of 120% of the closing bid price as of June 22, 2004. Cornell Capital Partners purchased the secured convertible debentures from EYI Industries in a private placement on June 22, 2004. EYI Industries is registering in this offering 8,352,823 shares of common stock underlying the secured convertible debentures. EYI Industries received \$250,000 from the issuance of the first secured convertible debenture on June 22, 2004, and we will receive \$250,000 5 business days following the filing of the accompanying registration statement.

## **Financing Requirements**

We currently have minimal cash and working capital resources. We do not have adequate financial resources in order to enable us to continue our business operations without additional financing. Our current sources of working capital are sufficient to satisfy our anticipated working capital needs for approximately the next twenty-two weeks. As of August 24, 2004, we estimate that we will require \$1,800,000 to fund our operating expenses for the next twelve months. We may not be able to obtain additional working capital on acceptable terms, or at all. Accordingly, there is substantial doubt about our ability to continue as a going concern.

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

On June 22, 2004, we entered into a Standby Equity Distribution Agreement with Cornell Capital Partners. Pursuant to the 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 Capital partners will purchase shares of common stock of EYI Industries 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 Capital Partners will retain 5% of each advance under the Standby Equity Distribution Agreement. We may not request advances in excess of a total of \$10 million. The maximum of each advance is equal to \$250,000.



## DESCRIPTION OF BUSINESS

### Overview

We are in the business of selling, marketing, and distributing a product line consisting of approximately 34 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 independent distributors called "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 11,000 we consider "active." An "active" IBA is one who purchased our products within the preceding 12 months. Over 1,600 of these IBAs are "very active," and are on our automatic Auto-ship Program. See "Distribution and Marketing" below.

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 June 30, 2004, our product line consisted of: (i) 23 dietary supplement products; and (ii) 11 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, Inc. 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.

### Corporate Organization

We were incorporated under the laws of the State of Nevada on June 27, 1996, under the name of "Inter N. Corporation". In August of 1999, we changed the name of our company to "Safe ID Corporation" to reflect our new business focus at the time. From 1999 to 2002, our business plan was to create a product line of miniaturized microchip technology for insertion into inanimate objects or injection under the skin of animals. The microchips were also intended to provide positive identification of personal possessions such as cameras, bicycles, boats, cars, skis, paintings and clothes using unique codes with many available combinations. From 1999 to 2002, we were not able to raise the funds required for the micro-chip manufacturing and sales. As a result, we again changed the focus of our business, to oil and gas opportunities in 2002. From 1999 to 2003 we were a non-operating company with limited assets and were not able to raise sufficient funds to fund our business operations.

On December 31, 2003, we completed a share exchange (the "Exchange") with certain of the shareholders (the "EYI Shareholders") of Essentially Yours Industries, Inc. a Nevada Corporation ("EYI Nevada"), under a Share Exchange Agreement, dated November 4, 2003, (the "Exchange Agreement").

Edgar Filing: EYI INDUSTRIES INC - Form SB-2

Under the terms of the Exchange Agreement, we issued 117,991,875 shares of our common stock, representing approximately 79.9% of our then-outstanding common stock, to the EYI Shareholders in exchange for 15,372,733 shares of EYI Nevada common stock held by them. As a result, we underwent a change of control. Following completion of the Exchange the EYI shareholders controlled approximately 79.9% of our outstanding common stock, and we owned approximately 97.9% of EYI Nevada's issued and outstanding capital stock. As a result of the transaction we acquired the business of EYI Nevada and EYI Nevada became our majority-owned subsidiary.

Prior to the Exchange we were a non-operating public company with limited assets, the substance of the acquisition transaction with EYI Nevada was a capital transaction, rather than a business combination. The transaction is equivalent to the issuance of stock by EYI Nevada for our net assets, accompanied by a recapitalization. EYI Nevada is the successor corporation for accounting purposes. Accordingly, concurrent with the acquisition, we changed our name to "EYI Industries, Inc." and our officers and directors resigned, and nominees of the EYI Shareholders were elected as successors.

Our present business operations are conducted through our majority owned subsidiary EYI Nevada.

### **Subsidiaries And Affiliates**

We presently have six subsidiaries through which we conduct our operations, described as follows:

- ***Essentially Yours Industries, Inc.***, a Nevada Corporation (Majority Owned). EYI Nevada was organized on June 20, 2002 upon the completion of a merger between Burrard Capital Corp., a Nevada Corporation, and Essentially Yours Industries, Inc., a Nevada Corporation. The resulting merged entity continued under the name Essentially Yours Industries, Inc. EYI Nevada is our majority owned subsidiary which presently conducts our US business operations.
- ***642706 B.C. Ltd.***, located in Surrey, British Columbia (Wholly Owned), provides accounting, customer service, marketing and financial advisory services to us. 642706 B.C. Ltd. is our wholly owned subsidiary and has experience in marketing health and wellness products and experience in financial reporting for the United States and Canada.
- ***Halo Distribution LLC***, 7109 Global Drive, Louisville, Kentucky (Wholly Owned). Halo Distribution LLC is our wholly-owned subsidiary and is located in Louisville, Kentucky. Halo Distribution LLC has 40,000 square feet of warehouse, and includes a computerized pick and pack carousel system. Halo Distribution LLC serves as a fulfillment center for orders of our products, which provides us with full and complete control of this crucial part of the business of marketing, selling, and distributing those products to the IBAs and customers within the United States
- ***Essentially Yours Industries (Canada), Inc.*** (Wholly Owned), a Canadian Federal Corporation, was incorporated in September 2002 and is located in Surrey, British Columbia, and handles Canadian sales, Canadian sales taxes and Canadian reporting.
- ***RGM International, Inc.***, a Kentucky Corporation (Wholly Owned). RGM was incorporated in July 1997. RGM is a dormant investment company which holds 1% of Halo.
- ***World Wide Buyers' Club Inc.***, a Nevada Corporation (51% Owned). World Wide Buyers' Club Inc. was organized by a joint venture agreement effective May 6, 2004.

The following are our affiliates who are controlled by certain of our directors and majority shareholders, as described below:

- ***Nutri-Diem, Inc.***, 1421 Nobel Street, Sainte-Julie, Quebec, Canada. Nutri-Diem, Inc. is the manufacturing facility in Quebec that supplies 70% of our products. EYI Nevada negotiated with Nutri-Diem Inc. an exclusive Distribution and Licensing Agreement where by EYI Nevada will sell the products of Nutri-Diem Inc., such as Calorad and Agrisept-L, in the United States and Canada, and elsewhere in the world, subject to suitable arrangements. Michel Grise, former President of Nutri-Diem is one of our shareholders and a director of our subsidiary. Mr. Patrick Grise is the current President of Nutri-Diem Inc. and is a current shareholder of EYI.
- ***Essentially Yours Industries Corp.***, located at #201 8322 130th Street, Surrey, British Columbia V3W 8J9, provides services to EYI Nevada under a management agreement. These services consist of computer and management information systems and support. Payments due under the management agreement are at cost of

services plus a mark-up of approximately 5%. Essentially Yours Industries Corp. is controlled by certain of our shareholders including Jay Sargeant, our President and Chief Executive Office

**Key Operating Strengths**

We believe the source of our success is our support of and compensation program for our IBAs. We provide our IBAs with quality products and a competitive commission program, along with training and motivational events and services.

We believe that we have established a strong operating platform to support IBAs and facilitate future growth. The key components of this platform include the following:

- quality dietary supplement and personal care products that appeal to consumer demand for products that contribute to a healthy lifestyle;
- a compensation program that permits IBAs to earn income from profits on the resale of products and residual income from product purchases within a IBAs' down-line organization, as well as to participate in various non-cash awards, such as promotional programs for computers and other electronic equipment;
- a communications program that seeks to effectively and efficiently communicate with IBAs by utilizing new technologies and marketing techniques, as well as motivational events and training seminars;
- a continual expansion and improvement of our product line and marketing plan;
- an in-house marketing department; and
- employment of computer technology to provide timely and accurate product order processing, weekly commission payment processing and detailed IBA earnings statements.

### **Growth Strategy**

Our growth strategy is expansion of our product line and network of IBAs to increase sales. An increase in the number of distributors generally results in increased sales volume, and new products create enthusiasm among distributors, serve as a promotional tool in selling other products, and attracting new distributors.

We will also seek to increase sales through initiatives designed to enhance sales in our existing markets. Such initiatives will include increasing the number of our training and motivational events and teleconferences, hiring additional IBA support personnel and establishing more convenient consignment centers in targeted geographic markets.

Our growth strategy will require expanded IBA services and support, increased personnel, expanded operational and financial systems, the implementation of additional control procedures an expanded in-house marketing department and marketing program as well as an increased presence on the Internet. There is no assurance that we will be able to manage expanded operations effectively. Furthermore, failure to implement financial, information management, and other systems and to add control procedures could have a material adverse effect on our results of operations and financial condition.

### **Industry Overview**

**Network Marketing.** We believe that network marketing is one of the fastest growing channels of distribution for certain types of goods and services.

**Dietary Supplement Products.** We believe that the dietary supplement category is expanding because of heightened public awareness of reports about the positive effects of dietary supplements on health. Many individuals also use dietary supplements as a means of preventative health care. We believe several factors account for the steady growth of the dietary supplement category, including increased public awareness of the reported health benefits of dietary supplements and favorable demographic trends toward older Americans, who are more likely to consume dietary supplements.

Over the past several years, widely publicized reports and medical research findings have suggested a correlation between the consumption of dietary supplements and the reduced incidence of certain diseases. Thousands of such reports and research findings can be found on the International Bibliographic Information on Dietary Supplements (IBIDS) database produced by the Office of Dietary Supplements. In 1995, US Congress established the Office of Dietary Supplements, a division of the National Institutes of Health, to conduct and coordinate research into the role of dietary supplements in maintaining health and preventing disease. In addition, Congress has established the Office of Alternative Medicine within the National Institutes of Health to foster research into alternative medical

treatments, which may include natural remedies.

We believe that the aging of the United States population, together with a corresponding increased focus on preventative health care measures, will continue to result in increased demand for dietary supplement products. We believe these trends have helped fuel the growth of the dietary supplement category. To meet the increased demand for dietary

supplements, we and others have introduced a number of successful dietary supplement products during the past several years, including function specific products for weight loss, sports nutrition, menopause, energy, mental alertness and nutritional support.

***Personal Care Products.*** We believe that the personal care products market is a mature category that has been historically immune to swings in the economy. Manufacturers and distributors of personal care products must continually improve existing products, introduce new products and communicate product advantages to consumers.

## Products

Our product line consists of products in the categories of dietary supplements and personal care. We currently market approximately 34 products, exclusive of variations in product size, colors or similar variations of our basic product line. For the year ended December 31, 2003, Calorad, sales represented over 90% of our net sales and is expected to provide a large portion of our net sales in the foreseeable future.

### ***Dietary Supplements***

We offer 23 products in the dietary supplement category which contain herbs, vitamins, minerals and other natural ingredients. As stated above, the dietary supplement product Calorad is expected to provide a large portion of our net sales in the foreseeable future. The following products represent the majority of our product sales in the dietary supplement category:

- ***Calorad®***: Calorad is a liquid collagen-based dietary supplement. By providing both essential and non-essential amino acids, Calorad helps people lose weight, rebuild lean muscle tissue and restore a natural collagen base for self-repair. Calorad is available in three formulas: beef, fish, kosher and AM.
- ***Agrisept-L®***: Agrisept-L is a dietary supplement of citrus extracts used as a germicide. This all-natural, non-toxic liquid has a number of uses and can be used by any household for many bacterial issues.
- ***Oxy-Up*** : Oxy-Up is a liquid stabilized oxygen supplementation that will provide a supply of oxygen to the body on a daily basis.
- ***Triomin***: This liquid dietary supplement is one of the stronger liquid trace mineral supplements on the market. The oxygenated micronutrients and associated compounds are considered nourishing to the mind, body and spirit.
- ***Noni Plus*** : Noni fruit has been around for centuries, used by natives and ancient healers of many countries during the last several thousand years to treat almost every ailment and disease. We have combined nature's healing fruit with our own Dead Sea ionic minerals.
- ***Iso-Greens*** : We believe that Iso-Greens is the highest quality nutrient-rich green food available. The vegetables in Iso-Greens combine to supply 39 of the vitamins, minerals and amino acids found in food, including Vitamin B-12.
- ***Definition® (drops)***: Definition is a safe, non-invasive, all-natural herbal product designed to feed and nurture the female breast. The perfectly selected ingredients work in harmony, helping the body to maintain the nutritional needs of the mammary glands. It works with the body's natural capabilities to maintain the shape and tone of youth in the female breast. This product is available in both cream and drop formulations.
- ***Essential Omega*** : Essential Omega is a dietary supplement that provides a high quality supplementation of essential fatty acids, including CLA and GLA. This product may also be a support for weight loss and exercise programs.

### ***Personal Care Products***

We offer 11 personal care products. The following product represents the majority of our product sales in the personal care category:





- **Definition® (cream):** Definition is a safe, non-invasive, all-natural herbal product designed to feed and nurture the female breast. The perfectly selected ingredients work in harmony, helping the body to maintain the nutritional needs of the mammary glands. It works with the body's natural capabilities to maintain the shape and tone of youth in the female breast.

**Promotional Materials.** We will also derive revenues from the sale of various educational and promotional materials designed to aid our distributors in maintaining and building their businesses. Such materials include various sales aids, informational videotapes and cassette recordings, and product and marketing brochures. We produce many of our promotional material in-house and have the capability to create just-in-time marketing pieces as needed and constantly update our marketing material.

**New Product Identification.** We expand our product line through the development of new products. New product ideas are derived from a number of sources, including trade publications, scientific and health journals, consultants, distributors and other third parties. Prior to introducing new products, we investigate product formulation as it relates to regulatory compliance and other issues.

We rely upon Nutri-Diem, Inc. and other manufacturers, independent researchers, vendor research departments for product development services. When a new product concept is identified or when an existing product must be reformulated, the new product concept or reformulation project is generally submitted to Nutri-Diem, Inc. or other manufacturers for technical development and implementation. We continually review our existing products for potential enhancements to improve their effectiveness and marketability. While we consider our product formulations to be proprietary trade secrets, such formulations are not patented. Accordingly, there is no assurance that another company will not replicate one or more of our products.

**Product Procurement and Distribution; Insurance.** More than 70% of our product line in the dietary supplement category is manufactured by Nutri-Diem, Inc., a related party, utilizing theirs and our product formulations, as well as product formulations it licenses to us. A majority of our product line in the personal care category is also manufactured by Nutri-Diem, Inc.

We have contracts with Nutri-Diem, Inc. that grant to us the exclusive license and right to market, sale and distribute in Canada and the United States and a non-exclusive right to market on the Internet certain products owned by Michel Grise Consultant, Inc., a Quebec corporation, which is controlled by Michel Grise. To maintain the license and distribution rights granted by those contracts, we are obligated to purchase from Nutri-Diem, Inc. during that period commencing on June 1, 2003, and continuing through and including May 31, 2004, products totaling \$1,530,000. Those contracts also specify that for the period from June 1, 2004 to May 31, 2005, we are required to purchase from Nutri-Diem, Inc. products totaling \$3,825,000. Additionally, those contracts specify that for each year commencing on June 1, and ending on May 31 thereafter during the term of that agreement we are required to purchase products totaling \$5,355,000. The provisions of those contracts specify that Nutri-Diem, Inc. will offer us the right to sell, market and distribute in those territories any new product developed by Nutri-Diem, Inc.

If we are not in default at the expiration of the initial five year period, those contracts will be automatically renewed for another five year period. In the event we fail to make the minimum purchase during any year, Nutri-Diem, Inc. has the option, to require us to pay Nutri-Diem, Inc. an amount equal to 15% of the difference between the minimum amount for the respective year and the amount of actual purchases during that year. Additionally, in the event that we do not purchase the minimum amount during any particular year and do not pay Nutri-Diem, Inc. that 15%, Nutri-Diem, Inc. in its sole discretion, may terminate the respective contract or cause the license granted in the contract to be non-exclusive.

We have not entered into long-term supply agreements with the other manufacturers of our product line or the third-party providers of our consumer benefit services. In the event the relationship with any of our manufacturers becomes impaired, we will be required to obtain alternative manufacturing sources for our products. In

such event, there is no assurance that the manufacturing processes of our current manufacturers can be replicated by another manufacturer. We believe that we would be able to obtain alternative sources of our dietary supplement and personal care products. A significant delay or reduction in availability of products, however, could have a material adverse effect on our business, operating results and financial condition. We, as with other marketers of products that are intended to be ingested, face the inherent risk of exposure to product liability claims in the event that the use of our products results in injury. We maintain product liability insurance coverage with coverage limits of \$5,000,000 per occurrence and \$5,000,000 aggregate. We have agreed to maintain, at our sole cost and expense, standard Product Liability Advertiser Liability Insurance naming Nutri-Diem, Inc. and its officers, directors, agents and employees, as additional insured parties in the amount of \$1,000,000. We generally do not obtain contractual indemnification from other parties manufacturing our products. Although we have not experienced any successful product liability claims, such claims could result in material losses.

All of the items in our product line include a customer satisfaction guarantee. Within 30 days of purchase, any retail customer or IBA who is not satisfied with our product for any reason may return it or any unused portion to the distributor from whom it was purchased or to us for a full refund or credit toward the purchase of another product. IBAs may obtain replacements from us for products returned to them by retail customers, if they return such products on a timely basis. Furthermore, in most jurisdictions, we maintain a buy-back program. Under this program, we will repurchase products sold to a distributor (subject to a 10% restocking charge), provided that the distributor resigns as a distributor and returns the product in marketable condition within one year of original purchase, or longer where required by applicable state law or regulations. We believe this buy-back program addresses a number of the regulatory compliance issues pertaining to network marketing systems. We expect that the cost of products returned to us will be less than 1% of gross sales.

Our product line is distributed principally from our facilities in Louisville, Kentucky and Surrey, British Columbia or from our consignment centers. Products are warehoused in Louisville and Surrey and at selected consignment centers.

### **Distribution And Marketing**

We distribute our product line through our network marketing system where Independent Business Associates ("IBAs") purchase product at wholesale and through person-to-person contact, re-sell the product at retail prices. At June 30, 2004, we had approximately 11,000 "active" IBAs. To be considered "active" a distributor must have purchased our products within the preceding 12 months. Our IBAs are independent contractors who purchase products directly from us for resale to retail consumers. IBAs may elect to work on a full-time or part-time basis. We believe our network marketing system appeals to a broad cross-section of people, particularly those seeking to:

- supplement family income,
- start a home business, or
- pursue employment opportunities other than conventional, full-time employment.

A majority of our IBAs sell our products on a part-time basis.

We believe that our network marketing system is ideally suited to marketing our product line, because sales of our products are strengthened by ongoing personal contact between retail consumers and IBAs, many of whom use our products themselves. Sales are made through direct personal sales presentations, as well as presentations made to groups. These sales methods are designed to encourage individuals to purchase our products by informing potential customers and IBAs of our product line and results of personal use, and the potential financial benefits of becoming a distributor. Our marketing efforts are typically focused on middle-income families and individuals.

Our network marketing program encourages individuals to develop their own down-line network marketing organizations. Each new IBA is either linked to:

- the existing distributor that personally enrolled the new distributor into our network marketing program, or

- the existing distributor in the enrolling distributor's down-line as specified by the enrolling distributor at the time of enrollment.

Growth of a IBAs' down-line organization is dependent on the recruiting and enrollment of additional IBAs by the distributor or the IBAs within such distributor's down-line organization.

IBAs are encouraged to assume responsibility for training and motivation of other IBAs within their down-line organization and to conduct opportunity meetings as soon as they are appropriately trained. We strive to maintain a high level of motivation, morale, enthusiasm and integrity among the members of our network marketing organization. We believe this result is achieved through a combination of products, sales incentives, personal recognition of outstanding achievement, and quality promotional materials. Under our network marketing program, IBAs purchase sales aids from us and assume the costs of advertising and marketing our product line to their customers, as well as the direct cost of recruiting new IBAs. We believe that this form of sales organization is cost efficient, because our direct sales expenses are primarily limited to the payment of commissions, which are only incurred when products are sold.

We continually strive to improve our marketing strategies, including the compensation structure within our network marketing program and the variety and mix of products in our line, to attract and motivate IBAs. These efforts are designed to increase IBAs' monthly product sales and the recruiting of new IBAs.

## Edgar Filing: EYI INDUSTRIES INC - Form SB-2

Growth of our network marketing program is in part attributable to our incentive structure. IBAs earn profits by purchasing from our product line at wholesale prices and selling our product line to their customers at retail.

Additionally, we have a commission structure which provides for payment of commissions on product purchases made by other IBAs in a distributor's down-line organization. IBAs derive this commission income mainly through their Business Volume, as described below.

Business Volume is assigned to most of our products and is used to calculate sales commission. The Business Volume, in most instances, is 50% of the wholesale cost of a product. Commissions are based on the total Business Volume which has been generated both personally and through the IBAs' down-line activity. Therefore, as a down-line grows, it is possible for greater commissions to be earned.

In order for an IBA to earn commissions, there are four requirements:

- an IBA needs to create a Business Center by filling out our IBA Application and Agreement Form;
- an IBA needs to qualify his Business Center with a 100 Business Volume order of our products;
- an IBA needs to activate his Business Center by making two personal sales to two people who become qualified IBAs within one year of entry into the business; and
- to be eligible for commission, an IBA needs to pay a yearly administration fee of \$40.

To aid IBAs in easily meeting the monthly personal product purchase requirement to qualify for commission, we developed the "Auto-ship Program." Under the Auto-ship Program purchasing arrangement, each Business Center establishes a standing product order (20 Business Volume minimum) which is automatically charged to a credit card or deducted from a bank account each month prior to shipment of the ordered products. As of June 30, 2004 we had over 1,600 IBAs participating in the Auto-ship Program.

Under our Consignment Center Program, we designate IBAs to operate consignment centers. Each Consignment Center functions as our product distribution center, carrying our products. As of June 30, 2004, we had 11 consignment centers. Consignment centers provide hubs of local product and business training. They sell to customers at the point of purchase, teach sales and marketing techniques, distribute literature about our products and business while lowering our shipping and data-entry costs.

We maintain a computerized system for processing distributor orders and calculating commission payments, which enables us to remit such payments promptly to IBAs. We believe that prompt and accurate remittance of commissions is vital to recruiting and maintaining IBAs, as well as increasing their motivation and loyalty to us. We calculate the commissions weekly and pay commissions biweekly.

We are committed to providing the best possible support to our IBAs. IBAs in our network marketing program are provided training guides and are given the opportunity to participate in our training programs. We sponsor weekly conference calls for our IBAs, which include testimonials from successful IBAs and satisfied customers, as well as current product and promotional information. We produce weekly newsletters, which provide information on us, our products and network marketing system. The newsletter is designed to help recruit new IBAs,

by answering commonly asked questions and includes product information and business building information. The newsletter also provides a forum for us to give additional recognition to our IBAs for outstanding performance. In addition, we regularly sponsor training sessions for our IBAs across the United States and Canada. At these training sessions IBAs are provided the opportunity to learn more about our product line and selling techniques, so that they can build their businesses more rapidly.

We also maintain an Internet site, [www.eyicom.com](http://www.eyicom.com), which is an integral part of our product sales, customer retention, IBA recruitment and IBA development efforts. Approximately 8,800 of our IBAs are networked electronically, allowing them access to marketing information and sales leads. Further, we provide IBAs with a free, e-commerce Internet "home page" to aid their marketing efforts.

### **Government Regulation**

In the United States (as well as in any foreign markets in which we may sell our products), we are subject to laws, regulations, administrative determinations, court decisions and similar constraints (as applicable, at the federal, state and local levels) (hereinafter "regulations"). These regulations include and pertain to, among others:

- the formulation, manufacture, packaging, labeling, distribution, importation, sale and storage of our products,
- our product claims and advertising (including direct claims and advertising as well as claims and advertising by distributors, for which we may be held responsible), and
- our network marketing organization.

## Products

The formulation, manufacture, packaging, storing, labeling, advertising, distribution and sale of our products are subject to regulation by federal agencies, including the Food and Drug Administration, the Federal Trade Commission, the Consumer Product Safety Commission, the United States Department of Agriculture, the Environmental Protection Agency, and the United States Postal Service. Our activities are also regulated by various agencies of the states, localities and foreign countries in which our products are or may be manufactured, distributed and sold. The Food and Drug Administration, in particular, regulates the formulation, manufacture and labeling of dietary supplements, cosmetics and skin care products, including some of our products. Food and Drug Administration regulations require us and our suppliers to meet relevant regulatory good manufacturing practices for the preparation, packaging and storage of these products. Good manufacturing practices for dietary supplements have yet to be promulgated, but are expected to be proposed. The Dietary Supplement Health and Education Act of 1994 revised the provisions of the Federal Food, Drug and Cosmetic Act concerning the composition and labeling of dietary supplements, which we believe is generally favorable to the dietary supplement industry. The Dietary Supplement Health and Education Act created a new statutory class of "dietary supplements." This new class includes vitamins, minerals, herbs, amino acids and other dietary substances for human use to supplement the diet. 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; and is labeled as a "dietary supplement." However, the Dietary Supplement Health and Education Act grand fathered, with certain limitations, dietary ingredients that were on the market before October 15, 1994. A dietary supplement containing a new dietary ingredient and placed on the market on or after October 15, 1994 must have a history of use or other evidence establishing a basis for expected safety. Manufacturers of dietary supplements having a "structure-function" statement must have substantiation that the statement is truthful and not misleading.

The majority of our sales come from products that are classified as dietary supplements under the Federal Food, Drug and Cosmetic Act. The labeling requirements for dietary supplements have been set forth in final regulations with respect to labels affixed to containers beginning after March 23, 1999. These regulations include how to declare nutrient content information, and the proper detail and format required for the "supplemental facts" box. We revise our product labels in compliance with these regulations. The costs of product re-labeling were immaterial. Many states have also recently become active in the regulation of dietary supplement products. These states may require modification of labeling or formulation of certain of our products sold in these states.

In addition, on April 29, 1998, the US Food and Drug Administration published a proposed regulation offering guidance and providing limitations on permissible structure/function statements to be placed on labels and in brochures. Structure/function statements are claims of the benefit or effect of a product or an ingredient on the body's structure or function. The proposed regulation has not been finalized. We anticipate that some of the regulation as proposed will become final, but this new regulation will not significantly change the way that the Food and Drug

Administration currently interprets structure/function statements. Thus, we do not expect to make any substantial label revisions based on this proposed regulation regarding any of our structure/function product statements.

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. The Food & Drug Administration can regulate personal care products after they are introduced into the market and can review personal care products and their ingredients after they are sold to the public.

As a marketer of products that are ingested by consumers, we are subject to the risk that one or more of the ingredients in our products may become the subject of adverse regulatory action.



Most of our products sold in Canada have separate labels or combination labels to satisfy Canadian compliance organizations, such as the Food Inspection Agency and Health Canada. Health Canada is moving towards stricter compliance guidelines for dietary supplement products through its recently created Office of Natural Health Products. New compliance guidelines through the Office of Natural Health Products may affect the formulation, manufacture, packaging, storing, labeling, advertising, distribution and sale of our products in Canada. We plan to comply with all regulations promulgated by Office of Natural Health Products. Quebec has different label requirements than the rest of Canada, however, a portion of our Canadian labels or combination labels are compliant and sufficient for the sale in Quebec. Due to the small percentage of sales in Canada, we do not hold separate Canadian labels for our complete product line.

In foreign markets, prior to commencing operations and prior to making or permitting sales of our products, we may be required to obtain an approval, license or certification from the country's ministry of health or comparable agency. Prior to entering a new market in which a formal approval, license or certificate is required, we will be required to work extensively with local authorities to obtain the requisite approvals. The approval process generally will require us to present each product and product ingredient to appropriate regulators and, in some instances, arrange for testing of products by local technicians for ingredient analysis. Such approvals may be conditioned on reformulation of our products or may be unavailable with respect to certain products or ingredients.

### **Product Claims and Advertising**

The Federal Trade Commission and certain states regulate advertising, product claims, and other consumer matters, including advertising of our products. All advertising, promotional and solicitation materials used by distributors require our approval prior to use. The Federal Trade Commission has in the past several years instituted enforcement actions against several dietary supplement companies for false and misleading advertising of certain products. In addition, the Federal Trade Commission has increased its scrutiny of the use of testimonials. We have not been the target of Federal Trade Commission enforcement action. There is no assurance that:

- the Federal Trade Commission will not question our advertising or other operations in the future,
- a state will not interpret product claims presumptively valid under federal law as illegal under that state's regulations, or
- future Federal Trade Commission regulations or decisions will not restrict the permissible scope of such claims.

We are also subject to the risk of claims by distributors and their customers who 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 against us for alleged advertising or product claim violations or on a referral from distributors, consumers or others. Remedies sought in such actions may include consent decrees and the refund of amounts paid by the complaining distributor or consumer, refunds to an entire class of distributors or customers, or other damages, as well as changes in our method of doing business. A complaint based on the practice of one distributor, whether or not we authorized the practice, could result in an order affecting some or all distributors in a particular state. Also, an order in one state could influence courts or government agencies in other states considering similar matters. Proceedings resulting from these complaints may result in significant defense costs, settlement payments or judgments and could have a material adverse effect on us.

### **Compliance Efforts**

We attempt to remain in full compliance with all applicable laws and regulations governing the manufacture, labeling, sale, distribution, and advertising of our dietary supplements. We retain special legal counsel for advice on both US Food and Drug Administration and US Federal Trade Commission legal issues.

**Network Marketing System**

Our network marketing system is subject to a number of federal and state regulations administered by the Federal Trade Commission and various state agencies. These regulations are generally directed at ensuring that product sales are ultimately made to consumers (as opposed to other distributors) and that advancement within an organization be based on sales of the organization's products, rather than investment in the organization or other non-retail sales related criteria. For instance, in certain markets there are limits on the extent to which distributors may earn royalties on sales generated by distributors that were not directly sponsored by the distributor.

Our network marketing program and activities are subject to scrutiny by various state and federal governmental regulatory agencies, to ensure compliance with various types of laws and regulations. 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. The compensation structure of such selling organizations is very complex, and compliance with all of the applicable laws is uncertain in light of evolving interpretation of existing laws and the enactment of new laws and regulations pertaining to this type of product distribution. We have an ongoing compliance program with assistance from legal counsel experienced in the laws and regulations pertaining to network sales organizations. We are not aware of any legal actions pending or threatened by any governmental authority against us regarding the legality of our network marketing operations.

We currently have IBAs in all 50 states, the District of Columbia and Canada. We review the requirements of various states, as well as seek legal advice regarding the structure and operation of our selling organization to ensure that it complies with all of the applicable laws and regulations pertaining to network sales organizations. On the basis of these efforts and the experience of our management, we believe that we are in compliance with all applicable federal and state regulatory requirements. We have not obtained any no-action letters or advance rulings from any federal or state security regulator or other governmental agency concerning the legality of our operations, nor are we relying on a formal opinion of counsel to such effect. We, accordingly, are subject to the risk that, in one or more of our markets, our marketing system could be found to not comply with applicable laws and regulations. Our failure to comply with these regulations could have a material adverse effect on us in a particular market or in general.

We are subject to the risk of challenges to the legality of our network marketing organization, including claims by our distributors, both individually and as a class. Most likely these claims would be based on our network marketing program allegedly being 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.

We believe that our network marketing system is not classified as a pyramid scheme under the standards set forth in applicable law. In particular, in most jurisdictions, we maintain an inventory buy-back program to address the problem of "inventory loading." Pursuant to this program, we repurchase products sold to a distributor (subject to a 10% restocking charge) provided that:

- the distributor resigns as a distributor, and
- returns the product in marketable condition within one year of original purchase, or longer where required by applicable state law or regulations.

Our literature provided to distributors describes our buy-back program. However, as is the case with other network marketing companies, the commissions paid by us to our distributors are based on product purchases, including purchases of products that are personally consumed by the down-line distributors. Basing commissions on sales of personally consumed products may be considered an inventory loading purchase. Furthermore, distributors' commissions are based on the wholesale prices received by us on product purchases or, in some cases, based upon the particular product purchased, on prices less than the wholesale prices.

To further address the problem of "inventory loading," our IBAs must sell at least 70% of their inventory before they can reorder.

In the event of challenges to the legality of our network marketing organization by distributors, we would be required to:

- demonstrate that our network marketing policies are enforced, and
  
- demonstrate that the network marketing program and distributors' compensation thereunder serve as safeguards to deter inventory loading and encourage retail sales to the ultimate consumers.

Nutrition for Life International, Inc., one of our competitors and 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 agreed to pay in excess of \$3 million to settle claims brought on behalf of its distributors, and related securities fraud claims brought on behalf of certain purchasers of its stock. We believe that our marketing program is significantly different from the program allegedly promoted by Nutrition for Life and that our marketing program is not in violation of anti-pyramid laws or regulations. Two issues in the Nutrition for Life matter were a \$1,000 buy-in urged on new recruits, and the paying of commissions on product vouchers prior to the actual delivery of product. By design, our marketing program offers no incentive to anyone to make a large personal purchase nor do we use

product vouchers. However, there is no assurance that claims similar to the claims brought against Nutrition for Life and other multi-level marketing organizations will not be brought against us, or that we will 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 distributors.

## **Competition**

We are subject to significant competition in recruiting IBAs from other network marketing organizations, including those that market products in the dietary supplement and personal care categories, as well as other types of products. There are more than 300 companies worldwide that utilize network marketing techniques, many of which are substantially larger, offer a greater variety of products, and have available considerably greater financial resources than us. Our ability to remain competitive depends, in significant part, on our success in recruiting and retaining IBAs through an attractive commission plan and other incentives. We believe that our commission plan and incentive programs provide our IBAs with significant income potential. However, there can be no assurance that our programs for recruitment and retention of IBAs will continue to be successful.

In addition, the business of marketing products in the dietary supplement and personal care categories is highly competitive. This market segment includes numerous manufacturers, other network marketing companies, catalog companies, distributors, marketers, retailers and physicians that actively compete in the sale of such products. We also compete with other providers of such products, especially retail outlets, based upon convenience of purchase and immediate availability of the purchased product. The market is highly sensitive to the introduction of new products or weight management plans (including various prescription drugs) that may rapidly capture a significant share of the market. As a result, our ability to remain competitive depends, in part, upon the successful introduction and addition of new products to our line.

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 Morinda and others. Our other products have similar well funded and sophisticated competitors. Increased competitive activity from such companies could make it more difficult for us to increase or keep market share, since such companies have greater financial and other resources available to them and possess far more extensive manufacturing, distribution and marketing capabilities.

Our network marketing competitors include small, privately held companies, as well as larger, publicly held companies with greater financial resources and greater product and market diversification and distribution. Our competitors include Reliv International, Mannatech Incorporated and Usana Health Sciences.

## **Employees**

As at June 30, 2004 we had 39 employees and 3 executive officers. We consider our employee relations to be good. None of our employees is a member of a trade union and we have not experienced any business interruption as a result of any labor disputes.

## **Research And Development Expenditures**

We have not incurred any research or development expenditures during our last two fiscal years.

## **Intellectual Property**

We use several trademarks and trade names in connection with our products and operations, as further described below. We rely on common law trademark rights to protect our unregistered trademarks. Common law trademark rights do not provide with the same level of protection as afforded by a United States federal registration of a trademark. Also, common law trademark rights are limited to the geographic area in which the trademark is actually used. In addition, our product formulations are not protected by patents and are not patentable. Therefore, there can be no assurance that another company will not replicate one or more of our products.

Edgar Filing: EYI INDUSTRIES INC - Form SB-2

On June 30, 2002, the following Nutri-Diem trademarks were licensed to EYI Nevada pursuant to the Marketing and Distribution Agreement in place between Nutri-Diem and EYI Nevada. The owner of the trademarks set out in the table below is Michel Grise Consultants Inc., an associated company of Nutri-Diem and is controlled by Michel Grise, one of the directors of EYI Nevada:

<b>Product</b>	<b>Status</b>
Sea Krit®	Registered trademark
Melan Plus®	Registered trademark
Golden Treat®	Registered trademark
Definition®	Registered trademark
Emulgent®	Registered trademark
Agrisept-L®	Registered trademark
Citrex®	Registered trademark
Calorad®	Registered trademark
Bellaffina	Registered trademark
Parablast	Registered trademark
Ultra Form	Registered trademark
Citrio	Registered trademark
Vita-Balance	Registered trademark
Calo Plus	Registered trademark
Livocare	Registered trademark

On June 30, 2002, EYI Nevada acquired a license from Essentially Yours Industries Corp., an affiliated company, to use the below trademarks and formulas for a term of 50 years, renewable at the option of EYI Nevada on a yearly basis thereafter at the same yearly rate of \$1.00 per year, from year to year:

<b>Copyright/Trademark</b>	<b>Status of Application</b>
<b><i>Products</i></b>	
Essential Marine®	Registered trademark
Essential Omega	ITU, filed <sup>(1)</sup>
Iso greens	Registered trademark
Noni Plus	Registered trademark
Oxy Up	Registered trademark
Citri-plus®	Registered trademark
Essentially Yours®	Registered trademark
Essentially Yours Industries®	Registered trademark
EYI	Registered trademark

(1) ITU refers to Intent to Use Application for trademark.

## MANAGEMENT

### Directors And Executive Officers

Our directors, executive officers and key employees as of August 24, 2004 are as follows:

Name	Age	Position with the Company	Date First Elected or Appointed
Jay Sargeant	57	President, Chief Executive Officer and Director	Director, Chief Executive Officer and President since December 31, 2003
Dori O'Neill	45	Executive Vice-President, Treasurer, Chief Operations Officer, Secretary and Director	Executive Vice-President, Treasurer, Chief Operations Officer, Secretary and Director since December 31, 2003
Rajesh Raniga	38	Chief Financial Officer	Chief Financial Officer since January 1, 2004
Bruce Nants	53	Director	Director since March 1, 2004

Set forth below is a brief description of the background and business experience of each of our executive officers and directors for the past five years:

**Jay Sargeant.** Mr. Sargeant has been our President, Chief Executive Officer and a member of our Board of Directors since December 31, 2003. Mr. Sargeant graduated from Boston State College in 1979 with a Bachelors Degree in English Literature and Psychology. From 1995 until June 30, 2002, the date of our merger with Essentially Yours Industries, Inc., Mr. Sargeant was a director of Essentially Yours Industries, Corp. a Canadian Federal corporation and our Affiliate. Mr. Sargeant has resigned as a member of the Board of Directors of Essentially Yours Industries, Corp. to concentrate on our sales and marketing efforts. Mr. Sargeant was a founder of Essentially Yours Industries, Corp.

**Dori O'Neill.** Mr. O'Neill has been our Executive Vice President, Chief Operations Officer and a member of our Board of Directors since December 31, 2003. From 1997 to June 2002, Mr. O'Neill served as a Vice President and a member of the Board of Directors of Essentially Yours Industries Corp., a Canadian Federal corporation and our Affiliate, from December 2001 to June 2002. From 1994 through 1998 Mr. O'Neill was a self-employed consultant.

**Bruce Nants.** Mr. Nants has been a member of our Board of Directors since March 1, 2004. Mr. Nants is an attorney and has practiced since 1978 as a sole practitioner.

**Rajesh Raniga.** Mr. Raniga has been our Chief Financial Officer since January 1, 2004. Mr. Raniga is a Certified General Accountant. From 1989 to present Mr. Raniga has practiced with Delves Freer Anderson Raniga Caine as a general partner. In his private practice, prior to joining us, he specialized in auditing publicly-listed companies as well as acquisitions and mergers. He has also sat on the Board of Directors and served as the Chief Financial Officer of Uniserve Communications Services Inc., an internet service provider listed on the TSX Venture Exchange in Canada.

### Family Relationships

There is no family relationship between any of our officers or directors.

### Directors



Our Board of Directors consists of 3 (three) seats. Directors serve for a term of one year and stand for election at our annual meeting of stockholders. Pursuant to our Bylaws, a majority of directors may appoint a successor to fill any vacancy on the Board of Directors.

### **Term Of Office**

Our directors hold office until the next annual meeting of the shareholders and until their successors have been elected and qualified. Our officers hold office until their death, or until they shall resign or have been removed from office.

### **Committees Of The Board Of Directors**

We presently do not have an audit committee, compensation committee, nominating committee, an executive committee of our board of directors, or any other committees. However, our board of directors is considering establish various committees during the current fiscal year.

### **Audit Committee Financial Expert**

We have no financial expert. We believe the cost related to retaining a financial expert at this time is prohibitive.

### **Code Of Ethics**

We adopted a Code of Ethics applicable to our Chief Executive Officer, Chief Financial Officer, Corporate Controller and certain other finance executives, which is a "code of ethics" as defined by applicable rules of the SEC. Our Code of Ethics is attached to our Annual Report on Form 10-KSB filed with the SEC on April 14, 2004. If we make any amendments to our Code of Ethics other than technical, administrative, or other non-substantive amendments, or grant any waivers, including implicit waivers, from a provision of our Code of Ethics to our chief executive officer, chief financial officer, or certain other finance executives, we will disclose the nature of the amendment or waiver, its effective date and to whom it applies in a Current Report on Form 8-K filed with the SEC.

### **Compliance With Section 16(a) Of The Securities Exchange Act**

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who beneficially own more than ten percent of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than ten percent shareholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Based on our review of the copies of such forms received by us, we believe that during the fiscal year ended December 31, 2003 all such filing requirements applicable to our officers and directors were complied with.

**ITEM 10. EXECUTIVE COMPENSATION**

The following table shows all the cash compensation paid by EYI Industries, as well as certain other compensation paid or accrued, during the fiscal years ended December 31, 2003 and 2002 to EYI Industries' named executive officers. No restricted stock awards, long-term incentive plan payouts or other types of compensation, other than the compensation identified in the chart below, were paid to these executive officers during these fiscal years.

**SUMMARY COMPENSATION TABLE**

Name	Title	Year	Annual Compensation			Long Term Compensation			All Other Compensation
			Salary	Bonus	Other Annual Compensation	Restricted Stock Awarded	Options/* SARs (#)	LTIP payouts (\$)	
Jay Sargeant <sup>(1)</sup>	President,	2003	--	--	\$240,000 <sup>(2)</sup>	--	--	--	--
	CEO and	2002	--	--	\$40,000 <sup>(2)</sup>	--	--	--	--
	Director	2001	--	--	--	--	--	--	--
Dori O'Neill <sup>(3)</sup>	Chief	2003	--	--	\$180,000 <sup>(4)</sup>	--	--	--	--
	Operations Officer,	2002	--	--	\$30,000 <sup>(4)</sup>	--	--	--	--
	Secretary, Treasurer And Director	2001	--	--	--	--	--	--	--
Maurizio Forigo <sup>(5)</sup>	Former	2003	--	--	--	--	--	--	--
	President and	2002	--	--	--	--	--	--	--
	CEO	2001	--	--	--	--	--	--	--

- (1) Mr. Sargeant was appointed as our President and Chief Executive Officer on December 31, 2003.
- (2) We paid management consulting fees to Flaming Gorge, Inc., a private company controlled by Mr. Sargeant, our President, CEO and director, for his management of the operation of the company and our subsidiaries, reporting to the Board of Directors, and appointing managers to oversee certain departments. Mr. Sargeant is compensated at the rate of \$20,000 per month, on a month to month basis commencing November 5, 2002. The agreement is for an initial five-year term, which is automatically renewable upon expiry of the five-year period on a year-to-year basis.
- (3) Mr. O'Neill was appointed as our Executive Vice-President, Chief Operations Officer, Secretary, Treasurer on December 31, 2003.
- (4) We paid management consulting fees to O'Neill Enterprises Inc., a private company controlled by Mr. O'Neill, our Executive Vice-President, COO, Secretary, Treasurer and director, for the management of day to day activities and operations of the company and our subsidiaries. Mr. O'Neill is compensated at the rate of

Edgar Filing: EYI INDUSTRIES INC - Form SB-2

\$15,000 per month, on a month to month basis commencing November 5, 2002. The agreement is for an initial five-year term, which is automatically renewable upon expiry of the five-year period on a year-to-year basis. Effective January 1, 2004, we increased the consulting fees payable to O'Neill to \$20,000 per month, and extended the term by five years.

(5) Mr. Forigo resigned as our President and CEO on December 31, 2003.

The following table contains information regarding options granted during the year ended December 31, 2003 to EYI Industries' named executive officer.

**OPTION/SAR GRANTS TABLE**

Name	No. of Securities Underlying Options/SAR's Granted (#)	% Total Options/SAR's Granted to Employees in year ended December 31 2003 (%)	Exercise or Base Price (\$ per Share)	Expiration Date
Jay Sargeant President, Chief Executive Officer and Director	--	--	--	--
Dori O'Neill Secretary, Treasurer and Director	--	--	--	--
		48		

The following table contains information regarding options exercised in the year ended December 31, 2003, and the number of shares of common stock underlying options held as of December 31, 2003, by EYI Industries' named executive officer.

**AGGREGATED OPTIONS/SAR EXERCISES  
IN LAST FISCAL YEAR AND  
FISCAL YEAR END OPTIONS/SAR VALUES**

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying		Value of Unexercised In-the-Money Options/SAR's at FY-End (\$)	
			Unexercised Options/SAR's at FY-End (#)		Exercisable	Unexercisable
Jay Sargeant President, Chief Executive Officer and Director	--	--	--	--	--	--
Dori O'Neill Secretary, Treasurer and Director	--	--	--	--	--	--

**Stock Option Grants In The Past Fiscal Year**

We have not issued any grants of stock options in the past fiscal year to any officer or director.

**DESCRIPTION OF PROPERTY**

Our principal offices are located at 3960 Howard Hughes Parkway, Suite 500, Las Vegas, Nevada 89109. We rent these premises at a rate of \$400 per month. The office rental is on a month-to-month basis without a formal contract.

Other property lease commitments include our warehouse and distribution centers in Louisville, Kentucky and Surrey, British Columbia, as described in the table below.

Location	Square Feet	Monthly Lease Commitment
Louisville, Kentucky	40,000	\$11,719
Surrey, B.C.	21,730	\$10,000

**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.

***1. Oppression Action by Lavorato/Heyman***

In 2002, an oppression action was commenced in the Supreme Court of British Columbia by the plaintiffs Brian Lavorato, Geraldine Heyman and their respective holding companies, alleging that Essentially Yours Industries Corp., our affiliate, had improperly vended assets into Essentially Yours Industries, Inc., our wholly owned subsidiary, as part of a corporate restructuring alleged to be oppressive to the plaintiffs. As of April 4, 2003, the lawsuit has been settled and was subsequently dismissed by the plaintiffs by consent, with the exception of claims asserted by the plaintiffs against Thomas K. Viccars, a former in-house counsel of Essentially Yours Industries, Corp., who may potentially assert a third party claim against Essentially Yours Industries, Inc.

***2. 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.

To the best of our knowledge, we are not subject to any other active or pending legal proceedings or claims against us or our subsidiaries or any of our properties that will have a material effect on our business or results of operations. However, from time to time, we may become subject to claims and litigation generally associated with any business venture.

**PRINCIPAL SHAREHOLDERS****Security Ownership Of Certain Beneficial Owners And Management**

The following table sets forth information about the beneficial ownership of our common stock as of August 24, 2004 by (i) each person who we know is the beneficial owner of more than 5% of the outstanding shares of common stock (ii) each of our directors or those nominated to be directors, and executive officers, and (iii) all of our directors and executive officers as a group.

<b>Title of Class</b>	<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percentage of Common Stock<sup>(1)</sup></b>
Common Stock	Jay Sargeant 3324 Military Avenue Los Angeles, California	91,972,157 Direct and Indirect <sup>(2)</sup>	56.74%
Common Stock	Dori O'Neill 6520 Walker Avenue Burnaby, British Columbia Canada	10,434,884 Indirect and Direct <sup>(3)</sup>	6.44%
Common Stock	Bruce Nants 1999 West Colonial Drive Suite 211 Orlando, Florida	60,000 shares Direct	*
Common Stock	Rajesh Raniga 13357-56 Avenue Surrey, British Columbia Canada	250,000 shares Direct	*
Common Stock	Barry Larose 20080 84th Avenue Langley, British Columbia Canada	23,643,302 shares Indirect <sup>(4)</sup>	14.59%
Common Stock	Michel Grise 1617 Des Mesauges St. Bruno, Quebec Canada	17,971,748 Direct and Indirect <sup>(5)</sup>	11.09%
Common Stock	All Directors and Executive Officers as a Group (Four Persons)	102,717,041 Direct and Indirect	63.37%

\* Represents less than 1%

(1) Applicable percentage of ownership is based on 162,103,042 shares of common stock outstanding as of August 24, 2004 together with securities exercisable or convertible into shares of common stock within 60 days of August 24, 2004 for each stockholder. Beneficial ownership is determined in accordance with the rules of the

SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to securities exercisable or convertible into shares of common stock that are currently exercisable or exercisable within 60 days of August 24, 2004 are deemed to be beneficially owned by the person holding such options for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

- (2) The shares are held as follows: (i) 50,000 shares are held by Northern Colorado, Inc., a company controlled by Mr. Sargeant; (ii) 65,477,302 shares are held in the Jay Sargeant Trust, of which Mr. Sargeant is the Trustee. Mr. Sargeant has granted to the beneficiaries named in the trust the right to receive any cash distributions on the shares and has agreed to add to the trust corpus any stock dividends or shares granted in respect of, or in exchange for, the shares currently held in the trust. Mr. Sargeant retains the right to vote and dispose of the shares or amend the trust at any time; and (iii) 26,397,236 shares are held by Mr. Sargeant beneficially as a named beneficiary under the trust. Mr. Sargeant acquired 47,619 shares as an investor in the Rule 506 Private Placement. Mr. Sargeant purchased each share at a price of \$0.21 with a warrant at \$0.30.



- (3) Dori O'Neill is a named beneficiary of the Jay Sargeant Trust, and is therefore an indirect beneficial owner, with respect to 7,368,384 shares. Under the trust, Mr. O'Neill has the right to receive any cash distributions on the shares, but Jay Sargeant, as the settlor of the Trust, has retained the right to vote and dispose of the shares, and to revoke or amend the trust at any time.
- (4) Barry LaRose is a named beneficiary of the Jay Sargeant Trust, and is therefore an indirect beneficial owner, with respect to 23,643,302 shares. Under the Trust, Mr. LaRose has the right to receive any cash distributions on the shares, but Jay Sargeant, as the settlor of the Trust, has retained the right to vote and dispose of the shares and to revoke or amend the trust at any time.
- (5) Michel Grise is a named beneficiary of the Jay Sargeant Trust, and is therefore an indirect owner, with respect to 17,195,966 shares. Under the trust, Mr. Grise has the right to receive any cash distributions on the shares, but Jay Sargeant, as the settlor of the Trust, has retained the right to vote and dispose of the shares and to revoke or amend the trust at any time.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Except as described below, none of the following parties has, since our date of incorporation, had any material interest, direct or indirect, in any transaction with us or in any presently proposed transaction that has or will materially affect us, other than noted in this section:

- Any of our directors or officers;
- Any person proposed as a nominee for election as a director;
- Any person who beneficially owns, directly or indirectly, shares carrying more than 10% of the voting rights attached to our outstanding shares of common stock;
- Any of our promoters; and
- Any relative or spouse of any of the foregoing persons who has the same house as such person.

In November 2002, we entered into a consulting agreement with Flaming Gorge, Inc., a company controlled by Mr. Sargeant. Pursuant to this agreement, we agreed to pay Flaming Gorge, Inc. \$20,000 per month in consideration of management consulting services provided by Mr. Sargeant to us. The agreement automatically renews on a year-to-year basis at the end of the initial five (5) year term.

In November 2002, we entered into a consulting agreement with O'Neill Enterprises, Inc., a company controlled by Dori O'Neill, our Executive Vice President, Chief Operations Officer, Secretary, Treasurer and a member of our Board of Directors. Pursuant to the agreement, we agreed to pay \$15,000 per month in consideration of management consulting services provided by Mr. O'Neill to us. This agreement automatically renews on a year-to-year basis at the end of the initial five (5) year term. Effective January 1, 2004, we increased the consulting fee payable to Mr. O'Neill to \$20,000 per month with a five (5) year extension.

On May 27, 2002, pursuant to a Declaration of Trust and the revised First Amendment to Trust Agreement dated December 23, 2003, Jay Sargeant, our President, Chief Executive Officer and a member of our Board of Directors, agreed that in the event he becomes the owner of stock in EYI Nevada, and/or RGM International, Inc., a Nevada corporation, he will hold stock in trust for the below listed persons. As at August 24, 2003 Mr. Sargeant held 11,970,000 shares of common stock of EYI Nevada, allocated as follows:

<b>Name</b>	<b>Number of Shares</b>	<b>Number of Shares after Exchange</b>
Jay Sargeant	3,439,200	26,397,236
Barry LaRose	3,080,400	23,643,302
Michel Grise	2,240,400	17,195,966
Dori O'Neill	960,000	7,368,384
Thomas Viccars	960,000	7,368,384
Kristan Sargeant	480,000	3,684,192
Rena Davis	240,000	1,842,096

Edgar Filing: EYI INDUSTRIES INC - Form SB-2

Donna Keay	180,000	1,381,572
Janet Carpenter	180,000	1,381,572
Shauna Browne	120,000	921,048
Harnek Chandi	90,000	690,786

On December 31, 2003, we completed a share exchange with certain shareholders of EYI Nevada, pursuant to which we issued shares of our common stock to the EYI shareholders in exchange for the shares of EYI Nevada common stock held by them. Mr. Sargeant, our President, Chief Executive Officer and a member of our board of directors, held shares in EYI Nevada, and, based on the conversion ratio in the share exchange, Mr. Sargeant acquired 91,874,538 shares in the exchange. Prior to the exchange, Northern Colorado, Inc., a company in which Mr. Sargeant is a principal, already owned 50,000 shares, all of which Mr. Sargeant may be deemed to be the beneficial owner. Following the exchange, the total number of shares of which Mr. Sargeant has beneficial ownership is 91,924,538. Of these shares, 65,477,302 shares are held in the Jay Sargeant Trust. Mr. Sargeant is the trustee of the trust, and he has retained the right to vote and dispose of the shares and to revoke or amend the trust at any time. Mr. Sargeant is also a named beneficiary of the Trust with respect to 26,397,236 shares.

Edgar Filing: EYI INDUSTRIES INC - Form SB-2

Also, in connection with the Exchange we entered into the following transactions and agreements:

1. We offered to Michel Grise, an EYI Shareholder, 357,143 shares of common stock and 357,143 warrants to purchase additional shares of common stock at a price of \$0.20 per share in satisfaction of a loan from Mr. Grise to EYI Nevada in the aggregate principal amount of \$50,000, plus interest. Mr. Grise accepted our offer, and the shares and warrants were issued to Mr. Grise on December 31, 2003; and

2. We entered into a Registration Rights Agreement on December 31, 2003 with the EYI Shareholders, pursuant to which EYI Shareholders were granted the right to request us to register up to 10% of the shares of our common stock issued to each EYI Shareholder upon the filing of any registration statements by us (other than registration statements on Form S-8 or Form S-4 or other limited purpose).

During the year ended December 31, 2003, we purchased approximately 70% of our products for resale from Nutri-Diem Inc., a company owned in part by a director of our company.

**MARKET PRICE OF AND DIVIDENDS  
ON THE REGISTRANT'S COMMON EQUITY AND OTHER SHAREHOLDER MATTERS**

Our common stock has been listed on the NASD OTC Electronic Bulletin Board sponsored by the National Association of Securities Dealers, Inc. under the symbol "EYI" since January 30, 2004 following completion of the Exchange Agreement among our company, certain of our shareholders and Safe ID Corporation, see "Item 1. Description of Business" above. The shares of Safe ID Corporation traded on the OTC BB under the symbol "MYID" from January 17, 2001 to January 30, 2004. The following table contains the reported high and low bid prices for the common stock as reported on the OTC BB for the periods indicated.

The following table sets forth the high and low bid prices for the common stock as reported on the Over-the-Counter Bulletin Board for each quarter since June 21, 2001 for the periods indicated. Such information reflects inter dealer prices without retail mark-up, mark down or commissions and may not represent actual transactions.

The following table sets forth, for the period indicated, the bid price range of our common stock.

<b>YEAR 2001</b>	<b>High Bid</b>	<b>Low Bid</b>
Quarter Ended March 31, 2001	\$0.875	\$0.150
Quarter Ended June 30, 2001	\$0.875	\$0.125
Quarter Ended September 30, 2001	\$0.550	\$0.150
Quarter Ended December 31, 2001	\$0.500	\$0.250
<b>YEAR 2002</b>	<b>High Bid</b>	<b>Low Bid</b>
Quarter Ended March 31, 2002	\$0.510	\$0.250
Quarter Ended June 30, 2002	\$0.760	\$0.200
Quarter Ended September 30, 2002	\$0.450	\$0.160
Quarter Ended December 31, 2002	\$0.430	\$0.160
<b>YEAR 2003</b>	<b>High Bid</b>	<b>Low Bid</b>
Quarter Ended March 31, 2003	\$0.265	\$0.051
Quarter Ended June 30, 2003	\$0.110	\$0.032
Quarter Ended September 30, 2003	\$0.340	\$0.050
Quarter Ended December 31, 2003	\$0.335	\$0.190
<b>YEAR 2004</b>	<b>High Bid</b>	<b>Low Bid</b>
Quarter Ended March 31, 2004	\$0.300	\$0.190
Quarter Ended June 30, 2004	\$0.320	\$0.180

On August 24, 2004, the closing price of our common stock as reported on the Over-the-Counter Bulletin Board was \$0.19 per share. As of August 24, 2004, we had in excess of 114 holders of common stock and 162,066,682 shares of our common stock were issued and outstanding. Many of our shares are held in brokers' accounts, so we are unable to give an accurate statement of the number of shareholders.

#### **Dividends**

We have not paid any dividends on our common stock and do not anticipate paying any cash dividends in the foreseeable future. We intend to retain any earnings to finance the growth of the business. We cannot assure you that we will ever pay cash dividends. Whether we pay any cash dividends in the future will depend on the financial condition, results of operations and other factors that the Board of Directors will consider.

#### **Recent Sales Of Unregistered Securities**

On January 1, 2004 the Company entered into an agreement with a consultant to provide services in exchange for 250,000 common shares at \$0.28. During the quarter ended March 31, 2004 we issued 100,000 shares of our common stock at

a price of \$0.28 per share to a consultant in respect of fees owed for certain consulting services provided to us by the consultant. All securities issued were endorsed with a restrictive legend confirming that the securities cannot be resold without registration under the Securities Act or an applicable exemption from the registration requirements of the Securities Act. The issuance was completed pursuant to Section 4(2) of the Securities Act on the basis that the consultant was a sophisticated investor.

During the quarter ended June 30, 2004 we issued 50,000 shares of our common stock at a price of \$0.22 per share to a consultant in respect of fees owed for certain consulting services provided to us by the consultant. All securities issued were endorsed with a restrictive legend confirming that the securities cannot be resold without registration under the Securities Act or an applicable exemption from the registration requirements of the Securities Act. The issuance was completed pursuant to Section 4(2) of the Securities Act on the basis that the consultant was a sophisticated investor.

During the quarter ended June 30, 2004, we issued 5,476,190 units at a price of \$0.21 per unit to Eyewonder in respect of certain amounts owed to Eyewonder under our Letter Agreement with Eyewonder. Each unit was comprised of one share of our common stock and one share purchase warrant entitling Eyewonder to purchase one share of our common stock at an exercise price of \$0.30 per share for a period expiring May 4, 2009. The issuance was completed pursuant to Section 4(2) of the Securities Act on the basis that Eyewonder was a sophisticated investor.

As of June 7, 2004, we completed the sale of 136,548 units at a price of \$0.21 per unit for proceeds of \$28,675 to seven investors. Each unit was comprised of one share of our common stock and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one share of our common stock at a price of \$0.30 per share for the three year period following closing. A total of 136,548 shares and 136,548 share purchase warrants were issued. The purchasers consisted of seven "accredited investors", as defined by Rule 501 of Regulation D of the Securities Act. The sales were completed pursuant to Rule 506 of Regulation D of the Securities Act. All securities issued were endorsed with a restrictive legend confirming that the securities cannot be resold without registration under the Securities Act or an applicable exemption from the registration requirements of the Securities Act.

On June 22, 2004 we issued 1,266,589 and 33,411 restricted shares of our common stock to Cornell Capital Partners and Newbridge Securities Corporation, respectively in payment of certain fees owed to Cornell Capital Partners and Newbridge under the terms of the Standby Equity Distribution Agreement and a Placement Agent Agreement. All issuances were completed pursuant to Rule 506 of Regulation D of the Securities Act on the basis that Newbridge and Cornell are "accredited investors", as defined by Rule 501 of Regulation D of the Securities Act. All securities issued were endorsed with a restrictive legend confirming that the securities cannot be resold without registration under the Securities Act or an applicable exemption from the registration requirements of the Securities Act.

On June 22, 2004, we issued a 5% Secured Convertible Debenture to Cornell Capital Partners in the principal amount of \$250,000. Cornell Capital Partners purchased the Secured Debenture from us in a private placement on June 22, 2004. The sale of the Secured Debenture was completed pursuant to Rule 506 of Regulation D of the Securities Act. All securities to be issued pursuant to the Secured Debenture will be endorsed with a restrictive legend confirming that the securities cannot be resold without registration under the Securities Act or an applicable exemption from the registration requirements of the Securities Act.

<b>Year</b>	<b>Name of Holder</b>	<b>Date</b>	<b>Share of Common Stock Sold</b>	<b>Reason Shares Issued</b>
<b>2004</b>	Private Placement at \$0.14 per unit; warrants at \$0.20	January 2004	857,143	Private Placement raise capital
	Rajesh Raniga Inc.	January 2004	250,000	Consulting Fees valued at \$0.28 per share
	Private Placement at \$0.21 per unit; warrants at \$0.30	March 2004	609,312	Private Placement raise capital
	Equis Capital Corp.	March 2004	100,000	Consulting Fees
	Eyewonder Inc.	May 2004	5,476,190	Service Fees
	Michael Hatrak	May 2004	50,000	Consulting Fees
	Private Placement at \$0.21 per unit; warrants at \$0.30	June 2004	566,833	Private Placement to raise capital
	Cornell Capital Partners, LP	June 2004	1,266,589	Commitment fee pursuant to Standby Equity Distribution Agreement
	Newbridge Securities Corporation	June 2004	33,411	Placement Agent fee in connection with Standby Equity Distribution Agreement
<b>2003*</b>	PNG Trading Co. Ltd.	February 2003	250,000	Issued in lieu of funds received
	Hightech International	March 2003	2,120,000	Settlement of Debt
	Private Placement at \$0.14 per unit; warrants at \$0.20	September 2003	3,573,924	Private Placement to raise capital
	Michel Grise	December 2003	357,143	Private Placement to raise capital
<b>2002*</b>	Turret Holdings, Inc.	August 2002	333,333	Issued to settle debt of



Edgar Filing: EYI INDUSTRIES INC - Form SB-2

				\$40,000.00
	Microtech Industries	August 2002	916,667	Funds received by Company and shares issued at \$0.18
<b>2001*</b>	-	-	-	
		57		

With respect to the sale of unregistered securities referenced above, all transactions were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 (the "1933 Act"), and Regulation D promulgated under the 1933 Act. In each instance, the purchaser had access to sufficient information regarding EYI so as to make an informed investment decision. More specifically, EYI had a reasonable basis to believe that each purchaser was an "accredited investor" as defined in Regulation D of the 1933 Act and otherwise had the requisite sophistication to make an investment in EYI's common stock.

---

\* Current management of EYI Industries has limited information with respect to the issuances of unregistered securities prior to the Share Exchange transaction consummated on December 31, 2003 between our company and certain shareholders of Essentially Yours Industries, Inc.

## DESCRIPTION OF SECURITIES

### Common Stock

Our Articles of Incorporation authorize the issuance of 300,000,000 shares of common stock, \$0.001 par value per share. As of August 24, 2004, 162,103,042 shares of common stock were issued and outstanding. The following description is a summary of the capital stock of EYI Industries and contains the material terms of the capital stock. Additional information can be found in EYI Industries' Articles of Incorporation and Bylaws.

Each holder of our common stock is entitled to one vote per share of common stock standing in such holder's name on our records on each matter submitted to a vote of our stockholders, except as otherwise required by law. Holders of our common stock do not have cumulative voting rights so that the holders of more than 50% of the combined shares of our common stock voting for the election of directors may elect all of the directors if they choose to do so and, in that event, the holders of the remaining shares of our common stock will not be able to elect any members to our board of directors. Holders of our common stock are entitled to equal dividends and distributions, per share, when, as and if declared by our board of directors from funds legally available. Holders of our common stock do not have preemptive rights to subscribe for any of our securities nor are any shares of our common stock redeemable or convertible into any of our other securities. If we liquidate, dissolve or wind up our business or affairs, our assets will be divided up pro-rata on a share-for-share basis among the holders of our common stock after creditors and preferred shareholders, if any, are paid.

### Preferred Stock

Our Articles of Incorporation authorize the issuance of 10,000,000 shares of preferred stock, \$0.001 par value per share, the designation and rights of which are to be determined by our Board of Directors. As of August 24, 2004, no shares of preferred stock were issued and outstanding.

Our Board of Directors has authority, without action by the shareholders, to issue all or any portion of the authorized but unissued preferred stock in one or more series and to determine the voting rights, preferences as to dividends and liquidation, conversion rights, and other rights of such series. We consider it desirable to have preferred stock available to provide increased flexibility in structuring possible future acquisitions and financing and in meeting corporate needs which may arise. If opportunities arise that would make desirable the issuance of preferred stock through either public offering or private placements, the provisions for preferred stock in our Articles of Incorporation would avoid the possible delay and expense of a shareholder's meeting, except as may be required by law or regulatory authorities. Issuance of the preferred stock could result, however, in a series of securities outstanding that will have certain preferences with respect to dividends and liquidation over the common stock which would result in dilution of the income per share and net book value of the common stock. Issuance of additional common stock pursuant to any conversion right which may be attached to the terms of any series of preferred stock may also result in dilution of the net income per share and the net book value of the common stock. The specific terms of any series of preferred stock will depend primarily on market conditions, terms of a proposed acquisition or financing, and other factors existing at the time of issuance. Therefore, it is not possible at this time to determine in what respect a particular series of preferred stock will be superior to our common stock or any other series of preferred stock which we may issue. Our Board of Directors may issue additional preferred stock in future financing, but has no current plans to do so at this time.

The issuance of preferred stock could have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock. We intend to furnish holders of our common stock annual reports containing audited financial statements and to make public quarterly reports containing unaudited financial information.

**Convertible Debentures**

On June 22, 2004, we issued a Secured Convertible Debenture in the principal amount of \$250,000. The secured convertible debentures are convertible at the holder's option any time up to maturity at a conversion price equal to the lower of (i) 120% of the closing bid price of the common stock as of the date of issuance, or (ii) 80% of the average of the lowest daily volume weighted average price of our common stock for the 5 trading days immediately preceding the conversion date. At maturity, the remaining unpaid principal and accrued interest under the debentures shall be, at our option, either paid or converted into shares of common stock at a conversion price equal to the lower of (i) 120% of the closing bid price of the common stock as of the date of issuance or (ii) 80% of the lowest closing bid price of the common stock for the lowest trading days of the 5 trading days immediately preceding the conversion date. The secured convertible debenture is secured by all of EYI Industries' assets. The secured convertible debentures accrues interest at a rate of 5% per year and has a term

of 3 years. In the event the secured convertible debentures are redeemed, then EYI Industries will issue to Cornell Capital Partners a warrant to purchase 50,000 shares for every \$100,000 redeemed at an exercise price of 120% of the closing bid price as of June 22, 2004. Cornell Capital Partners purchased the secured convertible debentures from EYI Industries in a private placement on June 22, 2004. EYI Industries is registering in this offering 8,352,823 shares of common stock underlying the secured convertible debentures. EYI Industries received \$250,000 from the issuance of the first secured convertible debenture on June 22, 2004, and we will receive \$250,000 5 business days following the filing of the accompanying registration statement.

### Summary of Warrants Outstanding

Period Issued	Issued Warrants	Purchase Price	Aggregat Valu	Details of Issuance
4 <sup>th</sup> Quarter 2003	3,668,413	-	-	Balance of Safe ID warrants
1 <sup>st</sup> Quarter 2004	857,143	\$ 0.20	\$ 171,429	Private Placement \$0.14 per unit; warrants exercise price is \$0.30
	609,312	\$ 0.30	\$ 182,794	Private Placement \$0.21 per unit; warrants exercise price is \$0.30
	916,667	\$ 0.24		Balance of reverse acq/share exchange not properly determined December 31, 2003(expired)
2 <sup>nd</sup> Quarter 2004	5,476,190	\$ 0.21	\$ 1,150,000	Pursuant to an Agreement with Eyewonder dated May 4, 2004
	566,833	\$ 0.30	\$ 170,050	Private Placement \$0.21 per unit; warrants exercise price is \$0.30
	26,129	\$ 0.31	\$ 8,100	Pursuant to an agreement dated May 25, 2004 with Source Capital Group, Inc.
Total	12,120,687		\$ 1,682,372	

### Summary of the Grant of Options

Date of Grant	Number of Options	Exercise Price (US)	Options Exercised	Vesting Period	Capacity of Grant
March 30, 2004	3,200,000	\$ 0.165	3,200,000	March 30, 2004	Consultant
	1,000,000	\$ 0.165	1,000,000	March 30, 2004	Employee
April 5, 2004	1,439,000	\$ 0.20	0	50% August 5, 2004 and 50% August 5, 2005	Canadian Consultants and Employees
April 5, 2004	2,990,000	\$ 0.20	336,360	Fully vested upon issuance	Senior Management and Executives
April 30, 2004	6,400,000	\$ 0.19	0	Fully vested upon issuance	Consultants (Executive Officers)
April 30, 2004	2,910,000	\$ 0.19	0	50% October 1, 2004 and 50% October 1, 2005	US Consultants providing services in various to EYI Consultant working with EYI with respect to

Edgar Filing: EYI INDUSTRIES INC - Form SB-2

April 30, 2004	2,000,000	\$	0.19	0	Vesting on October 1, 2004	products in Latin Countries
June 1, 1004	100,000	\$	0.22	0	Vesting on August 1, 2004	Consultant working with EYI in assisting in the development and marketing of new EYI products
July 2, 2004	100,000	\$	0.26	0	50% October 4, 2004 and 50% October 4, 2005	Consultants providing assistance to EYI Senior Management

60

\*\*\*In addition under an Agreement dated May 4, 2004, EYI Industries has agreed to issue options to purchase 1,100,000 shares of common stock at a price of \$0.22 per share to certain individuals designated by Eyewonder.

### **Transfer Agent**

The transfer agent for our common stock is Corporate Stock Transfer of Denver, Colorado and its telephone number is (303) 282-4800.

### **Disclosure Of SEC Position On Indemnification For Securities Act Liabilities**

Our Articles of Incorporation, as well as our By-Laws provide for the indemnification of directors, officers, employees and agents of the corporation to the fullest extent provided by the corporate laws of the State of Nevada, as well as is described in the Articles of Incorporation and the By-Laws. These sections generally provide that the Company may indemnify any person who was or is a party to any threatened, pending or completed action, suit or proceeding whether civil, criminal, administrative or investigative except for an action by or in right of the corporation by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation. Generally, no indemnification may be made where the person has been determined to be negligent or guilty of misconduct in the performance of his or her duties to the Company.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or controlling persons of EYI Industries, pursuant to the foregoing provisions, or otherwise, we have been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act of 1933, and is, therefore, unenforceable.

### **Anti-Takeover Effects Of Provisions of The Articles Of Incorporation Authorized And Unissued Stock**

The authorized but unissued shares of our common and preferred stock are available for future issuance without our shareholders' approval. These additional shares may be utilized for a variety of corporate purposes including but not limited to future public or direct offerings to raise additional capital, corporate acquisitions and employee incentive plans.

### **EXPERTS**

The financial statements of EYI Industries incorporated herein have been so incorporated in reliance upon the report of independent certified public accountants, Williams and Webster, P.S., given upon their authority as experts in auditing and accounting. The accountants are not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited interim financial information because that report is not a "report" or a "part" of the Registration Statement prepared or certified by the accountants within the meaning of Section 7 and 11 of the 1933 Act.

### **LEGAL MATTERS**

The validity of the shares of common stock offered hereby will be passed upon for us Burton Bartlett & Glogovac of Reno, Nevada.

### **AVAILABLE INFORMATION**

We have filed with the Securities and Exchange Commission a registration statement on Form SB-2 under the Securities Act with respect to the securities offered by this prospectus. This prospectus, which forms a part of the registration statement, does not contain all the information set forth in the registration statement, as permitted by the rules and regulations of the Commission. For further information with respect to us and the securities offered by this prospectus, reference is made to the registration statement. Statements contained in this prospectus as to the contents of any contract or other document that we have filed as an exhibit to the registration statement are qualified in their entirety by reference to the to the exhibits for a complete statement of their terms and conditions. The registration statement and other information may be read and copied at the Commission's Public Reference Room at 450 Fifth Street N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. The Commission maintains a web site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the Commission.



**INDEX TO FINANCIAL STATEMENTS**

**FINANCIAL STATEMENTS FOR DECEMBER 31, 2003**

Report of Independent Certified Public Accounts F-1

Consolidated Balance Sheets as of December 31, 2003 and June 30, 2003 (audited) F-2

Consolidated Statements of Operations for the six months ended December 31, 2003, the year ended June 30, 2003 and from June 21, 2002 (Inception) to June 30, 2002 (audited) F-3

Consolidated Statement of Stockholders' Equity (Deficit) from June 21, 2002 through December 31, 2003 (audited) F-4

Consolidated Statements of Cash Flows for the six months ended December 31, 2003, the year ended June 31, 2003 and from June 21, 2002 (Inception) to June 30, 2002 (audited) F-5

Notes to Financial Statements F-6

**FINANCIAL STATEMENTS FOR JUNE 30, 2004**

Consolidated Balance Sheets as of June 30, 2004 (unaudited) and December 31, 2003 (restated) F-20

Consolidated Statements of Operations for the three months and six months ended June 30, 2004 and June 30, 2003 (unaudited) F-21

Consolidated Statement of Stockholders' Equity (Deficit) from June 21, 2003 through June 30, 2004 (unaudited) F-22

Consolidated Statements of Cash Flows for the three months and six months ended June 30, 2004 and June 30, 2003 (unaudited) F-23

Notes to Financial Statements F-24

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
EYI Industries, Inc.  
Surrey, British Columbia Canada

We have audited the accompanying consolidated balance sheets of EYI Industries, Inc., (a Nevada corporation) at December 31, 2003 and June 30, 2003, respectively, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the six months ended December 31, 2003 and the year ended June 30, 2003, and the period from June 21, 2002 through to June 30, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards established by the Public Company Accounting Oversight Board. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of EYI Industries, Inc. as of December 31, 2003 and June 30, 2003, respectively, and the results of its operations, stockholders' equity (deficit) and its cash flows for the six months ended December 31, 2003 and the year ended June 30, 2003, and the period from June 21, 2002 through to June 30, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 20 to the financial statements, an error resulted in the overstatement of additional paid-in capital from the recapitalization of the Company. Management discovered this issue and has corrected the understatement of warrants. This error had no effect upon net losses or accumulated deficit.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has an accumulated deficit and a negative working capital position which raises substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*/s/ "Williams & Webster, P.S."*

Williams & Webster, P.S.  
*Certified Public Accountants*  
Spokane, Washington

April 1, 2004, except for Note 20 which is dated September 15, 2004.

*Members of Private Companies Practice Section, SEC Practice Section, AICPA and WSCPA  
Bank of America Financial Center 601 W. Riverside, Suite 1940 Spokane, WA 99201  
Phone (509) 838-5111 Fax (509) 838-5114 www.williams-webster.com*



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

	December 31,	
	2003	June 30, 2003
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 52,075	\$ 16,184
Restricted cash	223,682	223,682
Accounts receivable	52,323	26,596
Related party receivables	5,465	6,162
Prepaid expenses	28,600	36,484
Inventory	254,367	302,604
<b>TOTAL CURRENT ASSETS</b>	<b>616,512</b>	<b>611,712</b>
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>143,439</b>	<b>160,611</b>
<b>OTHER ASSETS</b>		
Deposit	-	10,407
<b>INTANGIBLE ASSETS</b>	<b>19,801</b>	<b>19,801</b>
<b>TOTAL ASSETS</b>	<b>\$ 779,752</b>	<b>\$ 802,531</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Bank indebtedness	\$ 259,977	\$ 274,880
Accounts payable and accrued liabilities	836,751	554,830
Accounts payable - related parties	779,367	545,075
Customer deposits	6,250	46,292
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,882,345</b>	<b>1,421,077</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>-</b>	<b>-</b>
<b>MINORITY INTEREST IN SUBSIDIARY</b>	<b>468,877</b>	<b>485,148</b>
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$0.001 par value; 300,000,000 shares authorized, 148,180,670 and 118,045,603 shares issued and outstanding, respectively	148,181	118,046
Discount on common stock	(53,598)	(53,598)
Additional paid-in capital	827,972	484,281
Stock warrants	128,385	-
Accumulated deficit	(2,622,410)	(1,652,423)

Edgar Filing: EYI INDUSTRIES INC - Form SB-2

TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(1,571,470)	(1,103,694)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>\$ 779,752</b>	<b>\$ 802,531</b>

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

F-2

---

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

	Six Months Ended December 31, 2003	Year Ended June 30, 2003	From June 21, 2002 (Inception) to June 30, 2002
<b>REVENUE</b>	\$ 4,313,579	\$ 14,390,049	\$ -
<b>COST OF GOODS SOLD</b>	2,845,800	10,511,706	-
<b>GROSS PROFIT</b>	1,467,779	3,878,343	-
<b>OPERATING EXPENSES</b>			
Consulting fees	394,200	765,580	-
Legal and professional	145,001	354,356	-
Customer service	488,944	1,270,297	-
Finance and administration	324,853	835,008	-
Sales and marketing	92,834	506,276	-
Telecommunications	231,318	550,480	-
Wages and benefits	547,076	959,526	-
Warehouse expense	221,882	282,252	7,967
<b>TOTAL OPERATING EXPENSES</b>	2,446,108	5,523,775	7,967
<b>OPERATING LOSS</b>	(978,329)	(1,645,432)	(7,967)
<b>OTHER INCOME (EXPENSES)</b>			
Interest and other income	4,746	1,713	-
Interest expense	(21,879)	(12,792)	-
Foreign currency gain/(discount)	9,205	(16,697)	-
<b>TOTAL OTHER INCOME (EXPENSES)</b>	(7,928)	(27,776)	-
<b>NET LOSS BEFORE TAXES</b>	(986,257)	(1,673,208)	(7,967)
<b>PROVISION FOR TAXES</b>	-	-	-
<b>NET LOSS BEFORE ALLOCATION TO MINORITY INTEREST</b>	(986,257)	(1,673,208)	
<b>ALLOCATION OF LOSS TO MINORITY INTEREST</b>	16,270	28,752	
<b>NET LOSS</b>	\$ (969,987)	\$ (1,644,456)	\$ (7,967)
<b>BASIC AND DILUTED</b>			
<b>NET LOSS PER COMMON SHARE</b>	\$ nil	\$ nil	\$ nil
<b>WEIGHTED AVERAGE NUMBER OF</b>			

<b>COMMON STOCK SHARES OUTSTANDING</b>	128,090,625	116,102,534	15,000,000
--	-------------	-------------	------------

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

F-3

---

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

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Discount on Common Stock	Option/ Warrants
Stock issued for cash on June 21, 2002	23,026,200	\$ 23,026	\$ 6,974	\$ -	-
Contribution of assets, liabilities and subsidiaries acquired at June 30, 2002	92,104,800	92,105	-	(53,598)	-
Net loss for period ended June 30, 2002	-	-	-	-	-
Balance, June 30, 2002	115,131,000	115,131	6,974	(53,598)	-
Shares issued for cash in private placement for \$1.50/share, net of prorata share of private placement fees of \$61,206	2,914,603	2,915	477,307	-	-
Net loss for fiscal year ended June 30, 2003	-	-	-	-	-
Balance, June 30, 2003	118,045,603	118,046	484,281	(53,598)	-
Recapitalization and share exchange	30,135,067	30,135	343,691	-	128,385
Net loss for fiscal year ended December 31, 2003	-	-	-	-	-
Balance, December 31, 2003	148,180,670	\$ 148,181	\$ 873,805	\$ (53,598)	\$ 82,552

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



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

	Six Months Ended December 31, 2003	Year Ended June 30, 2003	From June 21, 2002  (Inception) to June 30, 2002
<b>CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Net loss	\$ (969,987)	\$ (1,644,456)	\$ (7,967)
Loss allocated to minority interest	(16,270)	(28,752)	
	(986,257)	(1,673,208)	
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation and amortization	36,756	52,688	-
Decrease (increase) in:			
Related party receivables	697	66,565	-
Accounts receivable	(25,727)	(14,275)	-
Prepaid expenses	7,884	9,480	(21,500)
Inventory	48,237	(302,605)	-
Increase (decrease) in:			
Accounts payable	273,549	342,864	11,467
Accounts payable - related parties	194,292	545,075	-
Customer deposits	(40,042)	46,292	-
Net cash used by operating activities	(490,611)	(927,124)	(18,000)
<b>CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES</b>			
Increase in restricted cash	-	(223,682)	-
Purchase of property, plant and equipment	(19,584)	(82,440)	-
Purchase of trademarks and formulas	-	(21,600)	-
Increase in security deposit	10,407	(10,406)	-
Net cash used by investing activities	(9,177)	(338,128)	434
<b>CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES</b>			
Decrease in bank indebtedness	(14,904)	-	-
Cash received through recapitalization	550,583	-	-
Issuance of stock, net of private placement costs & warrants	-	994,122	30,000
Net cash provided by financing activities	535,679	1,269,002	30,000
Net increase in cash and cash equivalents	35,891	3,750	12,434
<b>CASH - Beginning of Year</b>	16,184	12,434	-
<b>CASH - End of Period</b>	\$ 52,075	\$ 16,184	\$ 12,434
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>			
Interest expense paid	\$ -	\$ -	\$ -

<b>Income taxes paid</b>	\$	-	\$	-	\$	-
--------------------------	----	---	----	---	----	---

**NON-CASH INVESTING AND FINANCING TRANSACTIONS:**

Contribution of assets, liabilities and subsidiaries for stock	\$	-	\$	-	\$	38,507
--	----	---	----	---	----	--------

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

F-5

---

**EYI INDUSTRIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2003**

**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.

**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.

**Accounting Method**

The Company's financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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.



**EYI INDUSTRIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2003**

In April 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities: (hereinafter "SFAS No. 149"). SFAS No. 149 amends and clarifies the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement is effective for contracts entered into or modified after December 31, 2003 and for hedging relationships designated after December 31, 2003. The adoption of SFAS No. 149 is not expected to have an impact on the financial position or results of operations of the Company.

In December 2002, the Financial Accounting Standards Board issued Statement No. 148 (hereinafter "SFAS No. 148") on "Accounting for Stock-Based Compensation-Transition and Disclosure." This statement provides alternative methods of transition for companies that choose to switch to the fair value method of accounting for stock options. SFAS No. 148 also makes changes in the disclosure requirements for stock-based compensation, regardless of which method of accounting is chosen. Under the new standard, companies must report certain types of information more prominently and in a more understandable format in the footnotes to the financial statements, and this information must be included in interim as well as annual financial statements. Historically, the Company has not had any stock based compensation and therefore there are no disclosure requirements of SFAS No. 148 in these financial statements.

In October 2002, the Financial Accounting Standards Board issued Statement No. 147 (hereinafter "SFAS No. 147") on "Acquisitions of Certain Financial Institutions." This statement provides guidance on the accounting for the acquisition of a financial institution. The Company's adoption of this standard does not have an effect on its financial statements.

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 ("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. There is no impact on the Company's financial position or results of operations from adopting SFAS No. 146.

**Accounts Receivable and Bad Debts**

The Company estimates bad debts utilizing the allowance method, based upon past experience and current market conditions. At December 31, 2003 and June 30, 2003, the Company determined that no allowance was required, as most sales are transacted via credit card or electronic transfer and therefore are considered immediately collectible.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Company considers all highly liquid investments and short-term debt instruments with original maturities of three months or less to be cash equivalents.

**Restricted Cash**

Restricted cash includes deposits held in a reserve account in the amount of \$223,682 at December 31, 2003 and June 30, 2003, respectively. Such deposits are required by the bank as protection against unfunded charge backs and returns of credit card transactions.



**EYI INDUSTRIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2003**

**Compensated Absences**

Employees of the Company are entitled to paid vacation, and sick days, depending on job classification, length of service, and other factors. The Company accrued vacation pay in the amounts of \$38,000 and \$39,000 at December 31, 2003 and June 30, 2003, respectively.

**Cost of Sales**

Cost of sales consist of the purchase price of products sold, commissions, inbound shipping charges, net of freight recovered from customers, and packaging supplies.

**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.

At December 31, 2003 and June 30, 2003, the Company has not engaged in any transactions that would be considered derivative instruments or hedging activities.

**Earnings Per Share**

The Company has adopted Statement of Financial Accounting Standards No. 128, which provides for calculation of "basic" and "diluted" earnings per share. Basic earnings per share includes no dilution and is computed by dividing net income (loss) available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity similar to fully diluted earnings per share. Basic and diluted loss per share were the same, at the reporting dates, as there were no common stock equivalents outstanding.

**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 December 31, 2003 and June 30, 2003.

**EYI INDUSTRIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2003**

**Foreign Currency Translation and Other Comprehensive Income**

The Company has adopted Financial Accounting Standard No. 52. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at rates of exchange in effect at the balance sheet date. Gains or losses are included in income for the year. Non-monetary assets, liabilities and items recorded in income arising from transactions denominated in foreign currencies are translated at rates of exchange in effect at the date of the transaction.

As the Company's functional currency is the U.S. dollar, and all translation gains and losses are transactional, the Company has no assets with value recorded in Canadian dollar and there is no recognition of other comprehensive income in the financial statements.

**Foreign Currency Valuation and Risk Exposure**

While the Company's functional currency is the U.S. dollar and the majority of its operations are in the United States, the Company maintains its main office in Surrey, British Columbia. The assets and liabilities relating to the Canadian operations are exposed to exchange rate fluctuations. Assets and liabilities of the Company's foreign operations are translated into U.S. dollars at the year-end exchange rates, and revenue and expenses are translated at the average exchange rate during the period. The net effect of exchange difference arising from currency translation is disclosed as a separate component of stockholders' equity. Realized gains and losses from foreign currency transactions are reflected in the results of operations.

**Income Taxes**

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". This statement requires the recognition of deferred tax liabilities and assets for the future consequences of events that have been recognized in the Company's consolidated financial statement or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of the Company's assets and liabilities results in a deferred tax asset, SFAS No. 109 requires an evaluation of the probability of being able to realize the future benefits indicated by such an asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized. See Note 12.

**Inventories**

The Company records inventories at the lower of cost or market on a first-in, first-out basis.

**Long-lived Assets**

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This standard establishes a single accounting model for long-lived assets to be disposed of by sale, including discontinued operations, and requires that these long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or discontinued operations. Accordingly, the Company reviews the carrying amount of long-lived assets for impairment where events or changes in circumstances indicate that the carrying amount may not be recoverable. The determination of any impairment would include a comparison of estimated future cash flows anticipated to be generated during the remaining life of the assets to the net carrying value of the assets. For the years ended December 31, 2003 and June 30, 2003, no impairments have been identified.





**EYI INDUSTRIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2003**

**Property and Equipment**

Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. See Note 6.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant transactions and balances among the companies included in the consolidated financial statements have been eliminated.

**Revenue Recognition**

The Company recognizes revenue from product sales upon shipment to independent distributors, the Company's customers. Revenue from administration fees is recognized upon collection from independent distributors.

**Advertising Expenses**

Advertising expenses consist primarily of costs incurred in the design, development, and printing of Company literature and marketing materials. The Company expenses all advertising expenditures as incurred. The Company's advertising expenses were \$29,073 and \$75,135 for the years ended December 31, 2003 and June 30, 2003, respectively.

**Use of Estimates**

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Segment Information**

The Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," (hereafter "SFAS No. 131") which supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," replacing the "industry segment" approach with the "management" approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. SFAS No. 131 also requires disclosures about products and services, geographic areas and major customers. The adoption of SFAS No. 131 did not affect the Company's results of operations or financial position. See Note 17.

**Going Concern**

As shown in the accompanying financial statements, the Company had negative working capital of approximately \$1,266,000 and an accumulated deficit incurred through December 31, 2003. 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.

**EYI INDUSTRIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2003**

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 SHARE EXCHANGE AGREEMENT**

On December 31, 2003, Essentially Yours Industries, Inc. completed a share exchange agreement with Safe ID Corporation ("Safe ID) and changed its name to EYI Industries, Inc. Under the terms of the agreement, the Company issued 30,153,067 shares of its common stock to the shareholders of Safe ID. In relation to this agreement and plan of recapitalization, the Company authorized a 1 for 7.6754 exchange rate of the originally issued and outstanding Essentially Yours Industries, Inc. shares. All references in the accompanying financial statements and notes to the common shares and per share amounts have been restated to reflect the reverse stock split. The Company also approved an increase in the number of its authorized common stock shares to 534,278,000 when in the months prior to the finalization of this agreement, the registrant prior to the recapitalization sold approximately \$550,000 of common stock and warrants as part of private placement. These stock sales were in anticipation of this agreement and recapitalization, and as such, are reflected as financing cash flows.

As Safe ID was a non-operating public company with limited assets, the substance of the transaction with Safe ID is a capital transaction, rather than a business combination. The transaction is equivalent to the issuance of stock by the Company for the net assets of Safe ID, accompanied by a recapitalization. The accounting is identical to that resulting from a reverse acquisition, except that no goodwill or other intangibles are recorded. The substantial asset of Safe ID that was acquired was approximately \$32,500 in cash. The liabilities acquired by the Company under this agreement totaled approximately \$11,800.

**NOTE 4 REORGANIZATION**

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. ("EYII"), along with the transfer agreement, license agreement, and agency appointment agreement as described below, in settlement of amounts owed to him. As part of this transaction, EYI Corp. agreed to provide to EYII the services outlined in a management agreement. These agreements became effective on June 30, 2002. EYII owns ninety-nine percent of Halo Distributions LLC ("HALO"). The other one percent of HALO is owned by RGM International, Inc. ("RGM"), another subsidiary of EYI Corp., which was transferred to Mr. Sargeant as additional consideration.

On June 30, 2002, the shareholder of EYII exchanged all of the outstanding shares of EYII for 12,000,000 common shares of Burrard Capital Inc ("Burrard"). Concurrent with this transaction, EYII was merged into Burrard with Burrard emerging as the surviving entity. The combined entity was renamed Essentially Yours Industries, Inc. For accounting purposes, the acquisition has been treated as a recapitalization of EYII with EYII as the acquirer. Prior to this merger, EYII and RGM were considered to be dormant companies, with the activities of HALO being consolidated directly with EYII Corp. although the legal ownership was vested in EYII and RGM. Therefore, the losses from HALO operations and the other economic impacts prior to June 30, 2002 are considered to be the separate activity of EYI Corp.



**EYI INDUSTRIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2003**

On June 30, 2002, EYII took over the sales and marketing activities of its former holding company and entered into various agreements with that Company as follows:

**Transfer Agreement**

As part of the aforementioned transaction and for consideration of \$1, EYI Corp. transferred and assigned to EYII all of its rights, title and interest in and to the contracts with its independent business associates and any other contracts that may be identified by the parties as being inherent or necessary to the sales and marketing activities to EYII.

**License Agreement**

EYI Corp. licensed to EYII all of the rights, title, and interest that it may have in various intellectual properties for \$1 per year for a term of 50 years. The Company has the option at any time to require EYI Corp. to transfer all of its rights, title, interest in and to the intellectual properties to the Company at the sum of \$1 or such greater sum as may be determined to be the fair market value of such intellectual property as determined by agreement between the parties, by arbitration or by the appropriate taxation authorities after all assessments and appeals have been concluded.

**Agency Appointment Agreement**

EYI Corp. appointed EYII as the sole and exclusive agent to sell its remaining inventory on hand as of June 30, 2002 at the prices previously established, and to continue to sell at such price unless and until any change is agreed upon with EYI Corp. In consideration for its efforts, the Company is entitled to a sales commission of fifteen percent on all sales of such inventory.

**Management Agreement**

EYI Corp. agreed to perform various services such as administration, computer support, and sales and customer support, on behalf of EYII for a term of one year commencing June 30, 2002. 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. At the date of these financial statements, the agreement had expired, and EYII was operating on a month-to-month basis for management services with EYI Corp.

The remuneration to be paid by EYII to EYI Corp. for the aforementioned services is to be negotiated by the parties from time to time, provided however, the parties agree that the remuneration to be paid shall be consistent with industry standards for the type and nature of the services or duties being provided. At the present time, EYII has agreed to pay EYI Corp. actual expenses plus a fee of 5% on these expenses.

**NOTE 5 ACCOUNTS RECEIVABLE AND CREDIT RISK**

Accounts receivable at December 31, 2003 and June 30, 2003 consist primarily of amounts due from third parties for distribution services provided by Halo.

**EYI INDUSTRIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2003**

**NOTE 6 PROPERTY AND EQUIPMENT**

Capital assets are recorded at cost. Depreciation is calculated using the straight-line method over three to seven years. The following is a summary of property, equipment and accumulated depreciation at December 31, 2003 and June 30, 2003.

	December 31, 2003		June 30, 2003	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Warehouse equipment	\$ 223,927	\$ 175,353	\$ 223,927	\$ 159,359
Furniture and fixtures	18,698	15,453	18,527	14,074
Computer Equipment & Software	115,392	40,265	95,527	22,756
Office equipment	3,510	2,909	3,510	2,616
Leasehold improvements	32,523	16,631	32,523	14,598
Total	394,050	\$ 250,611	374,014	\$ 213,403
Less: accumulated depreciation	250,611		213,403	
Total property, plant and equipment, net	\$ 143,439		\$ 160,611	

Depreciation expense for the periods ended December 31, 2003 and June 30, 2003 was \$36,756 and \$50,888, respectively.

**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 its former holding Company pursuant to a transfer agreement, as well as from the Company's primary shareholder. See Notes 4 and 9.

**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.

The following is a summary of the intangible assets at December 31, 2003 and June 30, 2003:

	Accumulated		Net Amount
	Cost	Amortization	
Balance, June 30, 2003	\$ 21,601	\$ (1,800)	\$ 19,801
Activity in next six months	-	-	-
Balance, December 31, 2003	\$ 21,601	\$ (1,800)	\$ 19,801

**NOTE 8 BANK INDEBTEDNESS**

Bank indebtedness consists of checks written in excess of funds on deposit. The underlying bank is used as an imprest account with automatic transfers from the Company's general account as checks are presented.



**EYI INDUSTRIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2003**

**NOTE 9 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 December 31, 2003 and June 30, 2003, the Company has not issued any preferred stock.

**Common Stock**

The Company is authorized to issue 300,000,000 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.

In its initial capitalization in June 2002, the Company issued 23,026,200 shares of common stock for a total of \$30,000 cash.

Pursuant to the merger agreement as discussed in Note 4, an additional 92,104,800 shares of common stock were issued to the shareholder of Essentially Yours Industries, Inc. The transaction was valued at \$38,507, representing the basis of Essentially Yours Industries, Inc. in the assets, liabilities and subsidiaries that it contributed to Burrard Capital, Inc. At the completion of the merger, the Company changed its name from Burrard Capital, Inc. to Essentially Yours Industries, Inc.

In August, 2002, the Company sold, under a private placement offering, 5,400,043 shares of common stock at approximately \$0.18 per share for a total of \$994,122 in cash, net of private placement costs of \$61,206. Of these 5,400,043 shares, 2,485,440 were purchased for \$513,900, and were determined to be shares related to a minority interest, and were subsequently reclassified on the balance sheet as minority interest in subsidiary. Minority shareholders hold approximately a 1.64% interest in the Company at December 31, 2003.

On December 31, 2003, the Company completed an acquisition agreement with Safe ID, and at the completion of the merger, the Company changed its name from Essentially Yours Industries, Inc. to EYI Industries, Inc. In connection with this reverse merger, the Company issued 30,153,067 shares of its common stock and warrants to the shareholders of Safe ID. This acquisition was valued at \$502,211. See Note 3 and 11. This transaction resulted in a discount on common stock of \$53,398. See Note 10.

**NOTE 10 DISCOUNT ON COMMON STOCK**

On December 31, 2003, as a result of the share exchange agreement between Safe ID and Essentially Yours Industries, Inc., a discount on common stock was recorded in the amount of \$53,598 to reflect the partial deficit in the par value of the stock received in the share exchange. This is the result of the recorded par value of the stock exceeding the original value of the assets exchanged. At the point in time when the Company's board of directors authorizes a resolution to do so, the Company will close the discount on common stock account to the additional paid-in capital account.



**EYI INDUSTRIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2003**

**NOTE 11 COMMON STOCK WARRANTS**

During the period ended December 31, 2003, in connection with the recapitalization and reverse merger acquisition, the Company issued warrants to purchase 2,751,746 shares of common stock with an exercise price of \$0.20 and term of two years. In accordance with Statement of Financial Accounting Standard No. 123, the fair value of the warrants was estimated using the Black Scholes Option Price Calculation. The following assumptions were made to value the warrants: share price at \$0.11, risk free interest rate of 4%, expected life of 2 years, and expected volatility of 110% with no dividends expected to be paid. The Company recorded an expense for the value of the warrants based upon these Black Scholes assumptions of \$0.03 per warrant, or \$82,552.

	Number of Warrants	Weighted Average Remaining Life	Average Exercise Price
Outstanding and exercisable	2,751,746	2	\$0.11

**NOTE 12 INCOME TAXES**

The significant components of the deferred tax asset at December 31, 2003 and June 30, 2003 were as follows:

	December 31, 2003	June 30, 2003
Deferred tax asset:		
Net operating loss carryforward	\$ 871,590	\$ 531,855
Less valuation allowance for tax asset	(871,590)	(531,855)
Net deferred tax asset	\$ -	\$ -

At December 31, 2003 and June 30, 2003, the Company has net operating loss carryforwards of approximately \$2,563,500 and \$1,564,279, respectively, which expire in the years 2022 through 2023. The change in the allowance account from June 30, 2003 to December 31, 2003 was \$339,735.

The Company's subsidiaries in Canada are required to file income tax returns in British Columbia, Canada. The losses from operations are allocated to both United States and Canadian operations.

**NOTE 13 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.

**EYI INDUSTRIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2003**

Pursuant to the agreement, the Company is required to purchase the following amounts of product during the term of the agreement:

June 1, 2003	May 31, 2004	\$ 7,000,000
June 1, 2004	May 31, 2005	\$ 20,000,000
June 1, 2005	May 31, 2006	\$ 50,000,000
June 1, 2006	May 31, 2007	\$ 50,000,000

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.

**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 14 CONTINGENCIES**

**Agency Appointment Agreement**

As described in Note 4, the Company effectively acquired from EYI Corp. the various rights needed to continue the sales and marketing activity of EYI Corp. Both the transfer agreement and intellectual property license agreement were not negotiated between parties on an arms length basis. The agreements contain clauses that call for fair market value price adjustments payable to EYI Corp. should either of the parties by agreement, arbitration, tax assessment or through a third party action determine the consideration be less than fair market value. The value of the property transferred was based upon an outside professional valuation report and resulted in a reduction of accumulated dividends owed to Mr. Sargeant by EYI Corp. of \$360,000, which became his basis in his stock in Essentially Yours Industries, Inc. The assets transferred by EYI Corp. to Essentially Yours Industries, Inc. were transferred based upon their original cost less accumulated depreciation and amortization in accordance with generally accepted accounting principles.

**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.

F-16

---

**EYI INDUSTRIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2003**

**NOTE 15 - LOAN PAYABLE**

The Company issued a promissory note, related to consulting fees, for a total of \$27,500 on December 15, 2003. The note bears interest at the rate of 10% per annum, calculated daily from January 30, 2004 should the note not be repaid by that date. The note is currently in default and interest continues to accrue.

**NOTE 16 CONCENTRATIONS**

**Bank Accounts**

The Company maintains its cash accounts in a single 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. At December 31, 2003 and June 30, 2003, a total of \$1,675 and \$5,000, respectively, was not insured.

**Foreign Operations**

The accompanying balance sheet includes assets of approximately \$155,000 and \$629,000 at December 31, 2003 and June 30, 2003, respectively, relating to the Company's operations in Canada. Although the country is considered politically and economically stable, it is always possible that unanticipated events in foreign countries could disrupt the Company's operations.

**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 17 SEGMENT REPORTING**

The Company is organized into two reportable segments EYI Industries, Inc. and Halo. The two segments have different strategic goals and are managed separately. EYI Industries, Inc., the first reportable segment, is a selling and marketing company. The second reportable segment, Halo, operating as a distribution center, derives approximately 90% of its activities from distributing products for the Company and its subsidiaries.

**EYI INDUSTRIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2003**

The following tables present information about the two segments for December 31, 2003 and June 30, 2003:

**Six Months Ended December 31, 2003**

	<b>EYI Ind., Inc.</b>	<b>Halo</b>	<b>Eliminations</b>	<b>Consolidated</b>
External Revenue	\$ 4,218,961	\$ 94,618	\$ -	\$ 4,313,579
Operating Loss	\$ (855,762)	\$ (85,656)	\$ -	\$ (941,418)
Loss Before Income Taxes	\$ (900,601)	\$ (85,656)	\$ -	\$ (986,257)
Depreciation	\$ 13,792	\$ 22,964	\$ -	\$ -
Interest Expense	\$ 21,879	\$ -	\$ -	\$ -
Identifiable Assets	\$ 547,334	\$ 160,542	\$ -	\$ 707,876
General corporate assets				19,801
Total assets				\$ 727,677

**Year Ended June 30, 2003**

	<b>EYI Ind., Inc.</b>	<b>Halo</b>	<b>Eliminations</b>	<b>Consolidated</b>
External Revenue	\$ 14,306,684	\$ 83,365	\$ -	\$ 14,390,049
Operating Loss	\$ (1,526,387)	\$ (119,045)	\$ -	\$ (1,645,432)
Loss Before Income Taxes	\$ (1,554,163)	\$ (119,045)	\$ -	\$ (1,673,208)
Depreciation	\$ 9,093	\$ 41,795	\$ -	\$ 50,888
Interest Expense	\$ 11,272	\$ 1,520	\$ -	\$ 12,792
Identifiable Assets	\$ 584,655	\$ 198,075	\$ -	\$ 782,730
General corporate assets				19,801
Total assets				\$ 802,531

The accounting policies for the two reportable segments are the same as those described in the summary of significant accounting policies. The Company allocates resources to and evaluates performance of its operating segments based on operating income.

**NOTE 18 RELATED PARTY TRANSACTIONS**

Information related to related party transactions regarding the reorganization can be found in Note 4. Related party information on intangibles is located in Note 7. Related party commitments are located in Note 13.

Accounts payable to related parties represents amounts due to the president and chief executive officer for services performed during the last year. These payables are non-interest bearing and non-collateralized.

**EYI INDUSTRIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2003**

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 and 15.

From time to time, the Company receives funds from related parties in the form of loans. These are recorded as unsecured, non-interest bearing, short-term loans, payable upon demand. At December 31, 2003, there was one related party loan in the amount of \$50,000.

**NOTE 19 - SUBSEQUENT EVENTS**

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 20 - SUBSEQUENT EVENTS**

Correction of an error regarding recapitalization

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.**  
**CONSOLIDATED BALANCE SHEETS**

	June 30, 2004	December 31,
	(Unaudited)	2003
	(Restated)	(Restated)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 60,524	\$ 52,075
Restricted cash	210,314	223,682
Accounts receivable	38,519	52,323
Related party receivables	4,995	5,465
Prepaid expenses	1,056,084	28,600
Inventory	208,318	254,367
<b>TOTAL CURRENT ASSETS</b>	<b>1,578,754</b>	<b>616,512</b>
<b>OTHER ASSETS</b>		
Property, plant and equipment, net	95,106	143,439
Deferred offering costs	390,000	-
<b>TOTAL OTHER ASSETS</b>	<b>485,106</b>	<b>143,439</b>
<b>INTANGIBLE ASSETS</b>	<b>17,641</b>	<b>19,801</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,081,501</b>	<b>\$ 779,752</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Bank indebtedness	\$ 42,819	\$ 259,977
Accounts payable and accrued liabilities	786,836	836,751
Accounts payable - related parties	572,789	779,367
Convertible debt-related party, net of discount	185,287	-
Customer deposits	6,250	6,250
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,593,981</b>	<b>1,882,345</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>-</b>	<b>-</b>
<b>MINORITY INTEREST IN SUBSIDIARY</b>	<b>413,891</b>	<b>468,877</b>
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized, no shares issued and outstanding		
Common stock, \$0.001 par value; 300,000,000 shares authorized, 162,066,682 and 148,180,670 shares issued and outstanding, respectively	162,067	148,181
Discount on common stock	(53,598)	(53,598)
Additional paid-in capital	2,777,578	827,972



Edgar Filing: EYI INDUSTRIES INC - Form SB-2

Stock warrants	935,241	128,385
Subscription receivable	(15,000)	-
Accumulated deficit	(3,732,659)	(2,622,410)
<b>TOTAL STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>73,629</b>	<b>(1,571,470)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>\$ 2,081,501</b>	<b>\$ 779,752</b>

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

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

	Three Months Ended June 30, 2004 (Unaudited) (Restated)		Six Months Ended June 30, 2004 (Unaudited) (Restated)	
	2003 (Unaudited)	2003 (Unaudited)	2003 (Unaudited)	2003 (Unaudited)
<b>REVENUE</b>	\$ 1,965,737	\$ 2,775,506	\$ 3,494,932	\$ 6,974,711
<b>COST OF GOODS SOLD</b>	1,343,919	1,750,595	2,176,014	4,761,921
<b>GROSS PROFIT</b>	621,818	1,024,911	1,318,918	2,212,789
<b>OPERATING EXPENSES</b>				
Consulting fees	255,374	154,770	505,894	386,081
Legal and professional	150,997	27,480	171,049	150,666
Customer service	94,745	288,240	219,084	623,222
Finance and administration	49,801	289,460	269,024	456,741
Sales and marketing	105,952	56,968	133,508	86,481
Telecommunications	151,036	196,126	256,098	313,381
Wages and benefits	307,648	185,820	559,714	567,451
Warehouse expense	254,896	26,272	359,956	416,231
<b>TOTAL OPERATING EXPENSES</b>	1,370,449	1,225,136	2,474,327	3,000,261
<b>OPERATING LOSS</b>	(748,631)	(200,225)	(1,155,409)	(787,471)
<b>OTHER INCOME (EXPENSES)</b>				
Interest and other income	(3,173)	8,947	(9,411)	9,551
Interest expense	12,511	(9,076)	33,991	(11,391)
Foreign currency gain/(discount)	(9,906)	11,689	(1,103)	(20,491)
<b>TOTAL OTHER INCOME (EXPENSES)</b>	(568)	11,560	23,477	(22,331)
<b>NET LOSS BEFORE TAXES</b>	(749,199)	(188,665)	(1,131,932)	(809,811)
<b>PROVISION FOR INCOME TAXES</b>	-	-	-	-
<b>NET LOSS BEFORE ALLOCATION TO MINORITY INTEREST</b>	(749,199)	(188,665)	(1,131,932)	(809,811)
<b>ALLOCATION OF LOSS TO MINORITY INTEREST</b>	14,235	-	21,683	-
<b>NET LOSS</b>	\$ (734,964)	\$ (188,665)	\$ (1,110,249)	\$ (809,811)
<b>BASIC AND DILUTED</b>				
<b>NET LOSS PER COMMON SHARE</b>	\$ nil	\$ nil	\$ nil	\$ nil
<b>WEIGHTED AVERAGE NUMBER OF COMMON STOCK SHARES OUTSTANDING FOR BASIC AND DILUTED CALCULATION</b>	154,888,830	118,045,603	152,852,287	118,045,603

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

F-21

---

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

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Discount on Common Stock	Su E
Stock issued for cash on June 21, 2002	23,026,200	\$ 23,026	\$ 6,974	-	\$
Contribution of assets, liabilities and subsidiaries acquired at June 30, 2002	92,104,800	92,105	-	(53,598)	
Net loss for period ended June 30, 2002	-	-	-	-	
Balance, June 30, 2002	115,131,000	115,131	6,974	(53,598)	
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	-	
Net loss for fiscal year ended June 30, 2003	-	-	-	-	
Balance, June 30, 2003	118,045,603	118,046	484,281	(53,598)	
Recapitalization and share exchange (restated)	30,135,067	30,135	343,691	-	
Net loss for fiscal year ended December 31, 2003	-	-	-	-	
Balance, December 31, 2003 (restated)	148,180,670	148,181	827,972	(53,598)	
Common stock issued at \$0.20 including warrants less expenses of \$28,715	1,466,455	1,466	146,930	-	
Stock issued at \$0.165 per share for cashless exercise of options in form of foregone debt	3,200,000	3,200	524,800	-	
Stock issued for exercise of options at \$0.20 per share in lieu of payment of legal fees	300,000	300	59,700	-	
Stock issued at \$0.165 per share for cash and promissory note for exercise of options	1,000,000	1,000	164,000	-	
Common stock issued at \$0.21 including warrants	5,476,190	5,476	487,381	-	
Common stock issued at \$0.21 including warrants less expenses of \$3,231	566,833	567	36,369	-	

Edgar Filing: EYI INDUSTRIES INC - Form SB-2

Stock issued for exercise of options at \$0.22 per share in lieu of consulting fees	50,000	50	10,950	-
Stock issued for deferred offering costs	1,300,000	1,300	388,700	-
Adjustment to subsidiaries stock held by minority interest	176,534	177	33,126	-
Stock issued at \$0.28 per share for consulting agreement	350,000	350	97,650	-
Net loss for period ended June 30, 2004	-	-	-	-
Balance, June 30, 2004 (Unaudited) (Restated)	162,066,682	\$ 162,067	\$ 2,777,578	\$ (53,598)

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

F-22

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

	Six Months Ended	
	June 30, 2004 (Unaudited) (Restated)	June 30, 2003 (Unaudited) (Restated)
<b>CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Net loss	\$ (1,110,249)	\$ (809,811)
Loss allocated to minority interest	21,683	-
	(1,131,932)	(809,811)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	50,493	27,700
Stock and warrants issued for services	198,000	-
Stock issued for options exercised in lieu of legal fees	11,000	-
Non cash return of legal fees	(47,500)	-
Decrease (increase) in:		
Related party receivables	470	308
Accounts receivable	13,804	4,239
Prepaid expenses	22,516	(12,367)
Inventory	46,049	(83,941)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(7,128)	411,582
Accounts payable - related parties	368,922	(186,848)
Customer deposits	-	43,792
Net cash used by operating activities	(475,306)	(605,346)
<b>CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES</b>		
Decrease (increase) in restricted cash	13,368	(957)
Reimbursement of previously purchased asset	-	83,740
Purchase of trademarks and formulas	-	(19,801)
Increase in security deposit	-	(10,406)
Net cash provided by investing activities	13,368	52,577
<b>CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES</b>		
Net change in bank indebtedness	(217,158)	51,704
Issuance of stock, net of private placement costs & warrants	485,045	-
Proceeds from convertible debt	202,500	-
Net cash provided by financing activities	470,387	51,704
Net increase in cash and cash equivalents	8,449	(501,066)
<b>CASH - Beginning of Year</b>	<b>52,075</b>	<b>517,488</b>
<b>CASH - End of Period</b>	<b>\$ 60,524</b>	<b>\$ 16,422</b>

**SUPPLEMENTAL CASH FLOW DISCLOSURES:**

<b>Interest expense paid</b>	\$	33,991	\$	11,396
<b>Income taxes paid</b>	\$	-	\$	-

**NON-CASH INVESTING AND FINANCING TRANSACTIONS:**

Stock issued for options exercised in lieu of debt	\$	528,000	\$	-
Stock issued for options exercised in lieu of legal fees	\$	60,000	\$	-
Stock subscription issued for promissory note	\$	15,000	\$	-
Stock issued for options exercised in lieu of legal fees	\$	11,000	\$	-
Stock and warrants issued for prepaid expenses	\$	1,150,000	\$	-
Stock issued for deferred offering costs	\$	390,000	\$	-
Stock and warrants issued for expenses	\$	198,000	\$	-

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

**EYI INDUSTRIES, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 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 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. 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. Effective for the period ended December 31, 2003, the Company has elected to change its year-end from June 30 to December 31.

The Company has six wholly owned subsidiaries. The first subsidiary is Essentially Yours Industries, Inc. ("EYII"), incorporated on June 21, 2002 in the state of Nevada. The secondary 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 third 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 fourth 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 fifth 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 and marketing services to the consolidated entity. The sixth subsidiary is World Wide Buyers' Club Inc., a Nevada corporation, which was organized by a joint venture agreement effective May 6, 2004. (See Note 3)

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**  
**June 30, 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 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 determined that there was no impact from the adoption of the statement.

Restricted Cash

Restricted cash includes deposits held in a reserve account in the amount of \$210,314 and \$223,682 at June 30, 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 \$15,000 and an accumulated deficit of approximately \$3,700,000 incurred through June 30, 2004. 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.

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

**June 30, 2004**

**NOTE 3 JOINT VENTURE AGREEMENT**

On May 28, 2004, the Company entered into a joint venture agreement with World Wide Buyers' Club Inc. ("WWBC") and Supra Group, Inc. ("SG") Pursuant to the terms of the joint venture agreement, the Company and SG agree to form WWBC, a Nevada corporation, owned 51% by the Company and 49% by SG. The purpose of the agreement is for the joint marketing and distribution of products of SG using the Company's existing distribution system in the United States. The term of the agreement is 10 years commencing May 6, 2004. As of the June 30, 2004, there has been no economic activity between the Company and SG.

**NOTE 4 PROPERTY AND EQUIPMENT**

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

**NOTE 5 CONVERTIBLE LOANS PAYABLE**

On June 2, 2004, the Company entered into a loan agreement with Cornell Capital Partners, LP ("the Investor") in which the Company received \$250,000 in funding in exchange for convertible securities guaranteed by the assets of the Company. The convertible debt instrument underlying this loan agreement will automatically convert into common stock by the second anniversary date of issuance. Failure to issue unrestricted, freely tradable common stock to the Investor upon conversion after the registration statement filed pursuant to this transaction has been declared effective would be considered an event of default, thereby entitling the Investor to accelerate full repayment of the convertible securities then outstanding. Under the agreement, the Company is required to keep available common stock duly authorized for issuance in satisfaction of the convertible. (See Note 8)

**NOTE 6 CAPITAL STOCK**

On January 1, 2004, the Company entered into an agreement with an independent contractor to provide services in exchange for 250,000 common shares. (See Note 12)

On March 5, 2004, the Company entered into an agreement with an independent contractor to provide services in exchange for 100,000 common shares. (See Note 12)

On April 1, 2004, the Company entered into a consulting agreement that granted the optionee 2,000,000 stock options and requires the payment of a consulting fee of \$16,667 each month. The consultant will use the monthly sum to acquire shares of the Company by exercising the options. (See Note 12)

**EYI INDUSTRIES, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2004**

On April 6, 2004, an employee of the Company exercised 1,000,000 options at \$0.165 per share at the aggregate exercise price of \$165,000. The options were paid by a combination of cash and a promissory note issued by the employee to the Company in the amount of \$15,000. The note has been determined to be a stock subscription and has been properly allocated on the financial statements as a subscription receivable.

On April 20, 2004, an officer of the Company exercised 3,200,000 options at \$0.165 per share at the aggregate exercise price of \$528,000. The options were paid in the form of foregone debt owed to the officer by the Company. (See Note 10)

On May 4, 2004 we issued 5,476,190 common shares to Eyewonder, Inc. ("Eyewonder"), pursuant to the terms of the Letter Agreement dated May 4, 2004. Eyewonder Inc. also received 5,476,190 warrants exercisable at a price of \$0.30 per share for a period of five years from the date of issuance. 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 3, 2004, 300,000 options were exercised at \$0.20 per share at the aggregate exercise price of \$60,000. The options were paid in the form of forgone debt owed to the legal firm by the Company. The Company computed the number of options issued in this transaction based on the estimated fair market value of the Company's common stock on the dates of issuance.

During the quarter ended June 30, 2004, the Company issued 50,000 restricted shares at \$0.22 per share in payment of consulting fees. The Company computed the number of shares issued in this transaction based on the fair value of services received and the market value of the Company's common stock on the dates of issuance.

During the quarter ended June 30, 2004, the Company received \$115,804 from the private placement sale of 566,833 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 \$0.30 per share, respectively, for a period of two years. (See Note 7)

During the period ended June 30, 2004, the Company issued 1,300,000 shares of its common stock as an incentive. (See Note 8)

**NOTE 7 COMMON STOCK OPTIONS AND 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.

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

**June 30, 2004**

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 June 30, 2004; risk-free interest rate of 4%, volatility of 110% and terms of two years.

Warrants

During the quarter ended June 30, 2004, the Company received \$115,804 from the private placement sale of 566,833 shares of common stock. In addition, the purchasers of the shares received warrants to purchase one additional share of common stock for each share purchased, exercisable at \$0.30 per share, respectively, for a period of two years. The fair value of the warrants issued as part of the private placement was determined to be \$78,869.

Options

During the period ending June 30, 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. Subsequent to the board of directors approval, this plan was approved by the shareholders. This plan enables the Company to grant stock options to directors, officers, employees and eligible consultants of the Company

During the period ended June 30, 2004, the Company granted stock options to purchase a total of 21,194,000 shares of common stock to its employees, directors, and consultants. The options are exercisable from \$0.165 to \$0.26 per share.

Summarized information about stock options outstanding and exercisable at June 30, 2004 is as follows:

Exercise Price Range	Number of Shares	Options Outstanding Weighted ave. Remaining Life	Weighted ave exercise price
\$0.19 - \$0.26	16,694,000	2.01	\$ 0.20
Exercise Price Range	Number of Shares	Options Exercisable Weighted ave. Remaining Life	Weighted ave exercise price
\$0.19 - \$0.20	9,090,000	2.00	\$ 0.19

**NOTE 8 COMMITMENTS AND CONTINGENCIES**

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



**EYI INDUSTRIES, INC.****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2004**

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 Company is obligated to purchase a minimum amount of \$5,355,000 of product.

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.

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,	<u>Minimum</u>
2004	\$ 208,096
2005	57,220
2006	5,220
2007	5,220
2008	1,740

Management Agreement

EYI Corp. has agreed to perform various services 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.

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

**June 30, 2004**

Standby Equity Distribution Agreement

On June 22, 2004, the Company entered into a two-year Standby Equity Distribution Agreement with Cornell Capital Partners LP ("Cornell"). Pursuant to this agreement, Cornell will purchase up to 10,000,000 shares of the Company's common stock through a placement agent. The Company issued 1,300,000 shares of its common stock to Cornell and the placement agent upon the inception of this agreement. The \$390,000 value of these shares is included in the deferred offering costs in the financial statements and will be amortized over the subsequent stock issuances under this agreement. Management will review these charges to revise any amortization based upon actual future issuances of common stock under this agreement. (See Note 5).

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 2004, 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 8).

**NOTE 10 RELATED PARTY TRANSACTIONS**

Accounts payable to related parties includes amounts due to the president and chief executive officer for services performed during the last year as well as to 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 8)

On April 7, 2004, an employee of the Company issued a promissory note in exchange for the exercise of options in the amount of \$15,000. The note is due on demand and is payable with interest at the rate of 5% per annum. The note has been determined to be a stock subscription and is recorded on the Company's financial statements as a subscription receivable. See Note 6.

**EYI INDUSTRIES, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2004**

During the period ending June 30, 2004, an agreement was reached between the president and an officer of the Company for the reallocation of related party payables. Subsequent to the agreement, the Company exchanged the debt owed the officer for the right of the officer to exercise 3,200,000 options at the exercise price of \$0.16 per share for the aggregate exercise price of \$528,000.

**NOTE 11 - SUBSEQUENT EVENT**

On July 2, 2004, the Company entered into two consulting services agreements in which the compensation will be in the form of 50,000 stock options per agreement which will allow the consultant to purchase shares at a purchase price of \$0.26 per share for a term commencing July 2, 2004 and expiring July 2, 2006. Under the related vesting schedule 50% of the options will vest on October 5, 2004 and the remaining 50% of the options will vest on October 5, 2005.

Effective July 7, 2004, the Company entered into an agreement dated May 25, 2004 for services that provided for the payment of commissions of \$9,113 and warrants valued at \$8,100. (See Note 12)

On July 17, 2004, the Company signed a letter of intent regarding the purchase of all tangible and intangible assets of a Canadian corporation. The purchase price and terms of the transaction are to be mutually agreed upon by both parties upon completion of the due diligence inspection. In the event that the Company and the Canadian corporation have not entered into the definitive agreement by November 1, 2004, the arrangement will terminate and neither party will retain any obligation to the other party.

Since June 30, 2004, the Company entered into consulting agreements which would require the issuance of 600,000 stock options in payment of services. These options would vest in subsequent periods.

**NOTE 12 CORRECTION OF AN ERROR**

Subsequent to the issuance of the original financial statements for the period ended June 30, 2004, management discovered that certain accounting positions and information were not correct.

On January 1, 2004, the Company entered into an agreement with a independent contractor to provide services in exchange for 250,000 common shares. Management determined that this transaction had not been recorded and had the effect of understating the net loss by \$70,000 for the period and understatement of common shares by \$70 and additional paid in capital by \$69,930.

On March 5, 2004, the Company entered into an agreement with an independent contractor to provide services in exchange for 100,000 common shares. Management



**EYI INDUSTRIES, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2004**

determined that this transaction had not been recorded and had the effect of understating the net loss for the period by \$28,000 and understatement of common stock by \$28 and additional paid in capital by \$27,972.

On April 1, 2004, the Company entered into a consulting agreement that provided for the payment of \$16,667 monthly and this sum will be used by the consultant to acquire shares of the Company by exercising the options. (See Note 6) It has been determined that this amount had not been accrued at the balance sheet date and had the effect of understating accounts payable and the net loss for the period by \$50,001.

On May 25, 2004, the Company entered into an agreement for services in exchange for payment of commission in the amount of \$9,113 and granting of warrants valued at \$8,100. It was determined that this transaction was not properly accrued and had the effect of understating accounts payable and discount on debt by \$17,213.

Management determined that an incorrect entry to expense costs and legal fees associated with a debt offering had been made thereby overstating the net loss for the period by \$47,500. These fees represent costs to be amortized over the debt period of up to two years.

Management determined that 176,534 shares were no longer allocated to shares held by minority interest of the Essentially Yours Industries, Inc. This transaction understated common shares outstanding by 176,534 shares and the value of the minority interest was overstated by \$33,303. In addition, it changed the allocation of losses to the minority interest by an increase in loss of \$5,685 for the change in allocation and the appropriate ownership effects of the subsidiary.

These corrections and restatements had the cumulative effect of increasing the net loss and accumulated deficit by \$94,816, and losses per share by less than \$0.01 for the six months ending June 30, 2004.

**EYI INDUSTRIES, INC.**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2004**

	June 30, 2004	
	Orginally Reported	Restated
<b>Financial Position:</b>		
Accounts payable and accrued liabilities	\$ 719,622	\$ 786,836
Accounts payable - related parties	\$ 822,789	\$ 572,789
Minority interest in subsidiary	\$ 452,879	\$ 413,891
Convertible debt - related party, net of discount	\$ -	\$ 185,287
Common stock	\$ 161,540	\$ 162,067
Additional paid in capital	\$ 2,646,802	\$ 2,777,578
Accumulated deficit	\$ (3,637,843)	\$ (3,732,659)
<b>Results of Operations:</b>		
Revenue	\$ (3,494,932)	\$ (3,494,932)
Expenses	\$ 2,373,826	\$ 2,474,327
Net Loss	\$ (1,015,433)	\$ (1,110,249)

**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS**

EYI Industries' bylaws provide that we have the power to indemnify any officer or director against damages if such person acted in good faith and in a manner the person reasonably believed to be in the best interests of our Company. No indemnification may be made (i) if a person is adjudged liable unless a Court determines that such person is entitled to such indemnification, (ii) with respect to amounts paid in settlement without court approval or (iii) expenses incurred in defending any action without court approval.

**ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION**

The following table sets forth estimated expenses expected to be incurred in connection with the issuance and distribution of the securities being registered. All expenses will be paid by EYI Industries.

Securities and Exchange Commission Registration Fee	\$ 1,500
Printing and Engraving Expenses	\$ 5,000
Accounting Fees and Expenses	\$ 20,000
Legal Fees and Expenses	\$ 50,000
Miscellaneous	\$ 8,500
<b>TOTAL</b>	<b>\$ 85,000</b>

**ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES**

On January 1, 2004 the Company entered into an agreement with a consultant to provide services in exchange for 250,000 common shares at \$0.28. During the quarter ended March 31, 2004 we issued 100,000 shares of our common stock at a price of \$0.26 per share to a consultant in respect of fees owed for certain consulting services provided to us by the consultant. All securities issued were endorsed with a restrictive legend confirming that the securities cannot be resold without registration under the Securities Act or an applicable exemption from the registration requirements of the Securities Act. The issuance was completed pursuant to Section 4(2) of the Securities Act on the basis that the consultant was a sophisticated investor.

During the quarter ended June 30, 2004 we issued 50,000 shares of our common stock at a price of \$0.22 per share to a consultant in respect of fees owed for certain consulting services provided to us by the consultant. All securities issued were endorsed with a restrictive legend confirming that the securities cannot be resold without registration under the Securities Act or an applicable exemption from the registration requirements of the Securities Act. The issuance was completed pursuant to Section 4(2) of the Securities Act on the basis that the consultant was a sophisticated investor.

During the quarter ended June 30, 2004, we issued 5,476,190 units at a price of \$0.21 per unit to Eyewonder in respect of certain amounts owed to Eyewonder under our Letter Agreement with Eyewonder. Each unit was comprised of one share of our common stock and one share purchase warrant entitling Eyewonder to purchase one share of our common stock at an exercise price of \$0.30 per share for a period expiring May 4, 2009. The issuance was completed pursuant to Section 4(2) of the Securities Act on the basis that Eyewonder was a sophisticated investor.

As of June 7, 2004, we completed the sale of 136,548 units at a price of \$0.21 per unit for proceeds of \$28,675 to seven investors. Each unit was comprised of one share of our common stock and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one share of our common stock at a price of \$0.30 per share for the three year period following closing. A total of 136,548 shares and 136,548 share purchase warrants were issued. The purchasers consisted of seven "accredited investors", as defined by Rule 501 of Regulation D of the Securities Act. The sales were completed pursuant to Rule 506 of Regulation D of the Securities Act. All

securities issued were endorsed with a restrictive

II-1

---

Edgar Filing: EYI INDUSTRIES INC - Form SB-2

legend confirming that the securities cannot be resold without registration under the Securities Act or an applicable exemption from the registration requirements of the Securities Act.

On June 22, 2004 we issued 1,266,589 and 33,411 restricted shares of our common stock to Cornell Capital Partners and Newbridge Securities Corporation, respectively in payment of certain fees owed to Cornell Capital Partners and Newbridge under the terms of the Standby Equity Distribution Agreement and a Placement Agent Agreement. All issuances were completed pursuant to Rule 506 of Regulation D of the Securities Act on the basis that Newbridge and Cornell are "accredited investors", as defined by Rule 501 of Regulation D of the Securities Act. All securities issued were endorsed with a restrictive legend confirming that the securities cannot be resold without registration under the Securities Act or an applicable exemption from the registration requirements of the Securities Act.

On June 22, 2004, we issued a 5% Secured Convertible Debenture to Cornell Capital Partners in the principal amount of \$250,000. Cornell Capital Partners purchased the Secured Debenture from us in a private placement on June 22, 2004. The sale of the Secured Debenture was completed pursuant to Rule 506 of Regulation D of the Securities Act. All securities to be issued pursuant to the Secured Debenture will be endorsed with a restrictive legend confirming that the securities cannot be resold without registration under the Securities Act or an applicable exemption from the registration requirements of the Securities Act.

Year	Name of Holder	Date	Share of Common Stock Sold	Reason Shares Issued
2004	Private Placement at \$0.14 per unit; warrants at \$0.20	January 2004	857,143	Private Placement raise capital
	Rajesh Raniga Inc.	January 2004	250,000	Consulting Fees
	Private Placement at \$0.21 per unit; warrants at \$0.30	March 2004	609,312	Private Placement raise capital
	Equis Capital Corp.	March 2004	100,000	Consulting Fees
	Eyewonder Inc.	May 2004	5,476,190	Service Fees
	Michael Hatrak	May 2004	50,000	Consulting Fees
	Private Placement at \$0.21 per unit; warrants at \$0.30	June 2004	566,833	Private Placement to raise capital
	Cornell Capital Partners, LP	June 2004	1,266,589	Commitment fee pursuant to Standby Equity Distribution Agreement

Edgar Filing: EYI INDUSTRIES INC - Form SB-2

	Newbridge Securities Corporation	June 2004	33,411	Placement Agent fee in connection with Standby Equity Distribution Agreement
<b>2003*</b>	PNG Trading Co. Ltd.	February 2003	250,000	Issued in lieu of funds received
	Hightech International	March 2003	2,120,000	Settlement of Debt
	Private Placement at \$0.14 per unit; warrants at \$0.20	September 2003	3,573,924	Private Placement to raise capital
	Michel Grise	December 2003	357,143	Private Placement to raise capital

II-2

With respect to the sale of unregistered securities referenced above, all transactions were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 (the "1933 Act"), and Regulation D promulgated under the 1933 Act. In each instance, the purchaser had access to sufficient information regarding EYI so as to make an informed investment decision. More specifically, EYI had a reasonable basis to believe that each purchaser was an "accredited investor" as defined in Regulation D of the 1933 Act and otherwise had the requisite sophistication to make an investment in EYI's common stock.

---

\* Current management of EYI Industries has limited information with respect to the issuances of unregistered securities prior to the Share Exchange transaction consummated on December 31, 2003 between our company and certain shareholders of Essentially Yours Industries, Inc.

## ITEM 27. INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
3.1	Articles of Incorporation <sup>(1)</sup>
3.2	Bylaws <sup>(1)</sup>
5.1	Opinion re: Legality <sup>(6)</sup>
10.1	Transfer/Assignment, dated as of May 27, 2002, between Essentially Yours Industries, Inc., a Nevada corporation and Essentially Yours Industries, Corp., a Canadian Federal Company <sup>(1)</sup>
10.2	License of Intellectual Property, dated as of June 30, 2002, between Essentially Yours Industries, Inc., a Nevada corporation and Essentially Yours Industries, Corp., a Canadian Federal Company <sup>(1)</sup>
10.3	Agency Appointment Agreement, dated as of June 30, 2002, between Essentially Yours Industries, Inc., a Nevada corporation and Essentially Yours Industries, Corp., a Canadian Federal Company <sup>(1)</sup>
10.4	Management Agreement, dated as of June 30, 2002, between Essentially Yours Industries, Inc., a Nevada corporation and Essentially Yours Industries, Corp., a Canadian Federal Company <sup>(1)</sup>
10.5	Distribution and License Agreement, dated as of June 30, 2002, between Essentially Yours Industries, Inc., a Nevada corporation and Nutri-Diem, Inc., a Canadian corporation incorporated pursuant to the laws of the Quebec Company Act <sup>(1)</sup>
10.6	Declaration of Trust, dated as of May 27, 2002, between Jay Sargeant and twelve named trust beneficiaries <sup>(1)</sup>
10.7	Notice to Transfer Intellectual Property Rights, dated as of August 28, 2002 from Essentially Yours Industries, Inc., a Nevada corporation, to Essentially Yours Industries, Corp., a Canadian Federal Company, and its directors <sup>(1)</sup>
10.8	Assignment/Transfer of Intellectual Property Rights, dated as of August 28, 2002, from Essentially Yours Industries, Inc., a Nevada corporation, to Essentially Yours Industries, Corp., a Canadian Federal Company <sup>(1)</sup>

Edgar Filing: EYI INDUSTRIES INC - Form SB-2

- 10.9 Consulting Agreement, dated as of November 5, 2002, between Essentially Yours Industries, Inc., a Nevada corporation, and Flaming Gorge, Inc<sup>(1)</sup>
- 10.10 Consulting Agreement, dated as of November 5, 2002, between Essentially Yours Industries, Inc., a Nevada corporation, and O'Neill Enterprises, Inc<sup>(1)</sup>
- 10.11 Addendum to the Distribution and License Agreement dated as of November 7, 2002, between Essentially Yours Industries, Inc., a Nevada corporation and Nutri-Diem, Inc., a Canadian corporation incorporated pursuant to the laws of the Quebec Company Act<sup>(1)</sup>
- 10.12 Form of Lock-up Agreement<sup>(1)</sup>

II-3

---



EXHIBIT	
NO.	DESCRIPTION
10.13	Form of Subscription Documents <sup>(1)</sup>
10.14	Form of IBA Application <sup>(1)</sup>
10.15	Transfer/Assignment, dated as of May 27, 2002, between Essentially Yours Industries, Inc., a Nevada corporation and Essentially Yours Industries, Corp., a Canadian Federal Company <sup>(1)</sup>
10.16	Merger Agreement and Plan of Reorganization, dated as of June 30, 2002, between and among Burrard Capital, Inc., a Nevada corporation; Essentially Yours Industries, Inc., a Nevada corporation; and Jay Sargeant <sup>(1)</sup>
10.17	Share Exchange Agreement, dated November 4, 2002, by and among Safe ID Corporation, a Nevada corporation, Essentially Yours Industries, Inc., a Nevada corporation, the undersigned directors of Safe ID, and Jay Sargeant <sup>(2)</sup>
10.18	First Amendment to Trust Agreement dated December 23, 2003, between Jay Sargeant and twelve named trust beneficiaries, revising the terms of the Declaration of Trust dated as of May 27, 2002, between Jay Sargeant and twelve named trust beneficiaries <sup>(4)</sup>
10.19	Registration Rights Agreement, dated December 31, 2003, by and among Safe ID Corporation, A Nevada corporation, and certain shareholders of EYI Industries, Inc., A Nevada corporation <sup>(2)</sup>
10.19	Stock Compensation Program <sup>(3)</sup>
10.20	Standby Equity Distribution Agreement, dated June 22, 2004 by and between EYI Industries and Cornell Capital Partner, LLC <sup>(5)</sup>
10.21	Registration Rights Agreement, dated June 22, 2004 by and between EYI Industries and Cornell Capital Partner, LLC <sup>(5)</sup>
10.22	Escrow Agreement, dated June 22, 2004 by and between EYI Industries and Cornell Capital Partner, LLC <sup>(5)</sup>
10.23	Placement Agent Agreement, dated June 22, 2004 by and between EYI Industries and Cornell Capital Partner, LLC <sup>(5)</sup>
10.24	Compensation Debenture, dated June 22, 2004 <sup>(5)</sup>
10.25	Securities Purchase Agreement, dated June 22, 2004 by and between EYI Industries and Cornell Capital Partners, L.P. <sup>(5)</sup>
10.26	Investor Registration Rights Agreement, dated June 22, 2004 by and between EYI Industries and Cornell Capital Partners, L.P. <sup>(5)</sup>
10.27	Security Agreement, dated June 22, 2004 by and between EYI Industries and Cornell Capital Partners, L.P. <sup>(5)</sup>

Edgar Filing: EYI INDUSTRIES INC - Form SB-2

- 10.28 Irrevocable Transfer Agent Instructions, dated June 22, 2004, by and among EYI Industries, Cornell Capital Partners, L.P. and Corporate Stock Transfer <sup>(5)</sup>
- 10.29 Escrow Agreement, dated June 22, 2004 by and among EYI Industries, Cornell Capital Partners, L.P. and Butler Gonzalez, LP <sup>(5)</sup>
- 10.30 Form of Secured Convertible Debenture <sup>(5)</sup>
- 10.31 Form of Warrant<sup>(5)</sup>
- 10.32 EYI Agreement dated May 25, 2004 with Source Capital Group, Inc.<sup>(7)</sup>
- 14.1 Code of Ethics<sup>(4)</sup>
- 21.1 List of Subsidiaries<sup>(4)</sup>
- 23.1 Consent of Williams & Webster, P.S. <sup>(7)</sup>
- 23.2 Consent of Burton Bartlett & Glogovac (Included in Exhibit 5.1)

II-4

---

Edgar Filing: EYI INDUSTRIES INC - Form SB-2

- (1) Filed as an exhibit to the Registration Statement on Form SB-2 of Essentially Yours Industries, Inc, filed with the SEC on November 12, 2002.
- (2) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on January 8, 2004.
- (3) Filed as an exhibit to our Registration Statement on Form S-8, filed with the SEC on March 30, 2004.
- (4) Filed as an exhibit to our Annual Report on Form 10-KSB filed with the SEC on April 14, 2004.
- (5) Filed as an exhibit to our Quarterly Report on form 10-QSB, filed with the SEC on August 18, 2004.
- (6) To be filed by amendment
- (7) Provided herewith.

II-5

---

**ITEM 28. UNDERTAKINGS**

The undersigned registrant hereby undertakes:

(1) To file, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to:

(i) Include any prospectus required by Sections 10(a) (3) of the Securities Act of 1933 (the "ACT");

(ii) Reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective Registration Statement;

(iii) Include any additional or changed material information on the plan of distribution;

(2) That, for the purpose of determining any liability under the Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities that remain unsold at the end of the offering. Insofar as indemnification for liabilities arising under the Act may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the small business issuer of expenses incurred or paid by a director, officer or controlling person of the small business issuer in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the small business issuer will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

**SIGNATURES**

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on this Form SB-2 and authorized this registration statement to be signed on our behalf by the undersigned, in Las Vegas, Nevada, September 17, 2004.

**EYI INDUSTRIES INC.**

By: /s/ Jay Sargeant  
 Name: Jay Sargeant  
 Title: President, Chief Executive Officer  
 and Director

**KNOW ALL MEN BY THESE PRESENTS**, that each person whose signature appears below constitutes and appoints Jay Sargeant his true and lawful attorney-in-fact and agent, with full power of substitution and revocation, for him and in his name, place and stead, in any and all capacities (until revoked in writing), to sign any and all amendments (including post-effective amendments) to this Registration Statement and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done as fully for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or is substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates stated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
/s/ Jay Sargeant Jay Sargeant	President, Chief Executive Officer and Director	September 17, 2004
/s/ Dori O' Neill Dori O' Neill	Executive Vice President, Chief Operations Officer, Treasurer, Secretary and Director	September 17, 2004
/s/ Rajesh Raniga Rajesh Raniga	Chief Financial Officer and Principal Accounting Officer	September 17, 2004
/s/ Bruce Nants Bruce Nants	Director	September 17, 2004