

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

EYI INDUSTRIES INC.
Form 10QSB
May 16, 2006

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

FORM 10-QSB

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

For the quarterly period ended March 31, 2006

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

For the transition period from _____ to _____

Commission File Number: 000-29803

EYI INDUSTRIES, INC.
(Exact name of small business issuer as specified in its charter)

NEVADA

(State or other jurisdiction of
incorporation or organization)

88-0407078

(IRS Employer Identification No.)

7865 Edmonds Street
Burnaby, BC CANADA

(Address of principal executive offices)

V3N 1B9

(Zip Code)

Issuer's telephone number:

(604) 759-5031

NOT APPLICABLE

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 260,273,921 shares of common stock issued and outstanding as of May 15, 2006. Transitional Small Business Disclosure Format (check one): Yes No

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

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

2

EYI INDUSTRIES, INC.
 CONSOLIDATED BALANCE SHEETS

	March 31, 2006 (Unaudited)
ASSETS	
CURRENT ASSETS	
Cash	\$ 190,837
Accounts receivable, net of allowance	94,119
Prepaid expenses	18,485
Inventory	279,225
TOTAL CURRENT ASSETS	582,666
OTHER ASSETS	
Property, plant and equipment, net	63,720
Deposits	62,336
TOTAL OTHER ASSETS	126,056
INTANGIBLE ASSETS	14,487
TOTAL ASSETS	\$ 723,209
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	\$ 1,427,120
Accounts payable - related parties	643,622

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

Notes payable - related party	90,000	-----
TOTAL CURRENT LIABILITIES	2,160,742	-----
Net liabilities from discontinued operations	375,344	
MINORITY INTEREST IN SUBSIDIARY	244,636	-----
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized, no shares issued and outstanding		--
Common stock, \$0.001 par value; 1,000,000,000 shares authorized, 260,273,922 and 217,600,875 shares issued and outstanding, respectively		260,273
Additional paid-in capital		7,397,617
Stock options and warrants		2,702,734
Subscription receivable		(195,000)
Accumulated deficit		(12,223,137)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)		(2,057,513)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		\$ 723,209
		=====

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

3

EYI INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 2006 (Unaudited)	Three Months March 31, (Unaudite
	-----	-----
REVENUE, NET OF RETURNS AND ALLOWANCES	\$ 1,108,759	\$ 1,313,
COST OF GOODS SOLD	287,952	251,
	-----	-----
GROSS PROFIT BEFORE COMMISSION EXPENSE	820,807	1,062,
COMMISSION EXPENSE	385,443	471,
	-----	-----
GROSS PROFIT AFTER COST OF GOODS SOLD AND COMMISSION EXPENSE	435,364	591,
	-----	-----
OPERATING EXPENSES		
Consulting fees	259,736	237,
Legal and professional fees	74,482	69,
Customer service	40,416	86,
Finance and administration	499,973	208,
Sales and marketing	78,624	3,
Telecommunications	30,660	119,
Wages and benefits	277,571	406,
Warehouse expense	62,898	105,
	-----	-----

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

TOTAL OPERATING EXPENSES	1,324,360	1,237,
LOSS FROM OPERATIONS	(888,996)	(646,
OTHER INCOME (EXPENSES)		
Interest and other income	(8,565)	3,
Interest expense	(450)	(20,
Foreign currency gain (discount)	4,669	(136,
TOTAL OTHER INCOME (EXPENSES)	(4,346)	(153,
NET LOSS BEFORE TAXES	(893,342)	(799,
PROVISION FOR INCOME TAXES	--	
NET LOSS BEFORE ALLOCATION TO MINORITY INTEREST	(893,342)	(799,
ALLOCATION OF LOSS TO MINORITY INTEREST	17,420	15,
NET LOSS	\$ (875,922)	\$ (783,
BASIC AND DILUTED		
NET LOSS PER COMMON SHARE	\$ nil	\$
WEIGHTED AVERAGE NUMBER OF		
COMMON STOCK SHARES OUTSTANDING		
FOR BASIC AND DILUTED CALCULATION	250,936,751	164,653,

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

4

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

	Common Stock		Additional Paid-in Capital	Subscription Receivable	Option/ Warrants
	Number of Shares	Amount			
Balance December 31, 2004	162,753,292	\$ 162,753	\$ 3,048,606	\$ (15,000)	\$ 2,563,0
Stock issued at \$0.06 per Share for promissory note for exercise of options	3,000,000	3,000	177,000	(180,000)	
Vested stock options issued for consulting at an average price of \$0.07 per share	--	--	--	--	35,2
Vested stock options issued for employee compensation at an					

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

average price of \$0.07 per share	--	--	--	--	133,7
Stock issued to employee for financing guaranty & pledge valued at \$0.05 per share	800,000	800	39,200	--	
Consultant-options exercised	250,000	250	14,750	--	(5,0
Gladys Sargeant 506 Subscription Agreement	1,000,000	1,000	4,000	--	15,0
Vested stock option issued for consulting at an average price of \$0.03 per share	--	--	--	--	62,2
Cancelled stock options issued for compensation and consulting at an average price of \$0.08 per option	--	--	425,300	--	(425,3
Cancelled stock options issued for compensation at \$0.20	--	--	2,400	--	(2,4
Stock issued to TAIB Bank to retire \$75,000 of \$300,000 debenture	2,027,027	2,027	72,973	--	
Stock issued to TAIB Bank to retire \$170,000 of \$300,000 debenture plus interest of \$10,830	4,487,096	4,487	176,343	--	
Stock issued to TAIB Bank to retire \$5,000 debenture plus interest of \$14,245	375,146	375	18,870	--	
Stock issued to Agora as part of contract	250,000	250	12,250	--	
Stock issued to Consultant as part of contract	500,000	500	34,500	--	
Stock issued for exercise of options at \$0.08 per share	100,000	100	7,900	--	
Stock issued to Cornell to retire prom note	22,789,581	22,789	1,008,099	--	
Vested stock options issued for consulting at an average price of \$0.20 per share	--	--	--	--	33,5

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

Vested stock options issued for employee and management compensation at an average price of \$0.20 per share	--	--	--	--	27,8
Stock issued to Cornell in exchange for \$700,000 pursuant to SEDA	19,268,733	19,269	680,731	--	
Cancelled stock options issued for compensation	--	--	10,500	--	(10,5
Vested stock options for consulting at an average price of \$0.20 per share	--	--	--	--	271,5
Beneficial conversion of convertible debt	--	--	422,096	--	
Net loss for period ended December 31, 2005	--	--	--	--	
Balance, December 31, 2005	217,600,875	\$ 217,600	\$ 6,155,518	\$ (195,000)	\$ 2,698,9
Vested stock options issued for consulting at an average price of \$0.20 per share	--	--	--	--	3,7
Stock issued to Cornell in exchange for \$1,084,565 pursuant to the SEDA	42,941,686	42,942	1,041,623	--	
Shares returned to treasury	(268,639)	(269)	269	--	
Beneficial conversion of convertible debt	--	--	200,207	--	
Net loss for period ended March 31, 2006	--	--	--	--	
Balance March 31, 2006 (Unaudited)	260,273,922	\$ 260,273	\$ 7,397,617	\$ (195,000)	\$ 2,702,7

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

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

	Three Month March 31, 2006 (Unaudited) -----
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	
Net loss	\$ (875,922)
Loss allocated to minority interest	17,420
	(893,342)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation and amortization	4,648
Stock and warrants issued for employee compensation and consulting	3,750
Stock issued for deferred financing costs	--
Discount recognized on convertible debt	--
Beneficial conversion of convertible debt	200,207
Decrease (increase) in:	
Related party receivables	--
Accounts receivable	(45,336)
Prepaid expenses	(6,098)
Inventory	16,023
Deposits	5,266
Increase (decrease) in:	
Accounts payable and accrued liabilities	(501,929)
Accounts payable - related parties	315,584
Customer deposits	--
Net cash used by operating activities	(901,226)
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	
Decrease (increase) in restricted cash	--
Decrease (increase) in property, plant, and equipment	(18,140)
Net cash provided by investing activities	(18,140)
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES	
Net change in bank indebtedness	--
Proceeds from Cornell SEDA	1,084,565
Proceeds from Cornell Promissory Note	--
Net cash provided by financing activities	1,084,565
Net increase in cash and cash equivalents	165,198
CASH - Beginning of Year	25,639
CASH - End of Period	\$ 190,837
SUPPLEMENTAL CASH FLOW DISCLOSURES:	
Interest expense paid	\$ 450
Income taxes paid	\$ --
NON-CASH INVESTING AND FINANCING TRANSACTIONS:	
Beneficial conversion of convertible debt	\$ 200,207
Stock options vested for employee compensation and consulting	\$ 3,750

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

Stock issued for financing guaranty & pledge	\$	--
Discount recognized on convertible debt	\$	--

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

6

EYI INDUSTRIES, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2006

NOTE 1 - DESCRIPTION OF BUSINESS

Essentially Yours Industries, Inc. (hereinafter "EYI") was incorporated on June 21, 2002 in the State of Nevada. The main business activities of Essentially Yours Industries, Inc. were acquired through a merger with the former entity, Burrard Capital, Inc., and other entities concerning EYI's reorganization. On December 31, 2003, EYI entered into a share exchange agreement of its stock with Safe ID Corporation ("Safe ID"). This transaction was accounted for as a share exchange and recapitalization. As a result of this transaction, Safe ID 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 primarily through network marketing distributors, which in turn sell the products to the end customers. The Company also sells product directly and through affiliates. The Company maintains its principal business office in Burnaby, British Columbia. Effective for the period ended December 31, 2003, the Company elected to change its year-end from June 30 to December 31.

The Company has six wholly owned subsidiaries. The first subsidiary is Halo Distribution LLC (hereinafter "Halo"), which was organized on January 15, 1999 in the State of Kentucky. Halo was the distribution center for the Company's product, in addition to other products, until April 30, 2005 at which time the Company made the decision to discontinue its operations. Halo was dissolved on November 1, 2005. The second subsidiary is RGM International Inc., which was incorporated on July 3, 1997, in the State of Nevada. RGM International Inc. is a dormant investment company which owns one percent of Halo. The third subsidiary is Essentially Yours Industries (Canada) Inc. (hereinafter "EYI Canada"), which was incorporated on September 13, 2002 under the Canada Business Corporations Act. EYI Canada markets health and wellness care products for use in Canada. The fourth subsidiary is 642706 B.C. Ltd., doing business as EYI Management, which was organized on February 22, 2002 in the province of British Columbia, Canada. EYI Management provides accounting, customer service and marketing services to the consolidated entity. The fifth subsidiary is Essentially Yours Industries (Hong Kong) Limited ("EYI HK"). EYI HK was organized on August 23, 2005 in Hong Kong. EYI HK markets health and wellness care products for use in Hong Kong and China. The sixth subsidiary is Essentially Yours Industries (International) Limited ("EYI INTL"). EYI INTL was organized on December 6, 2005 to facilitate our expansion throughout other Southeast Asian countries.

In addition, the Company owns approximately 98% of Essentially Yours Industries, Inc. ("EYII"), incorporated on June 21, 2002 in the State of Nevada. EYII markets health and wellness care products for use in USA. The Company also owns

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

51% of World Wide Buyers' Club Inc. ("WWBC"), a Nevada corporation, which was organized by a joint venture agreement effective May 6, 2004.

7

Basis of Presentation

The accompanying interim condensed financial statements are prepared in accordance with rules set forth in Regulation SB of the Securities and Exchange Commission. As said, these statements do not include all disclosures required under generally accepted principles and should be read in conjunction with the audited financial statements for the year ended December 31, 2005. In the opinion of management, all required adjustments which consist of normal re-occurring accruals have been made to the financial statements.

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company's financial statements. Accordingly, it is possible that the actual results could differ from these estimates and assumptions that could have a material effect on the reported amounts of the Company's financial position and results of operations.

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.

Inventory

The Company records inventories at the lower of cost or market on a first-in, first-out basis. Our product inventory is reviewed each month and also when the re-order of the product is necessary. On a monthly basis, our inventory is reviewed based on the expiration of our existing inventory. Product that has a shelf-life of less than 60 days is written off or discounted.

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

Revenue Recognition

The Company is in the business of selling nutritional products in three categories: dietary supplements, personal care products, and water filtration systems. Sales of personal care products and water filtration systems represent less than 5% of the overall revenue and therefore are not classified separately in the financial statements. The Company recognized revenue from product sales when the products are shipped and title passes to the customer. Administrative fees charged to the Independent Business Associates are included in the gross

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

sales and amounted to \$39,990 and \$41,096 for the three months ended March 31, 2006 and March 31, 2005 respectively.

8

Stock Options and Warrants Granted to Employees and Non-Employees

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

Going Concern

As shown in the accompanying financial statements, the Company had negative working capital of approximately \$1,578,000 and an accumulated deficit at March 31, 2006. The Company also has limited cash resources and a history of recurring losses. These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

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

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

NOTE 3 - ACCOUNTS RECEIVABLE AND CREDIT RISK

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

NOTE 4 - PROPERTY AND EQUIPMENT

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

9

NOTE 5 - INTANGIBLE ASSETS

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

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

Trademarks and Formulas

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

NOTE 6 - 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 March 31, 2006 and December 31, 2005 the Company has not issued any preferred stock.

Common Stock

The Company is authorized to issue 1,000,000,000 shares of common stock. All shares have equal voting rights, are non-assessable and have one vote per share. Voting rights are not cumulative and, therefore, the holders of more than 50% of the common stock could, if they choose to do so, elect all of the directors of the Company.

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

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

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.

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 stock options and warrants for the period ended December 31, 2005: estimated risk-free interest rate of 4%; no dividends to be paid; estimated volatility of 144% and term of two years.

Stock Options

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

10

During the period ended March 31, 2006, the Company recognized an expense to consulting of \$3,750 for all vested options.

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

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

	Number of Shares	Weighted Average Exercise Price
	-----	-----
Outstanding at December 31, 2005	16,252,390	\$ 0.14
Granted	--	--
Exercised	--	--
Forfeited	--	--
	-----	-----
Options outstanding at March 31, 2006	16,252,390	\$ 0.14
	=====	=====
Options exercisable at March 31, 2006	15,862,390	\$ 0.15
	=====	=====
Weighted average fair value of options granted		\$ --
		=====

Summarized information about stock options outstanding and exercisable at March 31, 2006 is as follows:

	Options Outstanding		
Exercise Price Range	Number of Shares	Weighted Ave. Remaining Life	Weighted Exercise Price
-----	-----	-----	-----
\$0.02 - \$0.26	16,252,390	0.61	\$
	Options Exercisable		
Exercise Price Range	Number of Shares	Weighted Ave. Remaining Life	Weighted Exercise Price
-----	-----	-----	-----
\$0.03 - \$0.26	15,862,390	0.59	\$

Summarized information about unvested but granted stock options outstanding at December 31, 2005 is as follows:

	Unvested Granted Options Outstanding		
Exercise Price Range	Number of Shares	Weighted Ave. Remaining Life	Weighted Exercise Price
-----	-----	-----	-----
\$0.02 - \$0.10	390,000	1.35	\$

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

	Number of Warrants -----	Weighted Average Remaining Life -----	Average Exerco -----
Outstanding and exercisable	11,516,621	3.50	\$0.21

11

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 products for a five-year renewable term. Management estimates that 87% of the Company's sales volume results from products supplied under this licensing agreement.

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

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

As of the date of these financial statements, the purchase requirements have not been made. The period for which the Licensor could request payment per the penalty clause has expired for the year and therefore we have not made any accrual to the Financial Statements. As well, we continue to purchase Nutri Diem products.

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 Amount -----
2006	\$218,469
2007	163,285
2008	141,841
2009	147,013
2010 and thereafter	309,544

Regulatory Risks and Claims

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

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

Standby Equity Distribution Agreement

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

12

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 - DISCONTINUED OPERATIONS

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

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

NOTE 10 - RELATED PARTY NOTE PAYABLE

The Company issued two promissory notes for a total of \$90,000 in December 2003. The notes are unsecured, non-interest bearing and are payable upon demand.

13

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

NOTE 11 - CONCENTRATIONS

Bank Accounts

The Company maintains its cash accounts in one commercial bank. During the year, the Company may maintain balances in excess of the federally insured amounts in the accounts that are maintained in the United States. The Company also maintains funds in commercial banks in Vancouver, British Columbia, in which funds in U.S. dollars are not insured or in Hong Kong where none of the funds are insured. At March 31, 2006 and December 31, 2005, a total of \$59,016 and \$56,088 respectively, was not insured.

Economic Dependence

During the year, the Company purchased approximately 90% of its products for resale from one company, Nutri-Diem Inc., which is the sole supplier of the Company's flagship product Calorad. Pursuant to a purchase agreement, the Company is subject to minimum purchases per annum. (See Note 8.)

NOTE 12 - RELATED PARTY TRANSACTIONS

On May 27, 2002, Mr. Jay Sargeant, a shareholder of Essentially Yours Industries, Corp. ("EYI Corp.") agreed to acquire all of the shares of the Essentially Yours Industries, Inc. ("EYII"), along with the transfer agreement, license agreement, and agency appointment agreement, in settlement of amounts owed to him. As part of this transaction, EYI Corp. agreed to provide to EYII the services outlined in a management agreement. The Company acquired, through agreements with Essentially Yours Industries, Corp. ("EYI Corp"), the rights, title, and interest in and to the contracts with the Company's Independent Business Associates as well as the rights and licenses to trademarks and formula for the Company's primary products.

Accounts payable to related parties represents amounts due to the President and Chief Executive Officer and to the Chief Operations Officer for services 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.

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

14

NOTE 13 - SUBSEQUENT EVENTS

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

On April 24, 2006 the Company entered into a Securities Purchase Agreement with the Cornell, TAIB Bank, and Certain Wealth (collectively the "Buyers" and together with the Company, the "Parties"). Pursuant to the Securities Purchase Agreement, the Company shall sell to the Buyers, and the Buyers shall purchase from the Company, convertible debentures in the aggregate principal amount of Four Million Five Hundred Thousand Dollars (\$4,500,000), plus accrued interest, which are convertible into shares of the Company's common stock, par value \$0.001 per, at the Buyers discretion. Of this aggregate amount, (a) One Million

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

Five Hundred Thousand Dollars (\$1,500,000) was funded on April 28, 2006, (b) One Million Five Hundred Thousand Dollars (\$1,500,000) shall be funded two (2) business days prior to the date a registration statement ("Registration Statement") is filed with the U.S. Securities and Exchange Commission ("SEC") and (c) One Million Five Hundred Thousand Dollars (\$1,500,000) shall be funded two (2) business days prior to the date that such Registration Statement is declared effective by the SEC. The Debentures mature on April 24, 2009, accrue interest at an annual rate of ten percent (10%) and shall be convertible into shares of the Company's common stock at the option of the holder, in whole or in part at any time and from time to time, at a conversion price equal to (a) \$0.06 or (b) eighty percent (80%) of the lowest Volume Weighted Average Price of the Company's common stock during the five (5) trading days immediately preceding the date of conversion as quoted by Bloomberg, LP.

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

On April 24, 2006 the Company issued to Cornell pursuant to the above mentioned debentures, seventeen (17) warrants to purchase up to an aggregate 124,062,678 shares of the Company's common stock at \$0.02 and \$0.40 per share. Each Warrant has "piggy back" registration rights and shall expire five (5) years from the date of issuance, on or about April 24, 2011.

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

FORWARD LOOKING STATEMENTS

The information in this discussion contains forward-looking statements. These forward-looking statements involve risks and uncertainties, including statements regarding EYI's capital needs, business strategy and expectations. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential" or "continue", the negative of such terms or other comparable terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors, including the risks outlined in the Risk Factors section below, and, from time to time, in other reports we file with the Securities and Exchange Commission (the "SEC"). These factors may cause our actual results to differ materially from any forward-looking statement.

OVERVIEW

We are in the business of selling, marketing, and distributing a product line consisting of approximately 27 nutritional products in three categories, dietary supplements, personal care products and water filtration systems. 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 380,000 IBAs, of which approximately 8,500 we consider "active". An "active" IBA is one who purchased our products within the preceding 12 months. Over 1,200 of these IBAs are considered "very active". A "very active" IBA is one who is on our automatic Auto-ship Program and is current with their annual administration fee. Our Auto-ship Program allows our IBAs to set up a reoccurring order that is automatically shipped to them each month.

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

On an ongoing basis we review our product line for duplication and sales trends and make adjustments accordingly. As of March 31, 2006, our product line consisted of: (i) 18 dietary supplement products; (ii) 7 personal care products consisting primarily of cosmetic and skin care products and (iii) 2 water filtration systems. Our products are primarily manufactured by Nutri-Diem, Inc., a related party, and sold by us under a license and distribution agreement with Nutri-Diem. Certain of our own products are manufactured for us by third party manufacturers pursuant to formulations developed for us. Our products are sold to our IBAs located in the United States, Canada and Asia.

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

Recent Corporate Developments

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

- o On April 24, 2006 we entered a Securities Purchase Agreement with Cornell Capital Partners, LP ("Cornell") pursuant to which we entered into the following agreements: an Investor Registration Rights Agreement, Irrevocable Transfer Agent Instructions and a Security Agreement. Pursuant to the terms of the Share Purchase Agreement, we may sell convertible debentures to Cornell in the amount of \$4,500,000 plus accrued interest which are convertible into shares of our common stock. Of this amount \$1,500,000 must be paid five days after April 24, 2006, \$1,500,000 must be paid two (2) business days prior to the date a registration statement is filed with the SEC and \$1,500,000 shall be paid two (2) business days prior to the date that such registration statement is declared effective by the SEC. We received proceeds of \$1,305,000 (net of fees associated with the issuance of the convertible debentures) on April 27, 2006 in connection with the issuance of \$1,500,000 of convertible debentures in the following amounts: \$750,000 to Cornell, \$416,667 to Taib Bank, B.S.C., and \$333,333 to Certain Wealth, Ltd. pursuant to the terms of the Securities Purchase Agreement.
- o Pursuant to the terms of the Securities Purchase Agreement and the issuance of our convertible debentures, on April 24, 2006 we issued to Cornell seventeen warrants to purchase up to an aggregate 124,062,678 shares of our common stock at the discretion of Cornell (collectively, the

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

"Warrants") each for good and valuable consideration. Cornell is entitled to purchase from us: (1) 10,416,650 shares of our common stock at \$0.02 per share, (2) 13,888,866 shares of our common stock at \$0.03 per share, (3) 10,416,650 shares of our common stock at \$0.04 per share, (4) 8,333,320 shares of our common stock at \$0.05 per share, (5) 6,944,433 shares of our common stock at \$0.06 per share, (6) 5,952,371 shares of our common stock at \$0.07 per share, (7) 11,250,000 shares of our common stock at \$0.08 per share, (8) 10,000,000 shares of our common stock at \$0.09 per share, (9) 19,000,000 shares of our common stock at \$0.10 per share, (10) 8,181,818 shares of our common stock at \$0.11 per share, (11) 7,500,000 shares of our common stock at \$0.12 per share, (12) 3,333,333 shares of our common stock at \$0.15 per share, (13) 2,500,000 shares of our common stock at \$0.20 per share, (14) 2,000,000 shares of our common stock at \$0.25 per share, (15) 1,666,666 shares of our common stock at \$0.30 per share, (16) 1,428,571 shares of our common stock at \$0.35 per share and (17) 1,250,000 shares of our common stock at \$0.40 per share upon surrender of the Warrants (or as subsequently adjusted pursuant to the terms of each Warrant) . Each Warrant has "piggy back" registration rights and shall expire five (5) years from the date of issuance, on or about April 24, 2011..

16

- o On April 6, 2006 Essentially Yours Industries (International) Limited ("EYIINT"), our wholly owned subsidiary, signed a Letter of Intent and Good Faith Commitment ("LOI") with Raul Bautista and Rommel Panganiban to act as managing partners and distributors for the Philippines. The LOI is subject to the entry into a definitive agreement between the parties on or before July 1, 2006.
- o On April 3, 2006 we signed a termination agreement ("Termination Agreement") with Cornell terminating our Standby Equity Distribution Agreement, Registration Rights Agreement and Escrow Agreement previously entered into with Cornell on May 13, 2005.
- o On March 14, 2006 we entered into an agreement with Porter Public Relations, Inc. ("Porter") pursuant to which Porter will provide us with certain public relations services to promote the launch of the Code Blue water filtration system and the Longevity Series consisting of Calorad(R), Prosoteine(R) and Calorad(R) Cream. In consideration of which we agreed to pay Porter a fee of \$5,000 per month for up to 40 hours per month. The agreement is on a month to month term.
- o On February 6, 2006 the Jay Sargeant Trust was dissolved and the related shares were disbursed to the beneficiaries. In connection with this transaction, 268,639 common shares were returned to treasury at par value.
- o On January 27, 2006 we entered into a Consulting Agreement with Mr. Lou Prescott, for a period of six (6) months and US\$5,000 per month to provide EYI with assistance in developing Mr. Prescott's business to business marketing model for EYI. Pursuant to the terms of the agreement we also agreed to purchase Mr. Prescott's gold lead system and during the term of the agreement, to provide Mr. Prescott with 100% of the leads generated by the system.
- o On January 19, 2006, we entered into an agreement with Global Consulting Group Inc. ("Global") on a month to month basis. Global provided investor relations services and created investor awareness for a fee of \$15,000.00 USD per month. This agreement was terminated on April 17, 2006.

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

2006 Growth Strategy

New Product Introduction. During 2005, we introduced our new product, Code Blue(TM). The initial shipment of Code Blue Filters did not meet EYI product specifications. However, in January of 2006, we received a revised version of the Code Blue filter called the G-4 which we believe, meets our product specifications.

We intend to aggressively promote Code Blue systems through a year long promotional tour campaign ("North American Tour" or "Tour"). Our intent is to host approximately 120 regional training meetings with audiences of up to 100 people and 30 larger conferences in targeted cities where we can train and market to larger audiences of 150 to 300. We have selected cities to host these events where we believe there is a greater interest in the product and a concentration of our active IBAs. We intend to use a group of 5 to 6 veteran IBA's to act as our Regional Trainers and to work in concert with our management team to promote, coordinate, and host these events. We anticipate that the total cost of the North American Tour campaign will be approximately \$240,000. We anticipate an offset to this cost by way of sales that occur at these events and through ongoing residual sales generated by the new IBAs enrolled in our system as a result of this Tour.

17

International Expansion. We opened our Hong Kong office in September 2005. The office is intended to be used to service distributors and provide a product pick up depot for Code Blue(TM), Calorad(R), Prosoteine(R), Agrisept-L(R) and Definition(R) drops and cream, and the newest EYI product, Calorad Cream. The new office will also play a role in supporting the sales, distribution and logistics of the CEIEC agency agreement.

In January 2006, we relocated our Executive Vice President and COO, Dori O'Neill to Hong Kong for six months after which, Mr. O'Neill will continue his work in Asia from his office in Burnaby, BC and through periodic trips to Asia. Mr. O'Neill is expected to play a key role in our Asian market initiative. His initial focus will be to introduce and train our unified global binary program to new Asian IBAs. In addition, Mr. O'Neill will also focus on researching and reviewing other locations and markets for expansion.

In April 2006, our subsidiary, Essentially Yours Industries (International) Limited, signed a Letter of Intent and Good Faith Commitment with Raul Bautista and Rommel Panganiban to act as managing partners and distributors for the Philippines. Once a definitive agreement is reached, EYI will work with this group to get them operational within one to two months.

RESULTS OF OPERATIONS

First Quarter Summary

	Three months March 31, 2006	Three months March 31, 2005	
Revenue	\$1,108,759	\$1,313,768	-\$205,01
Cost of goods sold	\$ 287,952	\$ 251,149	\$ 36,80
Gross profit before commissions expense	\$ 820,807	\$1,062,619	\$241,81

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

Commission expense	\$ 385,443	\$ 471,605	-\$ 86,16
Gross profit after cost of goods sold and commissions	\$ 435,364	\$ 591,015	\$155,65
Operating expenses	\$1,324,361	\$1,237,108	\$ 87,25
Operating loss	-\$888,996	-\$646,093	\$242,90

Revenues

During the three months ended March 31, 2006 we had total revenues of \$1,108,759 as compared to revenues of \$1,313,768 for the same period in 2005 which represents a decline of \$205,010 or 15.6%. The decrease in our revenues can be primarily attributed to the following factors:

- o Our inability to attract new IBA's
- o Lack of IBA participation in our auto-ship program
- o our inability to fund marketing initiatives and programs that may promote growth within new markets and existing ones

Gross Profit

During the three months ended March 31, 2006 as compared to the same period in 2005, we had gross profits of \$820,807 and \$1,062,620 respectively. This represents a decline of \$241,813 or 22.76%. The decline in our gross profit is primarily attributed to our decreased binary sales in relation to other revenue segments that have a higher percentage of cost-of-goods.

18

Revenue by Segments

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

Revenue by Segments

	Three months March 31, 2006	Three months March 31, 2005		Variance
Administration fees	\$ 39,990	\$ 41,096	\$ 1,106	-2.69%
Binary Sales	\$ 762,195	\$ 948,422	\$ 186,227	-19.64%
Direct sales	\$ 201,677	\$ 212,741	\$ 11,064	-5.20%
Affiliate sales	\$ 100,612	\$ 82,745	\$ 17,867	21.59%
Warehouse	\$ --	\$ 24,700	\$ -24,700	-100.00%
Sales Aids	\$ 4,285	\$ 4,065	\$ 220	5.41%
	\$ 1,108,759	\$ 1,313,768	-\$205,010	-15.60%

Details of the most significant changes from the quarter ended March 31, 2006 to the year ended March 31, 2005 are detailed below:

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

Binary sales - The binary sales segment represents \$762,195 or 69% of the total revenue earned during the quarter ended March 31, 2006, as compared to \$948,422 or 74% of the total revenues earned during the quarter ended March 31, 2005. Management believes that our inability to properly fund our marketing initiatives hindered growth and retention in this segment. EYI pays out a maximum of 50% commission on binary sales.

Direct sales - The direct sales segment represents \$201,677 or 18% of the total revenue earned during the quarter ended March 31, 2006, as compared to \$212,741 or 17% of the total revenues earned during the quarter ended March 31, 2005. No commissions are paid out on direct sales.

Affiliate sales - The affiliate sales segment represents \$100,612 or 9% of the total revenue earned during the quarter ended March 31, 2006, as compared to \$82,745 or 6% of the total revenues earned during the quarter ended March 31, 2005. EYI pays approximately 31% commissions on direct sales.

Expenses

Operating expenses:

The following table summarizes operating expenditures for the periods indicated:

Operating Expenses

	Three months March 31, 2006	Three months March 31, 2005	Variance
	-----	-----	-----
Consulting fees	\$ 259,736	\$ 237,962	\$ 21,774
Legal and professional fees	\$ 74,482	\$ 69,125	\$ 5,357
Customer service	\$ 40,416	\$ 86,534	\$ 46,118
Finance and administration	\$ 499,973	\$ 208,080	\$ 291,893
Sales and marketing	\$ 78,624	\$ 3,718	\$ 74,906
Telecommunications	\$ 30,660	\$ 119,162	\$ 88,502
Wages and benefits	\$ 277,571	\$ 406,627	\$ 129,056
Warehouse expense	\$ 62,898	\$ 105,900	\$ 43,002
	-----	-----	-----
	\$ 1,324,360	\$ 1,237,108	\$ 87,252

19

We incurred operating expenses in the amount of \$1,324,361 during the three months ended March 31, 2006, compared to \$1,237,108 for the three months ended March 31, 2005. The following explains the most significant changes for the periods presented:

Consulting fees - For the three months ended March 31, 2006, consulting fees totaled \$259,736 as compared to \$237,962 for the three months ended March 31, 2005. The net difference of \$21,774 or 9.15% is attributed to additional fees paid to consultants to assist in Sales & Marketing, Operations and Investor Relations

Customer Service - For the three months ended March 31, 2006, customer services fees totaled \$40,416 and represented 3% of our total operating expenditures, as compared to \$86,534 or 7% of the total operating expenditures for the three months ended March 31, 2005. These expenditures represent the services provided

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

by EYI Corp. pursuant to the terms of their management agreement with our subsidiary Essentially Yours Industries, Inc. ("EYII"). The reduction of expenditures is related to EYII utilizing other service providers to provide the services that were previously provided by EYI Corp.

Finance and administration - For the three months ended March 31, 2006, finance and administration fees totaled \$499,973 and represented 38% of our total operating expenditures, as compared to \$208,080 or 17% of the total operating expenditures for the three months ended March 31, 2005. The net increase of \$291,893 or 140.28% is primarily attributed to three main factors:

- o Additional finance charges of approximately \$165,000
- o Expenditures relating to Hong Kong operations of \$67,000
- o Investor relations fees of \$58,000

Sales & Marketing The Sales and Marketing expenses for the three months ended March 31, 2006 were \$78,624 as compared to \$3,718 for the three months ended March 31, 2005. We expensed approximately \$28,000 for cost associated with the registration of Code Blue in China. In addition, we expensed approximately \$40,000 for the Hong Kong Grand Opening event.

Wages and benefits - For the three months ended March 31, 2006, wages and benefits totaled \$277,571 and represented 21% of our total operating expenditures, as compared to \$406,627 or 33% of the total operating expenditures for the three months ended March 31, 2005. During the quarter ended March 31, 2005, we expensed approximate \$134,000 for vested employee stock options whereas for the same quarter in the 2006, no employee stock options vested.

Warehouse expenses - For the three months ended March 31, 2006, warehouse expense totaled \$62,898 and represented 5% of our total operating expenditures, as compared to \$105,900 or 9% of the total operating expenditures for the three months ended March 31, 2005. The decline in attributed primarily to our decision to close our fulfillment center, Halo Distribution LLC in April 2005 and outsource this service to a third party provider.

FINANCIAL CONDITION

Cash and Working Capital

	As at March 31, 2006	As at December 31, 2005	Varia
Current assets	\$ 582,666	382,057	\$200,609
Current Liabilities	2,160,742	2,347,087	-\$186,345
Working Capital (deficit)	-\$1,578,077	-\$1,965,030	\$386,953

We had cash of \$190,837 as at March 31, 2006, compared with cash of \$25,639 as at December 31, 2005. We had a working capital deficit at March 31, 2006 and December 31, 2005 of \$1,578,077 and \$1,965,030 respectively.

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

Liabilities

	As at March 31, 2006	As at December 31, 2005		Va
Accounts payable and accrued liabilities	\$ 1,427,120	1,929,049	\$	501,9
Accounts payable - related parties	\$ 643,622	328,038	\$	315,5
Notes payable - related party	\$ 90,000	90,000	\$	
	\$ 2,160,742	\$ 2,347,087		-\$186,3

We had a decrease of 26.02% in Accounts Payable and Accrued Liabilities during the three months ended March 31, 2006. We also experienced an increase of 96.20% in Accounts Payable-Related Parties during this same period. In both cases, the majority of the variance is due to a reclassification of debt owed to two of our officers in the amount of \$334,175. This amount was reclassified from Accounts Payable and Accrued Liabilities to Accounts Payable - Related Parties.

Cash Used in Operating Activities

Cash used in operating activities for the three months ended March 31, 2006 was \$901,226 compared to \$157,219 for the comparative period in 2005, representing an increase of \$743,707 or 472%.

Cash Provided by Financing Activities

Cash provided by financing activities for the three months ended March 31, 2006 was \$1,084,565, compared to \$157,219 for the three months ended March 31, 2005. Our financing activities are primarily through our financing agreements with Cornell Capital LLC.

Financing Requirements

Our consolidated interim financial statements included with this Quarterly Report on Form 10-QSB have been prepared assuming that we will continue as a going concern. As shown in the accompanying financial statements, we had negative working capital of approximately \$1,578,000 and an accumulated deficit of approximately \$12,223,137 incurred through March 31, 2006.

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

In the event that this financing does not support our operational cash flow requirements, then we may have to scale back our plan of operations and operating expenditures. We anticipate that we will continue to incur losses until such time as the revenues we are able to generate from sales and licensing of our products exceed our increased operating expenses. We base this expectation in part on the expectation that we will incur increased operating expenses in completing our stated plan of operations and there is no assurance that we will generate revenues that exceed these expenses.

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

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.

Inventory

We record inventories at the lower of cost or market on a first-in, first-out basis. Our product inventory is reviewed each month and also when the re-order of the product is necessary. On a monthly basis, our inventory is reviewed based on the expiration of our existing inventory. Product that has a shelf-life of less than 60 days is written off or discounted.

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

Revenue Recognition

We are in the business of selling nutritional products in three categories: dietary supplements, personal care products, and water filtration systems. Sales of personal care products and water filtration systems represent less than 5% of the overall revenue and therefore are not classified separately in the financial statements. We recognized revenue from product sales when the products are shipped and title passes to the customer. Administrative fees charged to the Independent Business Associates are included in the gross sales and amounted to \$39,990 and \$41,096 for the three months ended March 31, 2006 and March 31, 2005 respectively.

Stock Options and Warrants Granted to Employees and Non-Employees

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

Recent Accounting Pronouncements

New accounting pronouncements that have a current or future potential impact on

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

our financial statements are as follows:

In December 2004, the Financial Accounting Standards Board issued a revision to Statement of Financial Accounting Standards No. 123R, "Accounting for Stock Based Compensation." This statement supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This statement does not change the accounting guidance for share based payment transactions with parties other than employees provided in Statement of Financial Accounting Standards No. 123. This statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans." We have previously adopted SFAS 123 and the fair value of accounting for stock options and other equity instruments. We have determined that there was no impact to its financial statements from the adoption of this new statement.

22

RISKS AND UNCERTAINTIES

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

As of March 31, 2006, we had an accumulated deficit of \$12,223,137. We will need to generate significant revenues to achieve profitability, which may not occur. We expect operating expenses to increase as a result of the further implementation of our business plan. Even if we achieve profitability, we may be unable to sustain or increase profitability on a quarterly or annual basis in the future. It is possible that we will never achieve profitability.

Management has established plans designed to attempt to increase the sales of our products, and decrease debt. We plan on continuing to reduce expenses, and with small gains in any combination of network sales, direct sales, and international sales, believe that we will eventually be able to reverse the present deficit. Management intends to utilize the cash proceeds from the Securities Purchase Agreement with the Cornell, TAIB Bank, and Certain Wealth to assist in its operating cash flow shortages.

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

Our independent auditors have added an explanatory paragraph to their audit issued in connection with the financial statements for the period ended December 31, 2005, relative to our ability to continue as a going concern. We have negative working capital of approximately \$1,578,077 and an accumulated deficit incurred through March 31, 2006, which raises substantial doubt about our ability to continue as a going concern. Accordingly, there is substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

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

The loss of a significant number of IBAs, including any key IBA, for any reason, could adversely affect our sales and operating results, and could impair our ability to attract new IBAs. There is no assurance that our network marketing program will continue to be successful or that we will be able to retain or expand our current network of IBAs. Also, if our IBAs do not accept recent changes to our commission plan, our business may be adversely affected.

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

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

23

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

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:

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

- o 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.
- o is intended for ingestion in pill, capsule, tablet, or liquid form.
- o is not represented for use as a conventional food or as the sole item of a meal or diet.
- o is labeled as a "dietary supplement" .

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

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

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

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

Dietary Supplements

- o Calorad(R)
- o Agrisept-L(R)
- o Oxy-Up(R)
- o Triomin

- o Noni Plus(R)
- o Iso-Greens(R)
- o Definition (R) (drops)
- o Prosoteine(R)

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

Personal Care Products

- o Definition(R) (cream)
- o Calorad (R) (cream)

Water Filtration Products

- o Code Blue(TM)
- o Code Blue(TM) Filter

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:

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

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

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

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

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

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

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

- o the evolving interpretations of existing laws and regulations, and
- o 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

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

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:

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

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

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

26

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

A large portion of our sales is attributable to Calorad, if Calorad loses market share or loses favor in the marketplace, our financial results will suffer

A significant portion of our net sales is expected to be dependent upon our Calorad product. Calorad has traditionally represented more than 65% of our net sales and, although we hope to expand and diversify our product offerings, Calorad is expected to provide a large portion of our net sales in the foreseeable future. If Calorad loses market share or loses favor in the marketplace, our financial results will suffer.

Our products are subject to obsolescence, which could reduce our sales significantly

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

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

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

We have no manufacturing capabilities and we are dependent upon Nutri-Diem, Inc. and other companies to manufacture our products.

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

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

27

We are materially dependent upon our key personnel and the loss of such key consultants could result in delays in the implementation of our business plan or business failure.

We depend upon the continued involvement of Jay Sargeant, our President, Chief Executive Officer and Director, and Dori O'Neill, our Executive Vice President, Chief Operations Officer, Secretary, Treasurer and Director. As we are a 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.

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

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

Depending on the product category, our competition varies.

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

We may be subject to products liability claims and may not have adequate insurance to cover such claims. As with other retailers, distributors and manufacturers of products that are designed to be ingested, we face an inherent risk of exposure to product liability claims in the event that the use of our products results in injury.

We, like any other retailers and distributors of products that are designed to be ingested, face an inherent risk of exposure to product liability claims in the event that the use of products contain contaminants or include inadequate instructions with other substances. With respect to product liability claims, we have coverage of \$2,000,000 per occurrence and \$2,000,000 in the aggregate. Because our policies are purchased on a year to year basis, industry conditions or our own claims experience could make it difficult for us to secure the necessary insurance at a reasonable cost. In addition, we may not be able to secure insurance that will be adequate to cover liabilities. We generally do not obtain contractual indemnification from parties supplying raw materials or marketing our products. In any event, any such indemnification is limited by its terms and, as a practical matter, to the creditworthiness of the other party. In the event that we do not have adequate insurance or contractual indemnification, liabilities relating to defective products could require us to pay the injured parties' damages which are significant compared to our net worth or revenues.

We may be adversely affected by unfavorable publicity relating to our products or similar products manufactured by our competitors.

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

Because we have few proprietary rights, others can provide products and services

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

substantially equivalent to ours.

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

Our common stock is "penny stock", which may make it more difficult for investors to sell their shares due to suitability requirements

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

- o With a price of less than \$5.00 per share;
- o That are not traded on a "recognized" national exchange;
- o 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
- o In issuers with net tangible assets less than \$2.0 million (if the issuer has been in continuous operation for at least three years) or \$5.0 million (if in continuous operation for the last three years.

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

ITEM 3. CONTROLS AND PROCEDURES.

Evaluation Of Disclosure Controls And Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Our disclosure controls and procedures are designed to provide a reasonable level of assurance of achieving our disclosure control objectives. Our Principal Executive Officer and Principal Accounting Officer have concluded that our disclosure controls and procedures are, in fact, effective at this reasonable assurance level as of the period covered.

Changes In Internal Controls Over Financial Reporting

In connection with the evaluation of our internal controls during our last fiscal quarter, our Principal Executive Officer and Principal Financial Officer have determined that there are no changes to our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

ITEM 1. LEGAL PROCEEDINGS.

Other than as described below, we are not a party to any material legal proceedings and to our knowledge, no such proceedings are threatened or contemplated.

29

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. On May 1, 2006 we entered into a settlement agreement with Thomas Viccars, pursuant to which we will pay \$60,000 to Mr. Viccars in full and final settlement of all claims against EYI.

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. In February 2006, the Supreme Court of British Columbia made an order that EYI and Mr. Jay Sargeant be added to the lawsuit, and the Writ of Summons and Statement of Claim be amended to add the following claims: (a) against EYI, damages for unjust enrichment and breach of trust for any amount found to be owing by Essentially Yours Industries, Inc. plus interest and costs; and (b) against Jay Sargeant, damages for unjust enrichment and breach of trust for any amount found to be owing by Essentially Yours Industries, Inc. or Barry La Rose, plus interest and costs. The Plaintiffs' total claim is approximately \$478,000. On April 13, 2006, the plaintiffs amended their pleadings to assert claims against EYI and Jay Sargeant. EYI has entered an Appearance to the action and plans to file a Defence. Jay Sargeant has not been served with process. This matter is set for trial commencing September 11, 2006. The parties are presently negotiating to settle these claims.

3. Lease Agreement with Business Centers, LLC

In February 1999 our subsidiary, Halo Distribution, LLC entered into a Lease Agreement with Business Centers, LLC (the "Landlord"). This Lease Agreement was extended for a period of three years on January 5, 2004. We received a letter dated August 2, 2005 notifying us of a default by Halo under the lease agreement

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

and notice that the landlord intends to commence legal proceedings against Halo and EYI for the sum of \$150,000 for defaulted lease payments. We received a statement of claim from the landlord in November, 2005 naming Halo and us as defendants and requesting payment of the defaulted lease payments. On December 21, 2005 we entered into a written Settlement Agreement and Release with Halo Distribution, LLC and Business Centers, LLC agreeing to the terms and conditions of the settlement set forth in the agreement. Pursuant to the terms of the settlement agreement we agreed to transfer property with a value of \$46,875 to the Landlord in exchange for a release of all claims against EYI or its subsidiaries.

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

During the three months ended March 31, 2006, other than as disclosed below, we did not complete any sales of securities that were not registered pursuant to the Securities Act of 1933 (the "Securities Act") and have not been reported on our previous Quarterly Reports on Form 10-QSB during the year.

1. On April 24, 2006 we entered a Securities Purchase Agreement with Cornell Capital Partners, LP ("Cornell") pursuant to which we entered into the following agreements: an Investor Registration Rights Agreement, Irrevocable Transfer Agent Instructions and a Security Agreement. Pursuant to the terms of the Share Purchase Agreement, we may sell convertible debentures to Cornell in the amount of \$4,500,000 plus accrued interest which are convertible into shares of our common stock. Of this amount \$1,500,000 must be paid five days after April 24, 2006, \$1,500,000 must be paid two (2) business days prior to the date a registration statement is filed with the SEC and \$1,500,000 shall be paid two (2) business days prior to the date that such registration statement is declared effective by the SEC. We received proceeds of \$1,305,000 (net of fees associated with the issuance of the convertible debentures) on April 27, 2006 in connection with the issuance of \$1,500,000 of convertible debentures in the following amounts: \$750,000 to Cornell, \$416,667 to Taib Bank, B.S.C., and \$333,333 to Certain Wealth, Ltd. pursuant to the terms of the Securities Purchase Agreement. Each of the convertible debentures was issued pursuant to section 4(2) and Rule 506 of Regulation D of the Securities Act.

30

2. Pursuant to the terms of the Securities Purchase Agreement and the issuance of our convertible debentures, on April 24, 2006 we issued to Cornell seventeen warrants to purchase up to an aggregate 124,062,678 shares of our common stock at the discretion of Cornell (collectively, the "Warrants") each for good and valuable consideration. Cornell is entitled to purchase from us: (1) 10,416,650 shares of our common stock at \$0.02 per share, (2) 13,888,866 shares of our common stock at \$0.03 per share, (3) 10,416,650 shares of our common stock at \$0.04 per share, (4) 8,333,320 shares of our common stock at \$0.05 per share, (5) 6,944,433 shares of our common stock at \$0.06 per share, (6) 5,952,371 shares of our common stock at \$0.07 per share, (7) 11,250,000 shares of our common stock at \$0.08 per share, (8) 10,000,000 shares of our common stock at \$0.09 per share, (9) 19,000,000 shares of our common stock at \$0.10 per share, (10) 8,181,818 shares of our common stock at \$0.11 per share, (11) 7,500,000 shares of our common stock at \$0.12 per share, (12) 3,333,333 shares of our common stock at \$0.15 per share, (13) 2,500,000 shares of our common stock at \$0.20 per share, (14) 2,000,000 shares of our common stock at \$0.25 per share, (15) 1,666,666 shares of our common stock at \$0.30 per share, (16) 1,428,571 shares of our common stock at \$0.35 per share and (17) 1,250,000 shares of our common stock at \$0.40 per share upon

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

surrender of the Warrants (or as subsequently adjusted pursuant to the terms of each Warrant) . Each Warrant has "piggy back" registration rights and shall expire five (5) years from the date of issuance, on or about April 24, 2011.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

None.

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

(a) Exhibits

Exhibit Number	Description of Exhibit
3.1	Articles of Incorporation.(1)
3.2	Certificate of Amendment to Articles of Incorporation dated December 29, 2003.(
3.3	Certificate of Amendment to Articles of Incorporation dated December 31, 2003.(
3.4	Bylaws.(1)
3.5	Amended Bylaws. (12)
3.6	Certificate of Amendment to Articles of Incorporation dated March 30, 2006(23)
5.1	Opinion re: legality (24)
10.1	Consulting Agreement, dated as of November 5, 2002, between Essentially Yours I corporation, and Flaming Gorge, Inc.(1)

31

Exhibit Number	Description of Exhibit
10.2	Consulting Agreement, dated as of November 5, 2002, between Essentially Yours I corporation, and O'Neill Enterprises, Inc.(1)
10.3	Registration Rights Agreement, dated December 31, 2003, by and among Safe ID Co corporation, and certain shareholders of EYI Industries, Inc., A Nevada corpora
10.4	Stock Compensation Program(4)
10.5	Consulting Agreement dated December 27, 2003 between Rajesh Raniga Inc. and Saf
10.6	Consulting Agreement dated January 1, 2004 between EYI Industries, Inc. and O'N
10.7	Consulting Agreement dated January 1, 2004 between EYI Industries, Inc. and Fla
10.8	Addendum to the Distribution and License Agreement between Essentially Yours In Nutri-Diem Inc. dated April 30, 2004.(6)
10.9	Letter Agreement dated May 4, 2004 between Eye Wonder, Inc. and EYI Industries,
10.10	Standby Equity Distribution Agreement, dated June 22, 2004 by and between EYI I Cornell Capital Partners, LP(6)

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

10.11	Registration Rights Agreement, dated June 22, 2004 by and between EYI Industries Capital Partners, LP(6)
10.12	Escrow Agreement, dated June 22, 2004 by and between EYI Industries, Inc. and C LP(6)
10.13	Placement Agent Agreement, dated June 22, 2004 by and between EYI Industries, I Partners, LP(6)
10.14	Compensation Debenture, dated June 22, 2004(7)
10.15	Securities Purchase Agreement, dated June 22, 2004 by and between EYI Industries Capital Partners, LP(6)
10.16	Investor Registration Rights Agreement, dated June 22, 2004 by and between EYI Cornell Capital Partners, LP(6)
10.17	Security Agreement, dated June 22, 2004 by and between EYI Industries, Inc. and Partners, LP(6)
10.18	Irrevocable Transfer Agent Instructions, dated June 22, 2004, by and among EYI Capital Partners, LP and Corporate Stock Transfer(6)
10.19	Escrow Agreement, dated June 22, 2004 by and among EYI Industries, Inc., Cornell and Butler Gonzalez, LLP(6)
10.20	Form of Secured Convertible Debenture(6)
10.21	Form of Warrant(7)
10.22	Letter Agreement dated May 25, 2004 between EYI Industries, Inc. and Source Cap
10.23	Lease Agreement dated May 1, 2003 among 468058 B.C. Ltd., 642706 B.C. Ltd., Ess Corp., and Essentially Yours Industries, Inc. (8)
10.24	5% Secured Convertible Debenture dated September 24, 2004 between EYI Industries Capital Partners, LP(8)
10.25	5% Secured Convertible Debenture dated September 27, 2004 between EYI Industries
10.26	5% Secured Convertible Debenture dated September 27, 2004 between EYI Industries
10.27	Assignment Agreement dated September 27, 2004 between Cornell Capital Partners, (8)
10.28	Assignment Agreement dated September 27, 2004 between Cornell Capital Partners
10.29	Joint Venture Agreement dated May 28, 2004 between EYI Industries, Inc., World and Supra Group, Inc.(9)
10.30	Indenture of Lease Agreement dated January 3, 2005 between Golden Plaza Company and 642706 B.C. Ltd.(10)

Exhibit Number	Description of Exhibit
-----	-----
10.31	Consulting Services Agreement dated March 5, 2004 between EYI Industries, Inc. Corp.(13)
10.32	Letter dated May 25, 2004 between Source Capital Group, Inc. and EYI Industries
10.33	Loan Agreement between Janet Carpenter and EYI Industries, Inc., dated Februar
10.34	Promissory Note dated February 10, 2005 between Janet Carpenter and EYI Industr
10.35	Bonus Share Agreement between Janet Carpenter and EYI Industries, Inc. dated Fe
10.36	Pledge and Escrow Agreement dated February 24, 2005 between Janet Carpenter, Co LP and David Gonzalez. (15)
10.37	Guaranty Agreement dated February 24, 2005 between Janet Carpenter, Cornell Cap
10.37	Secured Promissory Note dated February 24, 2005 between EYI Industries, Inc. an Partners, LP(15)
10.39	Agreement dated April 22, 2005 between Essentially Yours Industries Inc. and So
10.40	Reseller Agreement dated May 11, 2005 between Essentially Yours Industries Inc. Removal Technology, Inc. (16)
10.41	Termination Agreement dated May 13, 2005 between EYI Industries Inc. and Cornel
10.42	Standby Equity Distribution Agreement dated May 13, 2005 between EYI Industries Partners, LP(17)

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

10.43	Registration Rights Agreement dated May 13, 2005 between EYI Industries Inc. and Partners, LP (17)
10.44	Escrow Agreement dated May 13, 2005 between EYI Industries Inc. and Cornell Capital
10.45	Placement Agent Agreement dated May 13, 2005 between EYI Industries Inc. and Cornell Capital LP (17)
10.46	Consulting Agreement dated June 1, 2005 between EYI Industries, Inc. and Eliza
10.47	Addendum to the Reseller Agreement dated June 1, 2005 between Essentially Yours Metals & Arsenic Removal Technology, Inc. (18)
10.48	Non-Circumvention and Non-Disclosure Agreement dated July 14, 2005 between Essentially Yours Inc. and Metals & Arsenic Removal Technology, Inc. (18)
10.49	Promissory Note dated August 1, 2005 between EYI Industries Inc. and Cornell Capital
10.50	Investor Relations Agreement dated July 28, 2005 between EYI Industries, Inc. and Investor Relations Corp. (18)
10.51	China Agency Agreement entered into with Guangzhou Zhongdian Enterprises (Group) Electronics Import and Export South China Corporation. Dated September 15, 2005
10.52	Logistics Management Agreement dated September 1, 2005 between Essentially Yours Limited and All In One Global Logistics Ltd. (20)
10.53	Contract for Legal Services dated September 1, 2005 between EYI Industries Inc. and Investor Relations Corporation (21)
10.54	Amended Investor Relations Agreement dated October 5, 2005 between EYI Industries Inc. and Investor Relations Corp. (22)
10.55	Settlement Agreement dated December 21, 2005 between EYI Industries, Inc., Halo Business Centers, LLC. (23)
10.56	Global Consulting Group Agreement dated January 19, 2006 entered into with Global Consulting Group and EYI Industries Inc. (23)
10.57	Consulting Agreement dated January 27, 2006 entered into with Lou Prescott and EYI Industries, Inc. (23)
10.58	Termination Agreement dated April 3, 2006 between EYI Industries Inc. and Cornell Capital
10.59	Letter of Intent dated April 6, 2006 between Essentially Yours Industries (International) Rommel Panganiban and Raul Batista
10.60	Securities Purchase Agreement, dated as of April 24, 2006, by and between EYI Industries Inc. and Buyers listed therein (24)

33

Exhibit Number -----	Description of Exhibit -----
10.61	Registration Rights Agreement, dated as of April 24, 2006, by and between EYI Industries Inc. and Buyers listed therein (24)
10.62	\$750,000 Secured Convertible Debenture No. CCP-1, dated as of April 24, 2006, between EYI Industries Inc. and Partners, LP (24)
10.63	\$333,333 Secured Convertible Debenture CW-1, dated as of April 24, 2006, between EYI Industries Inc. and Partners, LP (24)
10.64	\$416,667 Secured Convertible Debenture TAIB-1, dated as of April 24, 2006, between EYI Industries Inc. and Partners, LP (24)
10.65	Security Agreement, dated as of April 24, 2006, issued to Cornell Capital Partners
10.66	Warrant No. CCP-001, dated April 24, 2006, issued by the Company to Cornell Capital Partners
10.67	Warrant No. CCP-002, dated April 24, 2006, issued by the Company to Cornell Capital Partners
10.68	Warrant No. CCP-003, dated April 24, 2006, issued by the Company to Cornell Capital Partners
10.69	Warrant No. CCP-004, dated April 24, 2006, issued by the Company to Cornell Capital Partners
10.70	Warrant No. CCP-005, dated April 24, 2006, issued by the Company to Cornell Capital Partners
10.71	Warrant No. CCP-006, dated April 24, 2006, issued by the Company to Cornell Capital Partners
10.72	Warrant No. CCP-007, dated April 24, 2006, issued by the Company to Cornell Capital Partners
10.73	Warrant, No. CCP-008, dated April 24, 2006, issued by the Company to Cornell Capital Partners
10.74	Warrant No. CCP-009, dated April 24, 2006, issued by the Company to Cornell Capital Partners

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

10.75	Warrant No. CCP-010, dated April 24, 2006, issued by the Company to Cornell Cap
10.76	Warrant No. CCP-011, dated April 24, 2006, issued by the Company to Cornell Cap
10.77	Warrant No. CCP-012, dated April 24, 2006, issued by the Company to Cornell Cap
10.78	Warrant No. CCP-013, dated April 24, 2006, issued by the Company to Cornell Cap
10.79	Warrant No. CCP-014, dated April 24, 2006, issued by the Company to Cornell Cap
10.80	Warrant No. CCP-015, dated April 24, 2006, issued by the Company to Cornell Cap
10.81	Warrant No. CCP-016, dated April 24, 2006, issued by the Company to Cornell Cap
10.82	Warrant No. CCP-017, dated April 24, 2006, issued by the Company to Cornell Cap
10.83	Irrevocable Transfer Agent Instructions, dated April 24, 2006, by and among the listed therein and Corporate Stock Transfer, Inc. (24)
10.84	Consulting Agreement dated May 1, 2006 between Essentially Yours Industries (Ho Chung (Freeda) Chan
14.1	Code of Ethics(5)
21.1	List of Subsidiaries(23)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbane
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbane
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Section 906 of the Sarbanes-Oxley Act of 2002

- (1) Filed as an exhibit to the registration statement on Form 10-SB/A of Safe ID Corporati
September 21, 2000.
- (2) Filed as an exhibit to the registration statement on Form SB-2 of
Essentially Yours Industries, Inc., filed with the SEC on November 12,
2002.
- (3) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on January 8,
- (4) Filed as an exhibit to our Registration Statement on Form S-8, filed with the SEC on Mar
- (5) Filed as an exhibit to our annual report on Form 10-KSB for the year ended December 31,
on April 14, 2004.
- (6) Filed as an exhibit to our quarterly report on Form 10-QSB for the period ended March
SEC on May 24, 2004.
- (7) Filed as an exhibit to our registration statement on Form SB-2, filed
with the SEC on September 17, 2004. (8) Filed as an exhibit to our
quarterly report on Form 10-QSB for the period ended September 30,
2004, filed with
the SEC on November 22, 2004.
- (9) Filed as an exhibit to our Amendment No. 1 to our registration statement on Form SB-2 on
- (10) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on January 12,
- (11) Filed as an exhibit to our quarterly report on Form 10-QSB for the period ended Septembe
the SEC on November 22, 2004.
- (12) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on March 10, 2
- (13) Filed as an exhibit to our quarterly report on Form 10-QSB/A for the period ended March
SEC on December 15, 2004.
- (14) Filed as an exhibit to our quarterly report on Form 10-QSB/A for the period ended June
SEC on December 15, 2004.
- (15) Filed as an exhibit to our annual report on Form 10-KSB for the period ended December
SEC on April 18, 2005.
- (16) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on May 17, 200
- (17) Filed as an exhibit to our Quarterly Report on Form 10-QSB for the period ended March
SEC on May 23, 2005.
- (18) Filed as an exhibit to our Quarterly Report on Form 10-QSB for the period ended June 30,
August 19, 2005

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

- (19) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on September 2
- (20) Filed as an exhibit to our quarterly report on Form 10-QSB for the period ended September
November 21, 2005
- (21) Filed as an exhibit to our quarterly report on Form 10-QSB for the period ended September
November 21, 2005
- (22) Filed as an exhibit to our quarterly report on Form 10-QSB for the period ended September
November 21, 2005
- (23) Filed as an exhibit to our annual report on Form 10-KSB for the period ended December 31
March 31, 2006
- (24) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on April 28, 2

(b) Reports on Form 8-K:

Date of SEC filing of Form 8-K	Description of the Form 8-K
May 11, 2006	Amendment No. 1 to Form 8-K filed on April 28, 2006
April 28, 2006	Disclosure of Entry into Material Definitive Agreements with C Capital Partners
April 3, 2006	Disclosure of Termination Agreement with Cornell Capital Part

35

SIGNATURES

In accordance with requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EYI INDUSTRIES, INC.

By: /s/ Jay Sargeant

Jay Sargeant
President, Chief Executive Officer,
and Director
(Principal Executive Officer)
Date: May 15, 2006

By: /s/ Rajesh Raniga

Rajesh Raniga
Chief Financial Officer
(Principal Accounting Officer)
Date: May 15, 2006

36