

ENTHEOS TECHNOLOGIES INC
Form 10QSB
August 14, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

Mark One)

X QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended June 30, 2003

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

ENTHEOS TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

NEVADA

(State or other jurisdiction of
incorporation)

000-30156

(Commission File Number)

98-0170247

(I.R.S Employer
Identification No.)

1628 West 1st Avenue, Suite 216, Vancouver, British Columbia, V6J 1G1

(Address of principal executive offices)

(604-659-5005)

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

State the number of shares outstanding of each of the Issuer's classes of common equity as of the latest practicable date. As of July 25, 2003, there were 16,104,187 shares of the Issuer's Common Stock, \$0.00001 par value per share outstanding.

Transitional Small Business Disclosure Format (Check One): Yes [] No [x]

ENTHEOS TECHNOLOGIES, INC.

FORM 10-QSB, QUARTER ENDED JUNE 30, 2003

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ITEM 1. Financial Statements

The accompanying unaudited financial statements of Entheos Technologies, Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Rule 10-01 of Regulation S-X. All adjustments, which, in the opinion of management, are necessary for a fair presentation of the financial condition and results of operations, have been included. Operating results for the period ended June 30, 2003 and are not necessarily indicative of the results that

may be expected for the year ending December 31, 2003.

ENTHEOS TECHNOLOGIES, INC. AND SUBSIDIARIES

INTERIM CONSOLIDATED BALANCE SHEET

JUNE 30, 2003

(Unaudited)

ASSETS

Current assets

Cash	\$ <u>530,383</u>
Total current assets	530,383

Property and equipment, net (Note 3)	121,808
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Marketable Equity Securities	<u>65,468</u>
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Total Assets	<u>\$717,659</u>
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities

Accounts payable and accrued expenses	\$15,967
Accounts payable - Related Party (Note 4)	6,733
Capital Lease Obligation - Current	<u>3,919</u>
Total current liabilities	26,619

Long Term Liabilities

Capital Lease Obligation-Noncurrent	<u>15,456</u>
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Total Liabilities	<u>42,075</u>
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Stockholders' Equity

Preferred stock: \$0.0001 par value; authorized shares, 5,000,000 shares; issued and outstanding, none	None
Common Stock: \$0.00001 par value; authorized shares, 200,000,000; issued and outstanding, 16,104,187	161
Additional paid in capital	3,853,921

Accumulated Other Comprehensive Income	17,418
Accumulated deficit	<u>(3,195,916)</u>
Total stockholders' equity	<u>675,584</u>
Total Liabilities and Stockholders' Equity	<u>\$717,659</u>

See condensed notes to consolidated financial statements.

ENTHEOS TECHNOLOGIES, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2003 AND 2002

(Unaudited)

	For The Three Months Ended <u>June 30, 2003</u>	For The Three Months Ended <u>June 30, 2002</u>	For The Six Months Ended <u>June 30, 2003</u>	For The Six Months Ended <u>June 30, 2002</u>
Revenues (Related Party Three and six months: \$241,442 and \$401,772, respectively)	\$0	\$251,442	\$0	\$416,772
Cost of revenues	<u>0</u>	<u>46,874</u>	<u>0</u>	<u>91,315</u>
Gross Profit	0	204,568	0	325,457
General and administrative expenses				
Management fees related party	36,000	36,000	72,000	72,000
Salaries and wages	64,114	28,242	143,642	57,964
Depreciation	31,330	33,034	62,660	44,045
Other operating expenses	<u>56,939</u>	<u>9,810</u>	<u>116,192</u>	<u>39,798</u>
Total general and administrative expenses	<u>188,383</u>	<u>107,086</u>	<u>394,494</u>	<u>213,807</u>
Operating income (loss)	(188,383)	97,482	(394,494)	111,650

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Interest income	1,741	3,721	3,939	9,921
Provision for income taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net income (loss) available to common stockholders	<u>\$(186,642)</u>	<u>\$101,203</u>	<u>\$(390,555)</u>	<u>\$121,571</u>
Basic and diluted income (loss) per common share	<u>\$(0.01)</u>	<u>\$0.05</u>	<u>\$(0.02)</u>	<u>\$0.06</u>
Basic and diluted weighted average common shares outstanding	<u>16,104,187</u>	<u>1,970,887</u>	<u>16,104,187</u>	<u>1,970,887</u>

See condensed notes to consolidated financial statements.

ENTHEOS TECHNOLOGIES, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002
(Unaudited)

	<u>2003</u>	<u>2002</u>
<u>Cash flows from operating activities</u>		
Net income (loss)	\$(390,555)	\$121,571
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation	62,660	44,045
Stock compensation cost	15,000	0
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	0	(89,433)
(Increase) decrease in prepaid rent	0	2,721

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(Increase) decrease in security deposit	9,290	0
(Increase) decrease in accrued interest receivable	0	(2,500)
Increase (decrease) in accounts payable	(7,060)	77,699
Total adjustments	79,890	32,532
Net cash provided by (used in) operating activities	(310,665)	154,103
<u>Cash flows from investing activities</u>		
Purchase of property and equipment	(186)	(57,724)
Net cash flows used in investing activities	(186)	(57,724)
<u>Cash flows from financing activities</u>		
Principal payments on capital lease obligations	(5,126)	0
Net cash flows used in investing activities	(5,126)	0
Increase (decrease) in cash and cash equivalents	(315,977)	96,379
Cash and cash equivalents, beginning of period	846,360	826,603
Cash and cash equivalents, end of period	<u>\$530,383</u>	<u>\$922,982</u>
Supplemental Information:		
Cash Paid For:		
Interest	-	-
Income Taxes	-	-
Non-cash Investing and Financing Activities:		
Satisfaction of officer loan through severance payable	\$43,267	-

See condensed notes to consolidated financial statements.

ENTHEOS TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 1 PRESENTATION OF INTERIM INFORMATION

The accompanying unaudited consolidated financial statements of Entheos Technologies, Inc. (referred to herein as the Company, unless the context indicates otherwise) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for all periods presented have been made.

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Actual results may differ from these estimates. The results of operations for the six-month period ended June 30, 2003 are not necessarily indicative of the operating results that may be expected for the entire year ending December 31, 2003. These financial statements should be read in conjunction with the Management's Discussion and Analysis or Plan of Operation section for this quarterly period, and the financial statements and notes thereto included in the Company's financial statements as of and for the year ended December 31, 2002, filed with the Company's Annual Report on Form 10-KSB.

Certain accounts have been reclassified to conform to the current period's presentation. These changes have no effect on previously reported results of operations or total stockholders' equity.

NOTE 2 EARNINGS PER SHARE

Basic earnings or loss per share is based on the weighted average number of shares outstanding during the period of the financial statements. Diluted earnings or loss per share are based on the weighted average number of common shares outstanding and dilutive common stock equivalents. All per share and per share information are adjusted retroactively to reflect stock splits and changes in par value, when applicable. All earnings or loss per share amounts in the financial statements are basic earnings or loss per share. The computation of basic income (loss) per share is as follows at June 30, 2003:

	For The Three Months Ended <u>June 30, 2003</u>	For The Three Months Ended <u>June 30, 2002</u>	For The Six Months Ended <u>June 30, 2003</u>	For The Six Months Ended <u>June 30, 2002</u>
Numerator-net income (loss) available to common stockholders	\$(<u>186,642</u>)	\$(<u>101,203</u>)	\$(<u>390,555</u>)	\$(<u>121,571</u>)

Denominator-weighted
average number of common
shares outstanding

<u>16,104,187</u>	<u>1,970.887</u>	<u>16,104,187</u>	<u>1,970.887</u>
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Basic and diluted income
(loss) per common share

<u>\$(0.01)</u>	<u>\$0.05</u>	<u>\$(0.02)</u>	<u>\$0.06</u>
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NOTE 3 PROPERTY AND EQUIPMENT

Property and Equipment consists of the following at June 30, 2003:

Computer equipment

\$519,322

Computer software

70,890

Vehicles under capital lease

30,360

Office Equipment

186

Furniture and Fixtures

11,614

Total

632,372

Less Accumulated Depreciation

510,566

Net Book Value

\$121,808

Depreciation expense charged to operations during 2003 was \$62,660 (2002: \$44,045).

NOTE 4 RELATED PARTY TRANSACTIONS

Revenues - Related Party Approximately 97% of Entheos' revenues were derived (i) 85% from Innotech Corporation (Innotech) for emailing services and (ii) 12% from e.deal.net, Inc. (edeal) for web development and hosting services. Until the first quarter of 2002, all of Entheos' revenues were derived from Innotech for emailing services. The significant decrease in revenues was due to the loss of the Company's principal client, EquityAlert.com, Inc., a subsidiary of Innotech Corporation, which ceased operation during October 2002. The Company and Innotech Corporation have a common Director and majority shareholder.

Accounts Payable - Related party Balance of severance pay due to the company's former president and director, who resigned on February 10th 2003. During the quarter ended June 30, 2003, the Company offset its balance due from a former officer with a payment due for severance wages to the same former officer in a non-cash transaction.

Management Fees During the six months ended June 30, 2003 and 2002, the Company charged \$72,000 and \$72,000, respectively, to operations for management and consulting fees incurred for services rendered by Mr. Harmel S. Rayat, a director and majority stockholder. There is no management or consulting agreement in place.

Properties The Company's office is located at Suite 216, 1628 West 1st Avenue, Vancouver, BC, V6J 1G1. These premises are owned by the wife and father of Mr. Harmel S. Rayat, a director and majority shareholder of the Company. At present, the Company pays no rent. The fair value of the rent has not been included in the financial statements because the amount is immaterial.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995:

Except for the historical information presented in this document, the matters discussed in this Form 10-QSB for the three month and six month periods ending June 30, 2003, and specifically in the items entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations", or otherwise incorporated by reference into this document, contain "forward-looking statements" (as such term is defined in the Private Securities Litigation Reform Act of 1995). These statements are identified by the use of forward-looking terminology such as "believes", "plans", "intend", "scheduled", "potential", "continue", "estimates", "hopes", "goal", "objective", "expects", "may", "will", "should" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. The safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, apply to forward-looking statements made by the Company.

The reader is cautioned that no statements contained in this Form 10-QSB should be construed as a guarantee or assurance of future performance or results. These forward-looking statements involve risks and uncertainties, including those identified within this Form 10-QSB. The actual results that the Company achieves may differ materially from any forward-looking statements due to such risks and uncertainties. These forward-looking statements are based on current expectations, and the Company assumes no obligation to update this information. Readers are urged to carefully review and consider the various disclosures made by the Company in this Form 10-QSB and in the Company's other reports filed with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect the Company's business.

Overview

Entheos Technologies Inc. ("Entheos" or the "Company"), through its wholly-owned subsidiary, Email Solutions, Inc., operates as an Application Service Provider developing reliable, scalable, real time, high volume outsourced email services. While the Company continues to market its email ASP services, which includes the deployment, management and hosting of pre-packaged software applications through centrally located servers, to date the Company has realized limited success at attracting new clients due to strong competition and a dearth of high volume email clients, many of whom are either entrenched with existing vendors or have developed in house applications and infrastructures. As a result, the Company presently operates on a limited basis and plans to sell its ASP business and use the sale proceeds, as well as other available cash, to invest in or develop other technology-based ventures.

Critical Accounting Policies

Our discussion and analysis or plan of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to income taxes and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies reflect its more significant estimates and assumptions used in the preparation of its financial statements.

Income Taxes

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered future market growth, forecasted earnings, future taxable income, and prudent and feasible tax planning strategies in determining the need for a valuation allowance. We currently have recorded a full valuation allowance against net deferred tax assets as we currently believe it is more likely than not that the deferred tax assets will not be realized.

Contingencies

We may be subject to certain asserted and unasserted claims encountered in the normal course of business. It is our belief that the resolution of these matters will not have a material adverse effect on our financial position or results of operations, however, we cannot provide assurance that damages that result in a material adverse effect on our financial position or results of operations will not be imposed in these matters. We account for contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

Results of operations

Revenues. The Company did not generate any revenues during 2003. The Company generated \$251,442 and \$416,772 in revenues for the three and six months ended June 30, 2002. Two of Entheos' customers each accounted for more than 10% of its revenues, both of which are represented by the same director as Entheos. Approximately 97% of Entheos' revenues were derived (i) 85% from Innotech Corporation ("Innotech") for emailing services and (ii) 12% from e.deal.net, Inc. ("e.deal") for web development and hosting services. Until the first quarter of 2002, all of Entheos' revenues were derived from Innotech for emailing services. The significant decrease in revenues was due to the loss of the Company's principal client, EquityAlert.com, Inc., a subsidiary of Innotech Corporation, which ceased operation during October 2002. The Company and Innotech Corporation have a common Director and majority shareholder.

Cost of revenues. The Company did not incur any costs of sales during 2003. The Company incurred \$46,874 and \$91,315 in cost of revenues for the three and six months ended June 30, 2002, respectively, representing 19% and

22% of revenues for the three and six-month periods ended June 30, 2002. The significant decrease in costs of revenues is a result of significantly lower personnel costs that contributed to the initial ongoing costs of developing and maintaining the Company's operations.

General and administrative expenses. During the three and six months ended June 30, 2003, the Company incurred \$188,383 and \$394,494, respectively, in general and administrative expenses, an increase of 76% and 85% from the same periods in 2002, which was primarily due to all salaries and wages classified as general and administrative expenses, due to the Company's lack of revenues during the six months ended June 30, 2003. During the three and six months ended June 30, 2002, the Company incurred \$107,086 and \$213,807, respectively, in general and administrative expenses.

Interest income. Interest income was \$1,741 and \$3,939 for the three and six-month period ended June 30, 2003 versus \$3,721 and \$9,921 for the same periods in 2002, respectively. The decrease in interest income is a direct result of changes in interest rates. Interest earned in the future will be dependent on Company funding cycles and prevailing interest rates.

Provision for income taxes. As of June 30, 2003, the Company's accumulated deficit was \$3,195,916 and as a result, there has been no provision for income taxes to date.

Net income (loss). For the three months ended June 30, 2003 and 2002, the Company recorded a net loss of \$186,642 and net income of \$101,203, respectively. For the six months ended June 30, 2003 and 2002, the Company recorded a net loss of \$390,555 and net income of \$121,571, respectively.

Liquidity and Capital Resources

As at June 30, 2003, the Company had a cash balance of \$530,383. The Company has financed its operations primarily through cash on hand during the six-month period ending June 30, 2003.

Net cash flows used in by operating activities was \$310,665 for the six-month period ending June 30, 2003, compared to net cash provided of \$154,103 for the same period in 2002, primarily due to net loss from operations. The Company believes it has sufficient cash to satisfy its cash requirements for the next twelve months.

Net cash flows used in investing activities was \$186 for the six-month period ending June 30, 2003, compared to \$57,724 for same period during 2002, resulting from lower equipment purchases during the periods presented.

The Company's future funding requirements will depend on numerous factors. These factors include the Company's ability to operate its business profitably in the future, recruit and train qualified management, technical and sales personnel, and the Company's ability to compete against other, better-capitalized corporations. The Company has adequate cash to satisfy its cash requirements over the next twelve months. The Company may raise additional funds through private or public equity investment in order to expand the range and scope of its business operations. There is no assurance that such additional funds will be available for the Company to finance its operations on acceptable terms, if at all.

RELATED PARTY TRANSACTIONS

Revenues - Related Party Approximately 97% of Entheos' revenues were derived (i) 85% from Innotech Corporation (Innotech) for emailing services and (ii) 12% from e.deal.net, Inc. (edeal) for web development and hosting services. Until the first quarter of 2002, all of Entheos' revenues were derived from Innotech for emailing services. The significant decrease in revenues was due to the loss of the Company's principal client, EquityAlert.com, Inc., a subsidiary of Innotech Corporation, which ceased operation during October 2002. The Company and Innotech Corporation have a common Director and majority shareholder.

Accounts Payable - Related Party During the quarter ended June 30, 2003, the Company offset \$43,267 due from a former president and director with a payment due for \$50,000 in severance wages to the same former individual in a non-cash transaction. As at June 30, 2003, severance pay of \$6,733 remained owing to the company's former president and director, who resigned on February 10, 2003.

Management Fees During the six months ended June 30, 2003 and 2002, the Company charged \$72,000 and \$72,000, respectively, to operations for management and consulting fees incurred for services rendered by Mr. Harmel S. Rayat, the chairman and majority stockholder. There is no management and consulting agreement in place.

Properties The Company's office is located at Suite 216, 1628 West 1st Avenue, Vancouver, BC, V6J 1G1. These premises are owned by the wife and father of the Company's Director and majority shareholder. At present, the Company pays no rent. The fair value of the rent has not been included in the financial statements because the amount is immaterial.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46 "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (FIN 46). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. Management does not anticipate that FIN 46 will have any effect on the on the Company.

In April 2003, the FASB issued SFAS No. 149, "Accounting for Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement is generally effective for 45 contracts entered into or modified after June 30, 2003, and all provisions should be applied prospectively. This statement does not affect the Company.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. This statement does not affect the Company.

Risk Factors of the Business

We have sought to identify what we believe to be the most significant risks to our business. However, we cannot predict whether, or to what extent, any of such risks may be realized nor can we guarantee that we have identified all possible risks that might arise. Investors should carefully consider all of such risk factors before making an investment decision with respect to our Common Stock. We provide the following cautionary discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here could adversely affect us.

Lack of Operating History

Our business is subject to the risks inherent in the establishment of a new business. Specifically, in formulating our business plan, we have relied on the judgment of our officers, directors and consultants but have not conducted any formal independent market studies concerning the demand for our services.

We have had limited revenues since inception. In 2002, we had revenues of \$919,418. We have not been profitable, experiencing an accumulated deficit of \$2,805,361 through December 31, 2002. Even if we become profitable in the future, we cannot accurately predict the level of, or our ability to sustain profitability. Because we have not yet been profitable and cannot predict any level of future profitability, you bear the risk of a complete loss of your investment in the event our business plan is unsuccessful.

The Company's ability to generate revenues and to achieve profitability and positive cash flow has depended on the successful commercialization of our ASP service, which has had limited success so far. Even if we eventually generate enough revenues from the sale of our services, we expect to incur significant operating losses over the next several years due to intense competition, a dearth of high volume email clients and low priced email software packages.

Intense Competition

The market for our services is intensely competitive, constantly evolving and subject to rapid technological change. We expect the intensity of competition to increase in the future. Increased competition may result in price reductions, changes in our pricing model, reduced gross margins and loss of market share, any one of which could materially damage our business. Many of our competitors have more resources and broader and deeper customer access than we do. In addition, many of these competitors have or can readily obtain extensive knowledge of our industry. Our competitors may be able to respond more quickly than we can to new technologies or changes in Internet user preferences and devote greater resources than we can to the development, promotion and sale of their services. We may not be able to maintain our competitive position against current and future competitors, especially those with significantly greater resources.

Dependence On Key Personnel

We depend on the continued service of our key technical, sales and senior management personnel and the loss of one or more of these individuals could cause us to incur increased operating expenses and divert other senior management time in searching for their replacements. We do not have employment agreements with any employee, nor do we maintain any key person life insurance policies for any of our key employees. The loss of any of our key technical, sales or senior management personnel could harm our business. In addition, we must attract, retain and motivate highly skilled employees. We face significant competition for individuals with the skills required to develop, market and support our services. We may not be able to recruit and retain sufficient numbers of highly skilled employees, and

as a result our business could suffer.

Dependence on One Customer

During the last two fiscal years, substantially all of our ASP revenues were generated from email services provided to EquityAlert.com, Inc., the subsidiary of Innotech Corporation. The Company and Innotech Corporation have a common Director and majority shareholder.

Our Subsidiary May Not be Saleable

Due to the rapid deterioration of market valuations for many Internet based ventures, including our wholly owned subsidiary, our planned sale of Email Solutions, Inc. may not generate enough to recoup our development costs. The satisfactory performance, reliability and ongoing availability of email services and network infrastructure is critical to attracting a potential purchaser. As a result, the Company will continue to incur operating expenses while the Company searches for a suitable buyer.

We use internally developed software and systems for operating our email services. If we add new features and functionality to our services, we could be required to develop or license additional technologies. Our inability to add additional software and hardware or upgrade our technology or network infrastructure could cause unanticipated system disruptions, slower response times, impaired quality of the users' experience and delay the potential sale of Email Solutions Inc.

Inability to Obtain Funding

We may not be able to obtain additional funding when needed, which could limit future expansion and marketing opportunities and result in lower than anticipated revenues. We may require additional financing to further develop our business and to pursue other technology-based business opportunities. If the market price of the common stock declines, some potential financiers may either refuse to offer us any financing or will offer financing at unacceptable rates or unfavorable terms. If we are unable to obtain financing on favorable terms, or at all, this unavailability could prevent us from expanding our business, which could materially impact our future potential revenues.

Continued Control by Management.

You may lack an effective vote on corporate matters and management may be able to act contrary to your objectives. As of April 1, 2003, our officers and board members own 14,782,948 of the 16,104,187 outstanding common stock, excluding stock options. If management votes together, it could influence the outcome of corporate actions requiring shareholder approval, including the election of directors, mergers and asset sales. As a result, new stockholders may lack an effective vote with respect to the election of directors and other corporate matters. Therefore, it is possible that management may take actions with respect to its ownership interest, which may not be consistent with your objectives or desires.

Adverse Effect From Future Sale of Stock

Future sales of large amounts of our common stock by existing stockholders pursuant to Rule 144 under the Securities Act of 1933, or following the exercise of outstanding options, could adversely affect the market price of our common stock. Substantially all of the outstanding shares of our common stock are freely tradable, without restriction or registration under the Securities Act, other than the sales volume reporting and transaction restrictions of Rule 144 applicable to shares held beneficially by persons who may be deemed to be affiliates. Our directors and executive officers and their family members are not under lockup letters or other forms of restriction on the sale of their common stock. The issuance of any or all of these additional shares upon exercise of options or warrants will dilute the voting power of our current stockholders on corporate matters and, as a result, may cause the market price of our common stock to decrease. Further, sales of a large number of shares of common stock in the public market could adversely affect the market price of the common stock and could materially impair our future ability to generate funds through sales of common stock or other equity securities.

We are considered a penny stock.

The Company's stock differs from many stocks, in that it is a "penny stock." The Securities and Exchange Commission has adopted a number of rules to regulate "penny stocks." These rules include, but are not limited to, Rules 3a51-1, 15g-1, 15g-2, 15g-3, 15g-4, 15g-5, 15g-6 and 15g-7 under the Securities and Exchange Act of 1934, as amended.

Because our securities probably constitute "penny stock" within the meaning of the rules, the rules would apply to us and our securities. The rules may further affect the ability of owners of our stock to sell their securities in any market that may develop for them. There may be a limited market for penny stocks, due to the regulatory burdens on broker-dealers. The market among dealers may not be active. Investors in penny stock often are unable to sell stock back to the dealer that sold them the stock. The mark-ups or commissions charged by the broker-dealers may be greater than any profit a seller may make. Because of large dealer spreads, investors may be unable to sell the stock immediately back to the dealer at the same price the dealer sold the stock to the investor. In some cases, the stock may fall quickly in value. Investors may be unable to reap any profit from any sale of the stock, if they can sell it at all.

Stockholders should be aware that, according to the Securities and Exchange Commission Release No. 34- 29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. These patterns include:

*

Control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer;

*

Manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases;

*

"Boiler room" practices involving high pressure sales tactics and unrealistic price projections by inexperienced sales persons;

*

Excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and

*

The wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the inevitable collapse of those prices with consequent investor losses.

Furthermore, the "penny stock" designation may adversely affect the development of any public market for the Company's shares of common stock or, if such a market develops, its continuation. Broker-dealers are required to personally determine whether an investment in "penny stock" is suitable for customers.

Penny stocks are securities (i) with a price of less than five dollars per share; (ii) that are not traded on a "recognized" national exchange; (iii) whose prices are not quoted on the NASDAQ automated quotation system (NASDAQ-listed stocks must still meet requirement (i) above); or (iv) of an issuer with net tangible assets less than \$2,000,000 (if the issuer has been in continuous operation for at least three years) or \$5,000,000 (if in continuous operation for less than three years), or with average annual revenues of less than \$6,000,000 for the last three years.

Section 15(g) of the Exchange Act, and Rule 15g-2 of the Commission require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. Potential investors in the Company's common stock are urged to obtain and read such disclosure carefully before purchasing any shares that are deemed to be "penny stock."

Rule 15g-9 of the Commission requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his or her financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives. Compliance with these requirements may make it more difficult for the Company's stockholders to resell their shares to third parties or to otherwise dispose of them.

Potential Fluctuations in Quarterly Results

Significant variations in our quarterly operating results may adversely affect the market price of our common stock. Our operating results have varied on a quarterly basis during our limited operating history, and we expect to experience significant fluctuations in future quarterly operating results. These fluctuations have been and may in the future be caused by numerous factors, many of which are outside of our control. We believe that period-to-period comparisons of our results of operations will not necessarily be meaningful and that you should not rely upon them as an indication of future performance. Also, it is likely that our operating results could be below the expectations of public market analysts and investors. This could adversely affect the market price of our common stock.

Intellectual Property

The Company relies on a combination of trademark, copyright law, trade secret protection, confidentiality agreements and other contractual arrangements with employees, vendors and others to protect its rights to intellectual property. These measures, however, may be inadequate to deter misappropriation of proprietary information. Failure to adequately protect its intellectual property could harm the Company's brand, devalue its proprietary content and affect the Company's ability to compete effectively.

Independent Directors.

We cannot guarantee our Board of Directors will have a majority of independent directors in the future. In the absence of a majority of independent directors, our executive officers, who are also principal stockholders and directors, could establish policies and enter into transactions without independent review and approval thereof. This could present the potential for a conflict of interest between the Company and its stockholders generally and the controlling officers, stockholders or directors.

Environmental Matters

The Company believes it conducts its business in compliance with all environmental laws presently applicable to its facilities. To date, there have been no expenses incurred by the Company related to environmental issues.

Government Regulation

The Company is not subject to any direct governmental regulation other than the securities laws and regulations applicable to all publicly owned companies, and laws and regulations applicable to businesses generally.

ITEM 3. Controls and Procedures

The chief executive officer and the principal financial officer of the Registrant have concluded based on their evaluation as of a date within 90 days prior to the date of the filing of this Report, that the Registrant's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Registrant in the reports filed or submitted by it under the Securities Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Registrant in such reports is accumulated and communicated to the Registrant's management, including the president, as appropriate to allow timely decisions regarding required disclosure.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of such evaluation.

PART II Other Information

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

None

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

31.1

Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)

31.2

Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)

32.1

Certification by the Chief Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2

Certification by the Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None

Signature Page

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ENTHEOS TECHNOLOGIES, INC

/s/ Stanley D. Wong

Stanley D. Wong

CEO and President

/s/ Harmel S. Rayat

Harmel S. Rayat

Director

/s/ Terri DuMoulin

Terri DuMoulin

Director, Secretary & Treasurer

Principal Financial Officer

Dated: August 11, 2003

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Stanley D. Wong, certify that:

- (1) I have reviewed this quarterly report on Form 10-QSB of Entheos Technologies, Inc. (the registrant);
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information

relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

- (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2003

By: /s/ Stanley D. Wong
Stanley D. Wong
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Terri DuMoulin, certify that:

- (1) I have reviewed this quarterly report on Form 10-QSB of Entheos Technologies, Inc. (the registrant);
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant s internal control over financial reporting that occurred during the registrant s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting; and
- (5) The registrant s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

Date: August 11, 2003

By: /s/ Terri DuMoulin

Terri DuMoulin

Principal Financial Officer

Exhibit 32.1

**Certification by the Chief Executive Officer pursuant to 18 U.S.C. 1350
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

The undersigned hereby certifies that, to his knowledge, (i) the Form 10-QSB filed by Entheos Technologies, Inc. (the Issuer) for the quarter ended June 30, 2003, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Issuer on the dates and for the periods presented therein.

ENTHEOS TECHNOLOGIES, INC.

Date: August 11, 2003

By:

/s/ Stanley D. Wong

Stanley D. Wong

Chief Executive Officer

Exhibit 32.2

**Certification by the Chief Financial Officer pursuant to 18 U.S.C. 1350
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

The undersigned hereby certifies that, to her knowledge, (i) the Form 10-QSB filed by Entheos Technologies, Inc. (the Issuer) for the quarter ended June 30, 2003, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Issuer on the dates and for the periods presented therein.

ENTHEOS TECHNOLOGIES, INC.

Date: August 11, 2003

By:

/s/ Terri DuMoulin

Terri DuMoulin

Principal Financial Officer