

Edgar Filing: EVOLVE ONE INC - Form 10KSB

EVOLVE ONE INC
Form 10KSB
September 24, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended DECEMBER 31, 2003

Commission file number 0-26415

EVOLVE ONE, INC.
(Name of small business issuer in its charter)

DELAWARE 13-3876100
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

6413 CONGRESS AVENUE, SUITE 230, BOCA RATON, FL 33487
(Address of principal executive offices) (Zip Code)

Issuer's telephone number (561) 988-0819

INTERNATIONAL INTERNET, INC.
(Former name of small business issuer)

Securities registered pursuant to Section 12(g) of the Act: COMMON STOCK, \$.00001 PAR VALUE
(Title of Class)

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 X.

Check if delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. []

State issuer's revenues for its most recent fiscal year - \$1,368,886.

As of December 31, 2003 the registrant had outstanding 3,096,304 shares of its Common Stock, par value \$.00001, its only class of voting securities. The aggregate market value of the shares of Common Stock of the registrant held by non-affiliates on December 31, 2003, was approximately \$166,667 based on its closing price on the OTC: Bulletin Board on that date. (See Item 5).

DOCUMENTS INCORPORATED BY REFERENCE

No documents are incorporated by reference into this Report except those Exhibits so incorporated as set forth in the Exhibit index.

Transitional Small Business Disclosure Format (Check one): Yes []; No [X].

TABLE OF CONTENTS

Edgar Filing: EVOLVE ONE INC - Form 10KSB

INTRODUCTION

PART I

Item 1. Description of Business.....	2
Item 2. Description of Properties.....	11
Item 3. Legal Proceedings.....	11
Item 4. Submission of Matters to a Vote of Security Holders.....	11

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.....	11
Item 6. Management's Discussion and Analysis or Plan or Operation.....	13
Item 7. Financial Statements.....	18
Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.....	19
Item 8A. Controls and Procedures.....	19

PART III

Item 9. Directors, Executive officers, Promoters and Control persons Compliance with Section 16(a) of the Exchange Act.....	19
Item 10. Executive Compensation.....	22
Item 11. Security Ownership of Certain Beneficial Owners and Management.....	23
Item 12. Certain Relationships and Related Transactions.....	24
Item 13. Exhibits and Reports on Form 8-K.....	25
Item 14. Principal Accountant Fees and Services.....	25
Signatures.....	27

ITEM 1. DESCRIPTION OF BUSINESS

BUSINESS DEVELOPMENT AND BUSINESS OF ISSUER

Evolve One, Inc. (the "Company" or "EONE") is a diversified holding company that develops and operates Internet and direct retail marketing companies. The EONE group of companies includes wholly-owned subsidiaries, StogiesOnline.com, Inc. ("Stogies") (www.CigarCigar.com), AlDiscount Perfume, Inc. ("Al Discount Perfume") (www.AlDiscountProducts.com), and International Internet Venture I, LLC ("Ventures"). EONE, through its Ventures division, owns an equity interest in several companies, some of which are classified as trading securities and some of which are classified as available-for-sale securities. EONE was incorporated in Delaware on June 21, 1994.

EONE's original business was operated as a developmental stage company in Mr. Cigar, Inc. ("Cigar"), in which the company previously owned a majority

Edgar Filing: EVOLVE ONE INC - Form 10KSB

interest. Cigar was in the business of licensing, selling and/or operating cigar vending machines. The Company opened its StogiesOnline.com Internet site in November 1998. As a result of the success of the StogiesOnline website, the Company refocused its resources in 1999 into the Internet cigar sales market and other specialty goods. EONE sold the vending equipment and business of Cigar in December 1999.

STOGIESONLINE.COM

Stogies ("Cigarcigar.com") became an online distributor and retailer of brand name premium cigars within the United States on November 18, 1998. Stogies' products consist of premium cigars, factory brand name seconds and mass market cigars which are sold online to retail and wholesale customers. Stogies markets a wide variety of premium cigars and related tobacco products on a retail basis throughout the United States via the Internet. Management utilizes its website located at URL (www.CigarCigar.com) as its primary advertising vehicle. Stogies' cigar line consists of nationally recognized brand names - Arturo Fuente, AVO, Cohiba, Don Diego, Garcia y Vega, H. Upmann, Macanudo, Montecristo, Opus X, Partagas, Punch, and Te-Amo.

As a direct buyer from most manufacturers, Stogies is eligible to participate in promotions, which enables it to pass substantial savings to its customers. Stogies purchases overstocked or overproduced items from manufacturers and other retailers, including factory brand name seconds. Currently, Stogies has entered into non-exclusive distribution agreements with: Miami Cigar, Inc. - distributes Leon Jimenes and Tatiana cigars, Altadis - the manufacturer of Montecristo, H. Upmann, Don Diego, Romeo y Julieta, General Cigar - the distributor of Punch, Macanudo, Cohiba Red Dot, Partagas, Hoyo de Monterrey, and Excalibur Inter-Continental Cigars - the manufacturer of Al Capone and Santa Clara - the manufacturer of El Rey del Mundo and Garcia y Vega.

Stogies' website highlights its sale items and changes its product offerings and featured specials weekly. In the event that Stogies does not have a particular product in stock, a customer may place an order to ship on arrival, or

2

telemarketers may direct the customer to similar products by utilizing its database. Stogies currently uses United Parcel Service for shipping orders from its inventory, which is maintained in its Boca Raton, Florida warehouse facility.

Stogies current client base consists of over 10,000 customers in the United States. Purchases from repeat customers have been steady, with repeat buyers accounting for approximately one-third of current orders. During the two years ended December 31, 2003, Stogies did not have any significant customers, the loss of which would have an adverse effect on operations.

AlDISCOUNT PERFUME INC.

On September 28, 2001, the Company created a Subsidiary named AlDiscountPerfume Inc. and in October 2001, launched a new e-commerce site specializing in men's and women's fragrances. The site is located at <http://www.AlDiscountPerfume.com>. The site is a competitor of other discount as well as full price online retailers of Perfume and Cologne. The site employs the Microsoft / Great Plains eEnterprise system which permits customers to benefit by having direct access to up-to-the-minute information about inventory, pricing, "hot deals" as well as order information. The eEnterprise system allows AlDiscountPerfume.com to inexpensively reach customers anywhere, around the clock.

TRADEMARKS

Edgar Filing: EVOLVE ONE INC - Form 10KSB

At this time, the Company has no registered trademarks or trade names.

COMPETITION

All direct marketing and retail businesses are highly competitive. With the Internet, the Company competes for consumer expenditures with all other forms of retail businesses, including department, discount, warehouse and specialty stores, mail order, catalog and television home shopping companies as well as other direct sellers and infomercials. The Internet home shopping industry is highly competitive. The Company believes that the Internet shopping industry is still very attractive to consumers, manufacturers and retailers. The industry offers consumers convenience, entertainment and the opportunity to test market new products, create brand awareness and access additional channels. The Company is at a competitive disadvantage in attracting viewers due to the fact that the Company's Internet site is limited to its future advertising budget. The Company expects increasing competition for viewers from major Internet providers and retailers that may seek to enter Internet shopping. The Company believes that the number of new entrants into the Internet shopping industry will also continue to increase. The Company believes that it is positioned to compete; however, no assurance can be given that the Company will be able to acquire consistent advertising at prices favorable to the Company. The Company's competitors are larger and more diversified than the Company, have greater financial, marketing, merchandising and distribution resources; therefore, the Company cannot predict the degree of success, if any, with which it will meet competition in the future.

3

TECHNOLOGICAL CHANGE

The Internet is characterized by technological change. The Company's success will depend, in part, on its ability to enhance its existing services, develop new services that address the needs of its prospective customers and respond to technological advances and practices on a timely basis. The development of a Web site entails significant technical, financial and business risks. There can be no assurance that the Company will successfully implement new technologies or adapt its Web site, proprietary technology and transaction-processing systems to customer requirements or emerging industry standards. If the Company is unable, for technical, legal, financial or other reasons, to adapt in a timely manner in response to changing market conditions, such inability could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

EMPLOYMENT

The Company has four full-time employees in administration and management, two full-time employees and one part-time employee in the Stogies and Perfume operation.

RISK FACTORS

WE HAVE A LIMITED OPERATING HISTORY UPON WHICH YOU CAN EVALUATE OUR BUSINESS AND PROSPECTS

We began offering products for sale on our Web site in 1998. Accordingly, we have a limited history upon which you can evaluate our business and prospects. You should consider our prospects in light of the risks, expenses and difficulties frequently encountered by online commerce companies. As an online commerce Company, we have a rapidly evolving and unpredictable business model, we face intense competition, we must effectively manage our growth, and we must respond quickly to rapid changes in customer demands and industry standards. We

Edgar Filing: EVOLVE ONE INC - Form 10KSB

may not succeed in addressing these challenges and risks.

UNAUTHORIZED BREAK-INS OR OTHER ASSAULTS ON OUR SERVICE COULD HARM OUR BUSINESS

Our servers are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions, delays, loss of data, public release of confidential data or the inability to complete customer transactions. In addition, unauthorized persons may improperly access our data. These and other types of attacks could harm us. Actions of this sort may be very expensive to remedy and could damage our reputation and discourage new and existing customers from using our service.

SYSTEM FAILURES COULD HARM OUR BUSINESS

Our servers have experienced system failures from time to time. In addition to placing increased burdens on our outsourced engineering staff, these outages create customer questions and complaints that need to be addressed by our customer support personnel. Any unscheduled interruption in our service results in an immediate loss of revenues that can be substantial and may cause some

4

customers to switch to competitors. If we experience frequent or persistent system failures, our reputation and brand could be permanently harmed. We have been taking steps to increase the reliability and redundancy of our system. These steps are expensive, reduce our margins and may not be successful in reducing the frequency or duration of unscheduled downtime.

Substantially all of our computer hardware for operating our services currently is located at our facility in Boca Raton, Florida. These systems and operations are vulnerable to damage or interruption from hurricanes, floods, fires, power loss, telecommunication failures, terrorism and similar events. We do not maintain fully redundant systems or alternative providers of hosting services, and we do not carry business interruption insurance sufficient to compensate us for losses that may occur. Despite any precautions we may take, the occurrence of a natural disaster or other unanticipated problems could result in lengthy interruptions in our services. Any damage to or failure of our systems could result in interruptions in our service. Interruptions in our service will reduce our revenues and profits, and our future revenues and profits will be harmed if our customers believe that our system is unreliable.

We may experience breakdowns in our payment processing system that could damage customer relations and expose us to liability, which could affect adversely our ability to become profitable.

A system outage or data loss could have a material adverse effect on our business, financial condition and results of operations. To operate our business successfully, we must protect our payment processing and other systems from interruption by events beyond our control. Events that could cause system interruptions include:

- fire;
- hurricane;
- terrorist attacks;
- natural disasters;
- computer viruses;
- unauthorized entry;
- telecommunications failure;
- computer denial of service attacks; and
- power surges, losses and blackouts.

Edgar Filing: EVOLVE ONE INC - Form 10KSB

RISKS RELATING TO POSSIBLE FLORIDA POWER SURGES

The State of Florida experiences chronic power surges. Although we have some emergency backup power, power surges may adversely affect our business.

5

WE ARE DEPENDENT ON THE CONTINUED GROWTH OF ONLINE COMMERCE

The business of selling goods over the Internet is relatively new. Rapid growth in the use of and interest in the Internet and online services is a recent phenomenon. Even as the Internet is accepted, concerns about fraud, privacy and other problems may mean that a broad base of consumers may not adopt the Internet as a medium of commerce. If these consumers prove to be less active and we are unable to gain efficiencies in our operating costs, including our cost of acquiring new customers, our business could be adversely impacted.

THE COMPANY'S REVENUES AND OPERATING RESULTS CAN BE UNPREDICTABLE.

OUR OPERATING RESULTS MAY FLUCTUATE

Our operating results have varied on an annual basis during our operating history. Our operating results may fluctuate significantly as a result of a variety of factors, many of which are outside our control.

Factors that may affect our operating results include the following:

- our ability to attract new users and to maintain customer satisfaction;
- our ability to keep our websites operational;
- the amount and timing of operating costs and capital expenditures relating to the maintenance and expansion of our business, operations and infrastructure;
- the introduction of new services and products by us or our competitors;
- volume, size, timing and completion rate of sales on our websites;
- consumer confidence in our selling transactions and service;
- our ability to upgrade and develop our systems and infrastructure to accommodate growth;
- technical difficulties or interruptions;
- our ability to attract new personnel in a timely and effective manner;
- our ability to retain key employees;
- our ability to integrate and manage any acquisitions successfully;
- our ability to expand our product offerings successfully;
- the timing, cost and availability of advertising in traditional media;

6

- the timing of payments to us and of marketing and other expenses under existing and future contracts;

Edgar Filing: EVOLVE ONE INC - Form 10KSB

- consumer trends and popularity of some Goods;
- the success of our brand building and marketing campaigns;
- the level of use of the Internet ;
- increasing consumer acceptance of the Internet and other online services for commerce; and
- general economic conditions and economic conditions specific to the Internet and e-commerce industries.

Our limited operating history makes it difficult for us to forecast the level or source of our revenues or earnings accurately. We believe that period-to-period comparisons of our operating results may not be meaningful, and you should not rely upon them as an indication of future performance. Our operating results in one or more future quarters may fall below the expectations of securities analysts and investors. In that event, the trading price of our common stock would almost certainly decline.

ENTERING NEW BUSINESS AREAS WILL REQUIRE SIGNIFICANT EXPENSE AND COULD STRAIN MANAGEMENT, FINANCIAL AND OPERATIONAL RESOURCES

We intend to expand our operations by promoting new or complementary products, services or sales formats and by expanding our product or service offerings. This will require significant additional expense and could strain our management, financial and operational resources. We cannot expect to benefit in these new markets from the early-to-market advantage that we experienced in the online cigar market. Our gross margins in these new business areas may be lower than our existing business activities. In addition, we may have limited or no experience in these new business areas. We may not be able to expand our operations in a cost-effective or timely manner. Any new business that our customers do not receive favorably could damage our reputation and the CigarCigar.com brand.

WE RELY ON A SMALL NUMBER OF SUPPLIERS; OUR BUSINESS WOULD BE HARMED IF OUR CURRENT SUPPLIERS STOP SELLING MERCHANDISE TO US ON ACCEPTABLE TERMS

Although we increased our direct purchasing from manufacturers, we purchase a majority of our cigars from three major vendors. We do not have long-term contracts or arrangements with most of our vendors to guarantee the availability of merchandise, or particular payment terms or the extension of credit limits. Our current vendors may stop selling merchandise to us on acceptable terms. We may not be able to acquire merchandise from other suppliers in a timely and efficient manner and on acceptable terms.

7

WE MAY BE SUBJECT TO PRODUCT LIABILITY CLAIMS IF PEOPLE OR PROPERTY ARE HARMED BY THE PRODUCTS WE SELL

As we enter new lines of business, we may increasingly sell products, such as cigar cutters, that may increase our exposure to product liability claims relating to personal injury, or property damage caused by such products. We maintain insurance, but we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, if at all. In addition, some of our vendor agreements with our suppliers do not indemnify us from product liability.

Edgar Filing: EVOLVE ONE INC - Form 10KSB

GOVERNMENT REGULATION OF INTERNET COMMERCE IS EVOLVING AND UNFAVORABLE CHANGES COULD HARM OUR BUSINESS

We are subject to general business regulations and laws or regulations regarding taxation and access to online commerce. These laws or regulations may impede the growth of the Internet or other online services. Regulatory authorities may adopt specific laws and regulations governing the Internet or online commerce. These regulations may cover taxation, user privacy, pricing, content, copyrights, distribution, electronic contracts and characteristics and quality of products and services. Changes in consumer protection laws also may impose additional burdens on companies conducting business online, both in the US and internationally. It is not clear how existing laws governing issues such as property ownership, sales and other taxes, libel and personal privacy apply to the Internet and online commerce. Unfavorable resolution of these issues may harm our business.

THE COMPANY'S FUTURE STRATEGY MAY INCLUDE PURSUING ACQUISITIONS THAT MAY NOT BE SUCCESSFUL.

The Company's future strategy may include pursuing acquisitions that may not be successful. Acquisitions involve a number of operational risks that the acquired business will not be successfully integrated, may distract management attention, may involve unforeseen costs and liabilities, and possible regulatory costs, some or all of which could have a materially adverse effect on the Company's financial condition or results of operations. The Company may make these additional acquisitions with cash or with stock, or a combination thereof. If the Company does make any such acquisitions, various associated risks may be encountered, including potential dilution to the Company's then current shareholders, as a result of additional shares of common stock being issued in connection with the acquisitions.

OUR BUSINESS IS DEPENDENT ON THE DEVELOPMENT AND MAINTENANCE OF THE INTERNET INFRASTRUCTURE

The success of our service will depend largely on the development and maintenance of the Internet infrastructure. This includes maintenance of a reliable network backbone with the necessary speed, data capacity and security, as well as timely development of complementary products, for providing reliable Internet access and services. The Internet has experienced, and is likely to continue to experience, significant growth in the numbers of users and amount of

8

traffic. If the Internet continues to experience increased numbers of users, increased frequency of use or increased bandwidth requirements, the Internet infrastructure may be unable to support the demands placed on it. In addition, the performance of the Internet may be harmed by increased number of users or bandwidth requirements or by "viruses", "worms" and similar programs. The Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure, and it could face outages and delays in the future. These outages and delays could reduce the level of Internet usage as well as the level of traffic and the processing transactions on our service.

WE ARE DEPENDENT ON KEY PERSONNEL

Our future performance will be substantially dependent on the continued services of our senior management and other key personnel. Our future performance also will depend on our ability to retain and motivate our other key personnel. The loss of the services of any of our executive officers or other key employees could harm our business. We do not maintain any "key person" life insurance policies. Our businesses are all dependent on attracting and retaining key

Edgar Filing: EVOLVE ONE INC - Form 10KSB

personnel. Our future success also will depend on our ability to attract, train, retain and motivate highly skilled technical, managerial, marketing and customer support personnel. We may be unable to successfully attract, integrate or retain sufficiently qualified personnel

WE ARE CONTROLLED BY CERTAIN STOCKHOLDERS, EXECUTIVE OFFICERS AND DIRECTORS

Our executive officers and directors own nearly 66% of our outstanding common stock. As a result, they have the ability to effectively control our Company and direct our affairs and business, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying, deferring or preventing a change in control of our Company and may make some transactions more difficult or even impossible without the support of these stockholders. Any of these events could decrease the market price of our common stock.

FUTURE SALES OF OUR COMMON STOCK MAY CAUSE OUR STOCK PRICE TO DECLINE

If our stockholders sell substantial amounts of our common stock in the public market, the market price of our common stock could decline.

OUR STOCK PRICE HAS BEEN AND MAY CONTINUE TO BE EXTREMELY VOLATILE

The trading price of our common stock has been and is likely to be extremely volatile. Our stock price could be subject to wide fluctuations in response to a variety of factors, including the following:

- actual or anticipated variations in our quarterly operating results;
- additions or departures of key personnel;
- announcements of new services by us or our competitors;
- changes in financial estimates by securities analysts;
- conditions or trends in the Internet and online commerce

9

- changes in the market valuations of other Internet companies;
- developments in Internet regulation;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- sales of our common stock or other securities in the open market; and
- other events or factors, including these described in this "Risk Factors" section and others that may be beyond our control.

In addition, the trading price of Internet stocks in general, and ours in particular, have experienced extreme price and volume fluctuations in recent periods. These fluctuations often have been unrelated or disproportionate to the operating performance of these companies. Notwithstanding a sharp decline in the prices of Internet stocks in general, the valuation of our stock remains extraordinarily high based on conventional valuation standards such as price-to-earnings and price-to-sales ratios. The trading price of our common stock has increased and decreased enormously from the initial offering price. This trading price and valuation may not be sustained. Negative changes in the public's perception of the prospects of Internet or e-commerce companies have in the past and may in future depress our stock price regardless of our results. Other broad market and industry factors may decrease the market price of our common stock, regardless of our operating performance. Market fluctuations, as well as general political and economic conditions, such as recession or interest rate or currency rate fluctuations, also may decrease the market price of our common stock. In the past, following declines in the market price of a company's securities, securities class-action litigation often has been instituted. Litigation of this type, if instituted, could result in substantial costs and a

Edgar Filing: EVOLVE ONE INC - Form 10KSB

diversion of management's attention and resources.

THE COMPANY'S STOCK PRICE WILL FLUCTUATE AND COULD SUBJECT THE COMPANY TO LITIGATION.

The market price of the Company's common stock may fluctuate significantly in response to a number of factors, some of which are beyond its control. These factors include:

- quarterly variations in operating results;
- changes in accounting treatments or principles;
- additions or departures of key personnel;
- stock market price and volume fluctuations of publicly-traded companies in general and Internet-related companies in particular; and
- general political, economic and market conditions.

THERE IS A LIMITED PUBLIC MARKET FOR THE COMPANY'S COMMON STOCK AND THERE ARE NO ASSURANCES OF A CONTINUED TRADING MARKET FOR THE COMPANY'S COMMON STOCK.

The Company's common stock is currently quoted on the Over the Counter Market. The Company's common stock is thinly traded. There are no assurances the Company will maintain its listing. If the Company's common stock should be delisted, it is likely that the stock would then be quoted on the Pink Sheets, which would materially and adversely effect any future liquidity in the Company's common stock.

10

ITEM 2. DESCRIPTION OF PROPERTY

At December 31, 2002 the Company maintained two office spaces. The corporate headquarters was located at 6413 Congress Avenue, Suite 240, Boca Raton, Florida 33487. The Stogies warehouse and retail cigar outlet center was located at 6405 Congress Avenue, Suite 160, Boca Raton, Florida 33487. The combined square footage of the corporate headquarters and Stogies warehouse was 6,293 square feet, and the combined monthly rent was \$7,149. The corporate office phone number is (561) 988-0819. In June 2002, the Company moved the corporate headquarters to the Stogies warehouse. In June 2004, the Company did not renew the Stogies warehouse lease and is currently renting from a Company owned by the majority shareholders of EvolveOne, Inc. On August 20, 2004 the Company signed a new lease for 5,325 sq feet of office and warehouse space at 1000 Clint Moore Road, Suites 101 and 102, Boca Raton FL 33487. The initial monthly base rent is approximately \$6,500.

ITEM 3. LEGAL PROCEEDINGS

Lakewood Development (s) Corporation v. Gary Schultheis and Herbert Tabin and Evolve One, Inc., Civil Action No. 4-03-CV-1224-A, in the United States District Court of the Northern District of Texas, Ft. Worth Division (Complaint filed on August 6, 2003). This action asserts claims for violation of Texas securities law, fraud, breach of contract, and breach of fiduciary duties. The action sought damages in the amount of \$4,125,000 for the plaintiff, the plaintiffs' attorneys' fees and costs, and certain other relief.

On April 6, 2004, United States District Court Judge John McBryde of the United States District Court of the Northern District of Texas, Ft. Worth Division, entered a final judgment in favor of Evolve One, Inc. and its officers Gary Schultheis and Herbert Tabin dismissing the case with prejudice. The court also ordered Lakewood to pay defendants' court costs.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS

Edgar Filing: EVOLVE ONE INC - Form 10KSB

None

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

The following chart shows the quarterly high and low bid prices for the Company's Common Stock for the last two fiscal years, as reported on the OTC:Bulletin Board. The prices represent quotations by dealers without adjustments for retail mark-ups, mark-downs or commissions and may not represent actual transactions.

11

	OPENING BID -----	HIGH BID -----	LOW BID -----	CLOSING BID -----
2003 Fourth Quarter	0.22	0.24	0.15	0.16
2003 Third Quarter	0.22	0.42	0.20	0.22
2003 Second Quarter	0.40	0.51	0.209	0.22
2003 First Quarter (*)	0.30	1.075	0.30	0.40
2002 Fourth Quarter (*)	0.775	0.85	0.175	0.30
2002 Third Quarter (*)	1.50	1.975	0.775	0.775
2002 Second Quarter (*)	0.75	3.50	0.75	1.50
2002 First Quarter (*)	2.375	2.375	0.625	0.85

(*) As restated for 250 - 1 stock split

HOLDERS

As of December 31, 2003, there were approximately 701 holders of record of the Company's common stock, an undetermined number of which represent more than one individual participant in securities positions with the Company.

DIVIDENDS

The Company has never paid cash dividends on its common stock, and intends to utilize current resources to expand its operations. Therefore, it is not anticipated that cash dividends will be paid on the Company's common stock in the foreseeable future.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth securities authorized for issuance under equity compensation plans, including individual compensation arrangements, by us under our stock option plan and any compensation plans not previously approved by our shareholders as of December 31, 2003.

PLAN CATEGORY -----	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS -----	WEIGHTED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS -----
Stock Option Plan (1)	-	-
Equity compensation plans not approved by shareholders	16,000	\$.004

(1) Our Stock Option Plan has previously been approved by our shareholders, and

Edgar Filing: EVOLVE ONE INC - Form 10KSB

reflects the only such equity compensation plan for which we have sought shareholder approval.

12

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

The following discussion and analysis of the Company's financial condition and results of operations should be read with the consolidated financial statements and related notes contained in this annual report. All statements other than statements of historical fact included in this annual report are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different than any expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or the negative of these terms or other comparable terminology. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include: 1. General economic factors including, but not limited to, changes in interest rates and trends in disposable income; 2. Information and technological advances; 3. Cost of products sold; 4. Competition; and 5. Success of marketing, advertising and promotional campaigns. The Company is subject to specific risks and uncertainties related to its business model, strategies, markets and legal and regulatory environment.

The Company's continuing operations consist of two Internet based businesses within the United States, Stogies and AlDiscount Perfume. Stogies is an online distributor and retailer of brand name premium cigars. AlDiscount Perfume is an online retailer of premium perfumes and colognes. Stogies became operational in November 1998 and it accounts for substantially all of the sales revenue.

CRITICAL ACCOUNTING POLICIES

The Company has identified the policies outlined below as critical to its business operations and an understanding of its results of operations. The listing is not intended to be a comprehensive list of all of the Company's accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States, with no need for management's judgment in their application. The impact and any associated risks related to these policies on the Company's business operations is discussed throughout Management's Discussion and Analysis or plan of operations where such policies affect the Company's reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see the Notes to Consolidated Financial Statements. The Company's preparation of the financial statements requires it to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the Company's financial statements, and the

13

reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

NEW ACCOUNTING STANDARDS

Edgar Filing: EVOLVE ONE INC - Form 10KSB

In May 2003, the FASB issued SFAS No. 150 - "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". The standard improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The standard requires that those instruments be classified as liabilities in statements of financial position. This standard is effective for interim periods beginning after June 15, 2003. The adoption of SFAS No. 150 did not have an effect on our results of operations, financial position or debt covenants.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost and are depreciated on a straight-line basis over the estimated useful lives of such assets. Changes in circumstances such as technological advances, changes to the Company's business model or changes in the Company's capital strategy could result in the actual useful lives differing from the Company's estimates. In those cases where the Company determines that the useful life of property, plant and equipment should be shortened, the Company will depreciate the net book value in excess of the estimated salvage value over its revised remaining useful life.

DEFERRED TAX ASSETS

The Company records a valuation allowance to reduce the carrying value of its deferred tax assets to an amount that is more likely than not to be realized. While the Company has considered future taxable income and prudent and feasible tax planning strategies in assessing the need for the valuation allowance, should the Company determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the carrying value of the deferred tax assets would be charged to income in the period in which such determination was made.

INVESTMENTS

Investments are classified as either available-for-sale or trading securities and are held for resale in anticipation of short-term market movements or until such securities are registered or are otherwise unrestricted. At December 31, 2003, investments consisted of common stock and options to acquire common stock held for resale.

Trading account assets, consisting of marketable equity securities, are stated at fair value. Unrealized gains or losses on trading securities are recognized in the statement of operations on a monthly basis based on changes in the fair value of the security as quoted on national or inter-dealer stock exchanges.

14

Available-for-sale assets, which are also required to be reported at fair value, with unrealized gains and losses excluded from earnings, are reported as a separate component of stockholders' equity (net of the effect of income taxes).

LIQUIDITY AND CAPITAL RESOURCES

The Company decreased its working capital from \$1,880,028 at December 31, 2002 to \$946,932 at December 31, 2003. The working capital decreased in the amount of \$933,096 consists primarily of decreases in cash in the amount of \$1,252,071, and marketable securities in the amount of \$193,425, and an increase in accrued liabilities in the amount of \$129,216 offset by an increase in loan receivable in the amount of \$692,940.

During the twelve months ended December 31, 2003 stockholders' equity decreased \$1,235,174, which includes increases in other comprehensive income in the amount

Edgar Filing: EVOLVE ONE INC - Form 10KSB

of \$109,709, and the net loss for the year of (\$1,344,883) (See Other Comprehensive Income below).

RESULTS OF OPERATIONS

SALES AND COST OF SALES

Internet and retail sales for the Stogies segment, for the twelve months ended December 31, 2003 compared to the same period in 2002 decreased (\$73,185) from \$1,395,988 in 2002 to \$1,322,803 in 2003. Since employing the Microsoft/Great Plains eEnterprise system the Company's Stogies segment improved its gross profit percentage of approximately 34.5% during the twelve months ended December 31, 2002 to 36.8% during the twelve months ended December 31, 2003. The increase in gross profit percentage is due to better promotions, and a decreased concentration on wholesale sales and better purchasing.

Internet sales for the Aldiscount Perfume segment, for the twelve months ended December 31, 2003 as compared to the same period in 2002 decreased (\$12,122) from \$58,205 in 2002 to \$46,083 in 2003. Aldiscount Perfume segment improved its gross profit percentage of approximately 34.9 % during the twelve months ended December 31, 2002 to 40.4% during the twelve months ended December 31, 2003. The decrease in gross profit percentage is due to greater competition.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased \$146,172 from \$1,540,023 in the twelve months ended December 31, 2002 to \$1,393,851 in the twelve month period ended December 31, 2003. The decrease in selling, general and administrative expense for the twelve months ended December 31, 2003 consists primarily of decreases in: accounting - (\$41,450); bad debt - (\$29,770); insurance - (\$95,237); rent - (\$14,844); depreciation - (\$61,165); and legal - (\$10,240); and increases in; payroll - \$16,700; - advertising - \$33,835; employee benefits - \$13,000; and consulting - \$56,600. Accounting fee decreased

15

due to the 2002 and 2003 audits not being performed until 2004. The decrease in bad debt is primarily due to the write off of the note receivable from IBD Vending (\$14,945) in 2002, insurance decrease is due primarily to the cancellation of the D & O policy in 2003, rent decrease is due to the cancellation of the lease for Suite 240 in June 2003 and depreciation decrease is due to the accelerated methods used to determine depreciation. Advertising increase is due primarily to increased advertising for the Aldiscount Perfume site, and consulting increased due to the hiring of an outside IT consultant and increased services needed to move computer servers due to the move out of our former corporate headquarters in Suite 240.

MARKETABLE EQUITY SECURITIES

The Company sold marketable equity securities and realized a loss of (\$476,444) during the twelve month period ended December 31, 2003 and a (\$12,058) loss during the twelve month period ended December 31, 2002.

The Company had no unrealized losses during the twelve month period ended December 31, 2003 and recorded unrealized losses in the amount of (\$4,956) during the same period of the prior year. Available-for-sale securities are described in Other Comprehensive Income (below).

INVESTMENT INCOME

The Company had income of \$19,663 and \$14,524 from interest and dividends in the

Edgar Filing: EVOLVE ONE INC - Form 10KSB

twelve month period ended December 31, 2003 and 2002, respectively. The increase is due primarily to interest earned on an outstanding note receivable from Onspan Networking, Inc., a related party.

INCOME TAXES

The Company had an income tax expense of \$439,200 for the twelve month period ended December 31, 2002, resulting primarily from the reduction in deferred taxes associated with the change in unrealized gain included in other comprehensive income (loss). As of December 31, 2003, there is no deferred tax benefit recorded due to the provision for 100% valuation allowance.

OTHER COMPREHENSIVE INCOME

During the year ended December 31, 2003, the Company recorded a decrease in its net unrealized gain from available-for-sale securities in the amount of \$109,709. The decrease consisted of a decline in market value of \$356,755 plus a reclassification adjustment of \$466,464. Available-for-sale securities consist primarily of securities of SGD Limited Holdings (SGD), a holding company principally engaged in acquiring and developing jewelry related businesses. The Company's investment represents approximately 10.4% of the outstanding stock of SGD and accordingly, the Company is subject to certain restrictions on the shares it can sell. Of the 10,100,000 shares of SGD stock held by the Company, 3,941,000 shares valued at \$59,115 have been classified as current. The securities of SGD significantly decreased in value over the past year as a reflection of the overall market conditions. Due to the size of the Company's investment and the limited trading volume of SGD as well as other available-for-sale securities, there can be no assurance that the Company will

16

realize the value assigned, under Statement of Accounting Standards #115 (Accounting for Certain Investments in Debt and Equity Securities), to these securities.

During the latter part of 2002 the Company became aware, based upon Securities and Exchange Commission (SEC) filings by SGD, that SGD had taken the position that the Company was the holder of pre-split shares (SGD had a 6 for 1 reverse split) and rather than the Company owning 10 Million shares of SGD the Company was the holder of only 1,666,666 shares of SGD. It is the Company's position that the number of shares that the Company held of SGD as of December 31, 2003 and 2002 is 10 Million. This is based upon purchase and sale arrangements between the Company and SGD wherein the Company was sold, issued and receive 10 Million post split shares of SGD from SGD (formerly known as GoldOnline.com, Inc.). The shares issued and delivered to the Company by SGD reflected the split and the new split CUSIP change. On November 11, 2000, following the Company's receipt of these shares, the Company filed a Form 13D, with the SEC, reflecting the ownership of these shares. The Form 13D had been prepared by SGD's Counsel. SGD filed quarterly and annual financial reports with the SEC reflecting the ownership of 10 Million shares by the Company. Should it ultimately be determined that the shares should be pre-split shares then our investment in SGD, as of December 31, 2003, rather than being included in the accompanying balance sheet as \$151,500 (current \$59,115; long-term \$92,385) might be reduced depending upon the impact of the share price differential on the market price of the SGD shares and the reduced number of shares that the Company would be considered as holding.

17

ITEM 7. FINANCIAL STATEMENTS

Edgar Filing: EVOLVE ONE INC - Form 10KSB

The Consolidated Financial Statements of Evolve One, Inc., and Subsidiaries, for the years ended December 31, 2003 and 2002, together with the report thereon of Goldstein Lewin & Co. dated June 18, 2004 is set forth as follows:

	PAGE

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	F-1
CONSOLIDATED FINANCIAL STATEMENTS:	
Consolidated Balance Sheet	F-2
Consolidated Statements of Operations	F-3
Consolidated Statement of Changes in Stockholders' Equity	F-4
Consolidated Statements of Cash Flows	F-5-6
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	F-7-21

18

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Evolve One, Inc. and Subsidiaries
Boca Raton, Florida

We have audited the accompanying consolidated balance sheet of Evolve One, Inc and Subsidiaries as of December 31, 2003, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

As discussed in Note 3, we were unable to verify the number of shares of SGD Holdings, Inc. held by the Company for the years ended December 31, 2003 and 2002, due to a lack of conclusive evidential matter. Therefore, we were unable to satisfy ourselves as to the carrying value of the investment.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine conclusive evidence regarding the number of shares of SGD Holdings, Inc. held by the Company, the financial statements referred to in the first paragraph above

Edgar Filing: EVOLVE ONE INC - Form 10KSB

present fairly, in all material respects, the financial position of Evolve One, Inc. and Subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for the two years in the period ended December 31, 2003 in conformity with U. S. generally accepted accounting principles.

/s/ GOLDSTEIN LEWIN & CO.

Boca Raton, Florida
 June 18, 2004, except for Note 11
 as to which the date is August 20, 2004

F-1

EVOLVE ONE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET DECEMBER 31, 2003

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 118,912
Accounts receivable	25,489
Marketable equity securities	64,682
Inventory	355,546
Loan Receivable - Onspan Networking, Inc	692,940
Prepaid expenses	6,580

TOTAL CURRENT ASSETS	1,264,149
----------------------------	-----------

PROPERTY AND EQUIPMENT, NET	202,396
-----------------------------------	---------

NOTE RECEIVABLE	10,000
-----------------------	--------

MARKETABLE EQUITY SECURITIES	92,385
------------------------------------	--------

OTHER ASSETS	10,708
--------------------	--------

TOTAL ASSETS	\$ 1,579,638
--------------------	--------------

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 85,393
Other accrued liabilities	1,824
Accrued salaries	230,000

TOTAL CURRENT LIABILITIES	317,217
---------------------------------	---------

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

Cumulative convertible preferred stock, \$.0001 par value; authorized 10,000,000 shares; outstanding -0- shares	-
Common stock, \$.00001 par value. Authorized 1,000,000,000 shares; issued and outstanding 3,096,304 shares	31
Paid-in capital	6,730,343

Edgar Filing: EVOLVE ONE INC - Form 10KSB

Accumulated deficit	(5,205,514)
Accumulated other comprehensive income (loss)	(262,439)

Total stockholders' equity	1,262,421

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,579,638
	=====

See Notes to the Consolidated Financial Statements.

F-2

EVOLVE ONE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
	----	----
Sales and revenue	\$ 1,368,886	\$ 1,454,193
COST OF SALES	863,078	1,008,484
	-----	-----
GROSS PROFIT	505,808	445,709
Selling, general and administrative expense	1,393,851	1,540,023
	-----	-----
Loss from operations	(888,043)	(1,094,314)
	-----	-----
OTHER INCOME (EXPENSE):		
(Loss) from sale of marketable equity securities .	(476,444)	(12,058)
Gain on the sale of property and equipment	-	5,436
Investment income	19,663	14,524
Interest expense	(59)	(4,838)
Unrealized (loss) on marketable equity securities	-	(4,956)
	-----	-----
Total other income (expense)	(456,840)	(1,892)
	-----	-----
EARNINGS (LOSS) BEFORE INCOME TAXES	(1,344,883)	(1,096,206)
INCOME TAX EXPENSE	-	439,200
	-----	-----
NET EARNINGS (LOSS)	\$ (1,344,883)	\$ (1,535,406)
	-----	-----
NET EARNINGS (LOSS) PER SHARE		
BASIC	\$ (0.43)	\$ (0.49)
	=====	=====
DILUTED	\$ (0.43)	\$ (0.49)
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
BASIC	3,096,304	3,129,763
	=====	=====
DILUTED	3,096,304	3,129,763
	=====	=====

See Notes to the Consolidated Financial Statements.

F-3

Edgar Filing: EVOLVE ONE INC - Form 10KSB

EVOLVE ONE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2003 AND 2002

	Common Shares	Stock Par Value	Paid-in Capital	Accumulated Deficit	Accu- O Compr In
	-----	-----	-----	-----	-----
BALANCE , January 1, 2002	3,154,165	31	6,827,634	(2,325,225)	7
Repurchase and Retirement of Common Stock	(57,861)	-	(97,291)	-	
Comprehensive income (loss):					
Unrealized (loss) on available- for-sale securities, net	-	-	-	-	(1,1
Net loss	-	-	-	(1,535,406)	
Total comprehensive income (loss)	-	-	-	-	
BALANCE, December 31, 2002	3,096,304	31	6,730,343	(3,860,631)	(3
Comprehensive income (loss):					
Unrealized gain on available- for-sale securities, net	-	-	-	-	1
Net loss	-	-	-	(1,344,883)	
Total comprehensive income (loss)	-	-	-	-	
BALANCE, December 31, 2003	3,096,304	\$ 31	\$ 6,730,343	\$ (5,205,514)	\$ (2
	=====	=====	=====	=====	=====

See Notes to the Consolidated Financial Statements.

F-4

EVOLVE ONE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
	----	----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)	\$(1,344,883)	\$(1,535,406)
Adjustments to reconcile net (loss) from continuing operations to net cash (used in) operating activities:		
Depreciation and amortization	108,843	165,561
(Gain) on sale of property and equipment	-	(5,436)
Loss on marketable equity securities	476,444	12,058
Unrealized loss on marketable equity securities ...	-	4,956
Deferred income taxes	-	439,200
Purchase of marketable equity securities	(900)	-

Edgar Filing: EVOLVE ONE INC - Form 10KSB

Decrease (increase) in assets:		
Accounts receivable	15,266	(5,631)
Inventory	(19,939)	(66,807)
Note receivable	(10,000)	-
Other assets	70,704	124,376
Increase (decrease) in liabilities:		
Accounts payable	(14,355)	53,763
Other accrued liabilities	(784)	(2,194)
Accrued salaries	130,000	100,000
	-----	-----
Net cash (used in) operating activities	(589,604)	(715,560)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(12,733)	(22,908)
Interest receivable - Onspan Networking, Inc.	(17,940)	-
Loan receivable - Onspan Networking, Inc.	(675,000)	-
Proceeds from sale of property and equipment	-	7,500
Proceeds from sale of marketable equity securities	43,206	187,943
	-----	-----
Net cash provided by (used in) investing activities .	(662,467)	172,535
	-----	-----

Continued

See Notes to the Consolidated Financial Statements.

F-5

EVOLVE ONE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003 AND 2002

(CONTINUED)

	2003	2002
	----	----
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of treasury stock	\$ -	\$ (97,291)
Loan repayment	-	(157,963)
	-----	-----
Net cash (used in) financing activities	-	(255,254)
	-----	-----
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,252,071)	(798,279)
CASH AND CASH EQUIVALENTS, beginning of period	1,370,983	2,169,262
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 118,912	\$ 1,370,983
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 59	\$ 4,838
	=====	=====
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Insurance financing	\$ -	\$ 157,963
	=====	=====

Edgar Filing: EVOLVE ONE INC - Form 10KSB

See Notes to the Consolidated Financial Statements.

F-6

EVOLVE ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Evolve One, Inc. (the "Company" or "EONE") is a diversified holding company that develops and operates Internet and direct retail marketing companies. The EONE group of companies includes wholly-owned subsidiaries, StogiesOnline.com, Inc. ("Stogies") (www.CigarCigar.com), AlDiscount Perfume, Inc. ("Al Discount Perfume") (www.AlDiscountPerfume.com), and International Internet Venture I, LLC ("Ventures"). EONE, through its Ventures division, owns an equity interest in several companies, some of which are classified as trading securities and some of which are classified as available-for-sale securities. EONE was incorporated in Delaware on June 21, 1994.

Stogies became an online distributor and retailer of brand name premium cigars within the United States on November 18, 1998. Stogies' products consist of premium cigars, factory brand name seconds and mass market cigars, which are distributed online to retail and wholesale customers.

On September 28, 2001, the Company created a new subsidiary named AlDiscount Perfume, Inc. and in October 2001, launched a new e-commerce site specializing in men's and women's fragrances. The site named AlDiscountProducts.com is a competitor of other discount as well as full price online retailers of perfume and cologne, and has recently expanded into yoga products, office accessories, and cigar accessories.

Certain reclassifications of the amounts presented for the comparative period have been made to conform to the current presentation.

NEW ACCOUNTING STANDARDS

In May 2003, the FASB issued SFAS No. 150 - "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". The standard improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The standard requires that those instruments be classified as liabilities in statements of financial position. This standard is effective for interim periods beginning after June 15, 2003. The adoption of SFAS No. 150 did not have an effect on our results of operations, financial position or debt covenants.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of EONE, Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

REVENUE RECOGNITION

Revenue from sales of cigars, perfume and cologne over the Internet is recognized upon shipment. Provision is made at the time the related revenue is recognized for estimated product returns.

F-7

Edgar Filing: EVOLVE ONE INC - Form 10KSB

EVOLVE ONE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RISK AND UNCERTAINTIES

The Company is subject to all of the risks inherent in an early stage company in the Internet industry. These risks include, but are not limited to, a limited operating history, limited management resources, dependence upon consumer acceptance of the Internet, Internet related security risks and the changing nature of the electronic commerce industry. The Company's operating results may be materially affected by the foregoing factors.

CASH EQUIVALENTS

For purposes of the statements of cash flows, the Company considers all highly liquid short-term investments purchased with an original maturity of three months or less to be cash equivalents.

MARKETABLE EQUITY SECURITIES

Marketable Equity Securities are classified into three categories as follows:

- o Held-to-maturity securities reported at amortized cost;
- o Trading securities reported at fair value with unrealized gains and losses included in earnings;
- o Available-for-sale securities reported at fair value with unrealized gains and losses reported in other comprehensive income (loss).

Cost of securities sold are determined by the specific identification method.

INVENTORIES

Inventories are stated at the lower of cost or market determined by the first-in, first-out method. Inventory consists of cigars, colognes and related accessories.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and depreciated on an accelerated basis over the assets' estimated useful lives. Depreciation expense for the periods ended December 31, 2003 and 2002 amounted to \$108,843 and \$164,190, respectively.

COMPREHENSIVE INCOME

Other comprehensive income refers to revenue, expense and gains and losses that under generally accepted accounting principles are included in comprehensive income but are excluded from net earnings (loss) as these amounts are recorded directly to an adjustment to stockholders' equity, net of tax. The Company's other comprehensive income is composed of net unrealized losses on available-for-sale securities.

F-8

EVOLVE ONE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

INCOME TAXES

The Company recognizes deferred tax assets and liabilities based on differences between the financial reporting and tax bases of assets and liabilities using

Edgar Filing: EVOLVE ONE INC - Form 10KSB

the enacted tax rates and laws that are expected to be in effect when the differences are expected to be recovered. The Company provides a valuation allowance for deferred tax assets for which it does not consider realization of such assets to be more likely than not.

ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain 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 reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NET EARNINGS (LOSS) PER SHARE

Basic net earnings (loss) per share is computed by dividing net earnings (loss) by the weighted-average number of shares outstanding. Diluted net earnings (loss) per share includes the dilutive effect of stock options. The calculation of diluted weighted average shares outstanding for the years ending December 31, 2003 and 2002, excludes 16,000 and 8,000 common shares respectively, issuable pursuant to outstanding options. These shares were excluded because their affect was anti-dilutive.

STOCK-BASED COMPENSATION

The Company granted stock options to directors and employees that are more fully described in Note 9. The Company accounts for its stock options using the intrinsic value method under Accounting Principles Board Opinion ("APB") No. 25, "ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES."

The proforma effect of the compensation expense would not be material in computing the net (loss) and (loss) per share if the Company had applied the fair value recognition provisions of Statements on Financial Accounting Standards ("SFAS") No. 123, "ACCOUNTING FOR STOCK-BASED COMPENSATION," and SFAS No. 148 "ACCOUNTING FOR STOCK-BASED COMPENSATION - TRANSITION AND DISCLOSURE."

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash, accounts receivable, accounts payable, and accrued liabilities approximate fair value because of the short maturity of the instruments and the provision, if any, for what management believes to be adequate reserves for potential losses.

F-9

EVOLVE ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LONG-LIVED ASSETS

The Company reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount.

CONCENTRATION OF CREDIT RISK

The Company at times has cash in banks in excess of FDIC insurance limits and places its temporary cash investments with high credit quality financial

Edgar Filing: EVOLVE ONE INC - Form 10KSB

institutions.

ADVERTISING EXPENSE

The Company expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2003 and 2002 amounted to \$133,979 and \$100,144, respectively.

SHIPPING AND HANDLING

The Company's shipping and handling costs are included under Cost of Sales.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company's accounts receivable are reported net of bad debt reserves, which are regularly evaluated by management for adequacy. The evaluation includes and is not limited to a review of individual customer accounts that have balances beyond the agreed upon terms of the sale. Reserve values are assigned to individual accounts based on the Company's recent payment experience with the customer and knowledge of the customer's creditworthiness.

STOCK SPLIT

On January 31, 2003, the Company effected a 250 to 1 reverse stock split. All share and per share amounts have been retroactively restated to reflect the reverse stock split.

F-10

EVOLVE ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2003:

		In Years -----
Furniture	\$ 51,375	7
Equipment	728,957	5
Leasehold Improvements	68,603	10

	848,935	
Less: Accumulated Depreciation	646,539	

	\$202,396	
	=====	

NOTE 3. MARKETABLE EQUITY SECURITIES

SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities," requires that all applicable investments be classified as trading securities, available-for-sale securities or held-to-maturity securities. The Company has classified certain of its investments as trading securities, which are reported at fair value, which is defined to be the last closing price for the listed securities. The unrealized gains and losses, which the Company recognizes from its trading securities, are included in earnings. The Company also has investments classified as available-for-sale, which are also required to be

Edgar Filing: EVOLVE ONE INC - Form 10KSB

reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity (net of the effect of income taxes). Fair value is also defined to be the last closing price for the listed security. Due to the size of certain of the Company's investments and their limited trading volume, there can be no assurance that the Company will realize the value which is required to be used by SFAS No. 115.

F-11

EVOLVE ONE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amortized cost of equity securities as shown in the accompanying balance sheet and their estimated market value at December 31, 2003 are as follows:

	2003

Trading securities:	
Cost	\$ 10,572
Unrealized (loss)	(8,920)

	1,652

Available-for-sale securities:	
Cost	417,854
Unrealized (loss)	(262,439)

	155,415

	157,067
Marketable equity securities classified as current	64,682

Marketable equity securities classified as non-current	\$ 92,385
	=====

Gains (losses) from trading securities that were included in earnings for the years ended December 31, 2003 and 2002 were as follows:

	2003	2002
	----	----
Realized (loss)	\$ (476,444)	\$ (12,058)
	=====	=====
Unrealized (loss)	\$ -	\$ (4,956)
	=====	=====

The change in unrealized gains (losses) from available-for-sale securities included as a component of equity for the years ended December 31, 2003 and 2002 were as follows:

	2003	2002
	----	----
Net unrealized gain (loss)	\$ 109,709	\$ (1,539,244)
Decrease in deferred tax asset	41,200	439,200
Allowance deferred taxes	(41,200)	-
	-----	-----

Edgar Filing: EVOLVE ONE INC - Form 10KSB

Accumulated other comprehensive income (loss)	\$ 109,709	\$ (1,100,044)
	=====	=====

F-12

EVOLVE ONE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's investment in available-for-sale securities includes 10,100,000 shares (10,000,000 of which are not registered) of SGD Holdings, Ltd., formerly known as GoldOnline International, Inc. ("SGD"), a holding company primarily engaged in acquiring and developing jewelry related businesses, with a cost of \$108,854 and a closing value on December 31, 2003 of \$151,500 (\$.015 per share). The Company's investment represents approximately 10.4% of the outstanding stock of SGD and accordingly the Company is subject to certain restrictions on the number of shares it can sell. The Company classifies 6,159,000 shares of SGD as non-current and 3,941,000 shares of SGD as current, which is approximately the maximum number of shares it could sell within the next 12 months.

During the latter part of 2002 the Company became aware, based upon Securities and Exchange Commission (SEC) filings by SGD, that SGD had taken the position that the Company was the holder of pre-split shares (SGD had a 6 for 1 reverse split) and rather than the Company owning 10 Million shares of SGD the Company was the holder of only 1,666,666 shares of SGD. It is the Company's position that the number of shares that the Company held of SGD as of December 31, 2003 and 2002 is 10 Million. This is based upon purchase and sale arrangements between the Company and SGD wherein the Company was sold, issued and receive 10 Million post split shares of SGD from SGD (formerly known as GoldOnline.com, Inc.). The shares issued and delivered to the Company by SGD reflected the split and the new split CUSIP change. On November 11, 2000, following the Company's receipt of these shares, the Company filed a Form 13D, with the SEC, reflecting the ownership of these shares. The Form 13D had been prepared by SGD's Counsel. SGD filed quarterly and annual financial reports with the SEC reflecting the ownership of 10 Million shares by the Company. Should it ultimately be determined that the shares should be pre-split shares then our investment in SGD, as of December 31, 2003, rather than being included in the accompanying balance sheet as \$151,500 (current \$59,115; long-term \$92,385) might be reduced depending upon the impact of the share price differential on the market price of the SGD shares and the reduced number of shares that the Company would be considered as holding.

NOTE 4. OTHER COMPREHENSIVE INCOME (LOSS)

The following represents a reconciliation of other comprehensive income (loss) for the year ended December 31, 2003:

Accumulated other comprehensive (loss) at 12/31/02:		\$ (372,148)
Unrealized (loss) from marketable equity securities ...	\$ (356,755)	
Reclassification adjustment	466,464	

Net unrealized gain from marketable equity securities .		109,709

Net accumulated other comprehensive (loss)		\$ (262,439)
		=====

F-13

EVOLVE ONE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Edgar Filing: EVOLVE ONE INC - Form 10KSB

NOTE 5. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Company has an operating lease for facilities which expires June 2004. Minimum future obligations over the term of the lease is as follows:

YEAR ENDED DECEMBER 31, -----	
2004	\$32,695

Rent expense for the years ended December 31, 2003 and 2002 aggregated \$72,177 and \$87,021 respectively. In June 2004, the Company did not renew the Stogies warehouse lease and is currently renting from a company owned by the majority shareholders of Evolve One, Inc. (Note 11).

LITIGATION

Lakewood Development(s) Corporation v. Gary Schultheis and Herbert Tabin and Evolve One, Inc., Civil Action No. 4-03-CV-1224-A, in the United States District Court of the Northern District of Texas, Ft. Worth Division (Complaint filed on August 6, 2003). This action asserts claims for violation of Texas securities law, fraud, breach of contract, and breach of fiduciary duties. The action sought damages in the amount of \$4,125,000, for the plaintiff, the plaintiffs' attorneys' fees and costs, and certain other relief.

On April 6, 2004, United States District Court Judge John McBryde of the United States District Court of the Northern District of Texas, Ft. Worth Division, entered a final judgment in favor of Evolve One, Inc. and its officers Gary Schultheis and Herbert Tabin dismissing the case with prejudice. The court also ordered Lakewood to pay defendants' court costs.

F-14

EVOLVE ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. INCOME TAXES

The components of income tax expense for continuing operations are as follows for the years ended December 31, 2003 and 2002:

	2003 ----	2002 ----
Current tax expense:		
Federal	\$ -	\$ -
State	-	-
	-----	-----
Deferred tax expense	-	439,200
	-----	-----
Total income tax expense	\$ -	\$ 439,200
	=====	=====

Total income tax expense applicable to earnings (loss) from continuing operations before income taxes is reconciled with the "normally expected" federal income tax expense as follows for the year ended December 31, 2003 and 2002:

Edgar Filing: EVOLVE ONE INC - Form 10KSB

	2003 ----	2002 ----
"Normally expected" income tax expense (benefit) ...	\$ (457,300)	\$ (372,700)
Increase (decrease) in taxes resulting from:		
State income taxes, net of Federal income		
tax benefit	(48,400)	(39,800)
Nondeductible meals and other	42,800	(292,600)
Change in valuation allowance	462,900	1,144,300
	-----	-----
	\$ -	\$ 439,200
	=====	=====

The deferred income tax liabilities (assets) at December 31, 2003 are comprised of the following:

	CURRENT -----	NONCURRENT -----
Unrealized loss on trading securities	\$ (4,000)	\$ -
Unrealized gain on available-for-sale securities ...	(40,100)	(58,700)
Officers Salaries	(86,500)	-
Net operating loss	(1,937,800)	-
Asset basis	-	400
	-----	-----
Total deferred income tax (assets)	(2,068,400)	(58,300)
Valuation allowance	2,068,400	58,300
	-----	-----
Net deferred income tax (assets)	\$ -	\$ -
	=====	=====

F-15

EVOLVE ONE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has provided a valuation allowance on the deferred tax assets because of uncertainty regarding its realization. The increase in the valuation account during the twelve months ended December 31, 2003 and 2002 were \$462,900 and \$1,144,300 respectively. Management utilizes tax planning strategies and projected future taxable income in assessing these assets.

The Company has net operating loss carry forwards as of December 31, 2003, approximating \$3,887,000 for federal and state income tax purposes, which expire as follows:

YEAR OF ORIGINATION -----	EXPIRING -----	AVAILABLE LOSS CARRYFORWARD -----
2000	2020	\$ 864,000
2001	2021	1,329,000
2002	2022	968,000
2003	2023	726,000

		\$ 3,887,000
		=====

The Company has net capital loss carry forwards as of December 31, 2003, approximating \$1,262,000 for federal and state income tax purposes, which expire as follows:

Edgar Filing: EVOLVE ONE INC - Form 10KSB

YEAR OF ORIGINATION	EXPIRING	AVAILABLE LOSS CARRYFORWARD
2001	2006	\$ 777,000
2002	2007	9,000
2003	2008	476,000
		\$ 1,262,000
		\$ 1,262,000

NOTE 7. STOCK REPURCHASE

The Company has been authorized and empowered to acquire in the open market up to one million dollars of the common stock of the Company upon such terms and conditions as management shall determine consistent with applicable rules and regulations of the Securities and Exchange Commission.

Pursuant to a plan approved by the board of directors, the Company has repurchased in the twelve month period ended December 31, 2002 a total of 57,861 shares of its common stock for \$97,291. The repurchased shares have been retired. Effective October 7, 2002, the Company ceased the stock repurchase plan.

F-16

EVOLVE ONE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. LOAN RECEIVABLE

The Company issued a demand line of credit with Onspan Networking, Inc. a related party, where certain officers and directors of the Company are also officers and directors of Onspan Networking Inc., totaling \$1,000,000, under which Onspan Networking, Inc. may borrow on an unsecured basis with interest at 5% annually. On June 19, 2003, Onspan Networking, Inc. borrowed \$675,000 under this line of credit. The Company has accrued \$17,940 in interest on the note for a total of \$692,940.

The terms of the demand line of credit state that Onspan Networking, Inc. must issue options to the Company to purchase common stock equal to 10% of the dollar amount of the loan advance at an exercise price of \$0.10 per share, and options to purchase common stock equal to 90% of the dollar amount of the loan advance at the ten trading day average at the time of the draw (\$0.30 at June 19, 2003). On June 19, 2003, Onspan Networking, Inc. granted 67,500 stock options to Evolve One, Inc. under the revolving note agreement. The options have an exercise price of \$.10 per share. Onspan Networking, Inc. also granted on June 19, 2003, 607,500 stock options to Evolve One, Inc. in the same note agreement. These options have an exercise price of \$.30 per share. The Company currently has excluded these "options" on common stock from assets of the Company as the underlying stock, due to market conditions, are not readily convertible to cash. If conditions are satisfied and the underlying stock becomes marketable, the "options" would be reclassified as a derivative and recorded at fair value as an adjustment through current period results of operations.

On May 27, 2004 Onspan Networking, Inc. repaid the entire balance outstanding under the line of credit, including accrued interest.

NOTE 9. STOCK OPTIONS

In November 1999, the Board of Directors approved the establishment of Evolve

Edgar Filing: EVOLVE ONE INC - Form 10KSB

One, Inc. Stock Option Plan (the "Plan") to provide incentives to attract future employees and retain existing key employees with the Company. The Company has reserved 100,000 shares of common stock for the grant of qualified incentive options or non-qualified options to employees and directors of the Company or its parents or subsidiaries, and to non-employee directors, consultants and advisors and other persons who may perform significant services for or on behalf of the Company under the Plan. Prices for incentive stock options must provide for an exercise price of not less than 100% of the fair market value of the common stock on the date the options are granted unless the eligible employee owns more than 10% of the Company's common stock for which the exercise price must be at least 110% of such fair market value. Non-statutory options must provide for an exercise price of not less than 85% of the fair market value. The Plan was approved by the shareholders at a meeting on November 11, 1999.

The Company applied Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for the incentive stock options granted to employees under its stock option plan in its statements of operations. During 2002, the Company granted nonqualified options to purchase 8,000 shares of common stock to directors outside of the Plan, these stock options expire January 3, 2007 and have an exercise price of \$.007 per share and vest immediately. On January 3,

F-17

EVOLVE ONE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2003 the Company granted nonqualified options to purchase an additional 8,000 shares of common stock to directors outside of the Plan. These options were granted in accordance with employment contracts. The additional stock options, expiring January 3, 2008, have an exercise price of \$.001 per share and vest immediately.

A summary of the status of the Company's stock options as of December 31, 2003 and the changes during the years ended December 31, 2003 and 2002 is presented below:

	SHARES	WEIGHTED AVERAGE PRICE
	-----	-----
Beginning Balance, January 1, 2002	-	\$ -
Options granted	8,000	.007
Options exercised	-	-
Options cancelled	-	-
	-----	-----
Ending Balance, December 31, 2002	8,000	\$.007
	-----	-----
Options granted	8,000	\$.001
Options exercised	-	-
Options cancelled	-	-
	-----	-----
Ending Balance, December 31, 2003	16,000	\$.004
	=====	=====

The pro forma compensation expense of the stock options would not be material to the accompanying financial statements for the current period, if the Company

Edgar Filing: EVOLVE ONE INC - Form 10KSB

would have elected SFAS No. 123. The Company used the Black-Scholes option pricing model to determine the fair value of the grants. The assumptions were applied as follows:

Risk Free Interest Rate	3.4%
Expected Dividend Yield	0%
Expected Option Life	5 years
Expected Stock Price Volatility	138%

F-18

EVOLVE ONE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. SEGMENT INFORMATION

The Company reports segments based upon the management approach, which designates the internal reporting that is used by management for making operating decisions and assessing performance.

For the twelve months ended December 31, 2003, the Company operated in the following segments, none of which have inter-segment revenues:

	VENTURES -----	STOGIES -----	CORPORATE -----	A1DISCOUNT PERFUME -----	CONSOLIDATED -----
Revenue	\$ -	\$1,322,803	\$ -	\$ 46,083	\$ 1,368,886
Operating (Loss)	(19,384)	(213,725)	(634,661)	(20,273)	(888,043)
Other (expense) .	(476,380)	(59)	19,599	-	(456,840)
Net Loss ...	(495,764)	(213,784)	(615,062)	(20,273)	(1,344,883)
Assets	176,453	624,493	729,532	49,160	1,579,638

For the twelve months ended December 31, 2002, the Company operated in the following segments, none of which have inter-segment revenues:

	VENTURES -----	STOGIES -----	CORPORATE -----	A1DISCOUNT PERFUME -----	CONSOLIDATED -----
Revenue	\$ -	\$1,395,988	\$ -	\$58,205	\$ 1,454,193
Operating Loss	(109,981)	(244,798)	(736,646)	(2,889)	(1,094,314)
Other income (expense) ..	13	5,436	(7,341)	-	(1,892)
Net Loss ...	(108,068)	(146,462)	(1,279,287)	(1,589)	(1,535,406)
Assets	718,401	785,206	1,152,548	43,796	2,699,951

The Ventures segment owns an equity interest in several companies, mainly with Internet operations, and derives its revenue from the net gains and losses

Edgar Filing: EVOLVE ONE INC - Form 10KSB

recognized when the investments are sold. In addition, the Ventures segment recognizes income or loss from the unrealized gains or losses associated with its trading securities.

F-19

EVOLVE ONE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Stogies segment is an online distributor and retailer of brand name premium cigars within the United States. Stogies revenue includes wholesale sales to cigar stores, as well as, retail sales to internet customers.

The AlDiscount segment is an online distributor and retailer of brand name premium colognes, perfumes and exercise and yoga equipment within the United States. AlDiscount revenue includes retail sales to internet customers.

Corporate assets consist primarily of cash and a loan receivable from Onspan Networking, Inc. a related party. Interest expense is allocated to the other segments to the extent it exceeds interest income.

NOTE 11. SUBSEQUENT EVENTS

On June 25, 2004, the company purchased the URL named (www.Auctionstore.com) for \$6,500. On July 22, 2004 the Company created a new wholly owned subsidiary, Auctionstore.com a Florida Corporation. The Company plans to start operations in the fourth quarter of 2004.

On August 6, 2004, the Company received a late filers notice from the Securities and Exchange Commission. The letter dated July 29, 2004, stated: "IT APPEARS THAT THE REGISTRANT ("EVOLVE ONE, INC."), IS NOT IN COMPLIANCE WITH ITS REPORTING REQUIREMENTS UNDER SECTION 13(A) OF THE SECURITIES EXCHANGE ACT OF 1934. IF THE REGISTRANT IS IN COMPLIANCE WITH ITS REPORTING REQUIREMENTS, PLEASE CONTACT US WITHIN FIFTEEN DAYS FROM THE DATE OF THIS LETTER SO WE CAN DISCUSS THE REASONS WHY OUR RECORDS DO NOT INDICATE THAT COMPLIANCE. IF THE REGISTRANT IS NOT IN COMPLIANCE WITH ITS REPORTING REQUIREMENTS, IT SHOULD FILE ALL REQUIRED REPORTS WITHIN FIFTEEN DAYS FROM THE DATE OF THIS LETTER. IF THE REGISTRANT HAS NOT FILED ALL REQUIRED REPORTS WITHIN FIFTEEN DAYS FROM THE DATE OF THIS LETTER, PLEASE BE AWARE THAT THE REGISTRANT MAY BE SUBJECT, WITHOUT FURTHER NOTICE, TO AN ADMINISTRATIVE PROCEEDING TO REVOKE ITS REGISTRATION UNDER THE SECURITIES EXCHANGE ACT OF 1934. THIS ADMINISTRATIVE PROCEEDING WOULD BE BROUGHT BY THE COMMISSION'S DIVISION OF ENFORCEMENT PURSUANT TO SECTION 12(J) OF THE SECURITIES EXCHANGE ACT OF 1934. IF THE REGISTRANT'S STOCK IS TRADING, IT ALSO MAY BE SUBJECT TO A TRADING SUSPENSION BY THE COMMISSION PURSUANT TO SECTION 12(K) OF THE SECURITIES EXCHANGE ACT OF 1934. FINALLY, PLEASE CONSIDER WHETHER THE REGISTRANT IS ELIGIBLE TO TERMINATE ITS REGISTRATION UNDER THE SECURITIES EXCHANGE ACT OF 1934. IF THE REGISTRANT IS ELIGIBLE TO TERMINATE ITS REGISTRATION, IT WOULD DO SO BY FILING A FORM 15 WITH THE COMMISSION. WHILE THE FILING OF A FORM 15 MAY CEASE THE REGISTRANT'S ON-GOING REQUIREMENT TO FILE PERIODIC AND CURRENT REPORTS, IT WOULD NOT REMOVE THE REGISTRANT'S OBLIGATION TO FILE ALL REPORTS REQUIRED UNDER SECTION 13(A) OF THE SECURITIES EXCHANGES ACT OF 1934 THAT WERE DUE ON OR BEFORE THE DATE THE REGISTRANT FILED ITS FORM 15. AGAIN, IF THE REGISTRANT IS ELIGIBLE TO TERMINATE ITS REGISTRATION UNDER THE SECURITIES EXCHANGE ACT OF 1934, PLEASE NOTE THAT THE FILING OF A FORM 15 WOULD NOT REMOVE THE REGISTRANT'S REQUIREMENT TO FILE DELINQUENT SECURITIES EXCHANGE ACT OF 1934 REPORTS - THE REGISTRANT WOULD STILL BE REQUIRED TO FILE WITH THE COMMISSION ALL PERIODIC REPORTS DUE ON OR BEFORE THE DATE ON WHICH THE REGISTRANT FILED A FORM 15."

F-20

Edgar Filing: EVOLVE ONE INC - Form 10KSB

On August 20, 2004 the Company signed a new five year lease for 5,325 sq feet of office and warehouse space at 1000 Clint Moore Road, Suites 101 and 102, Boca Raton Fl 33487. The initial monthly base rent is approximately \$6,500 plus sales tax and other charges.

Minimum future obligations over the term of the leases are as follows:

YEAR ENDED DECEMBER 31, -----	
2004	\$13,091
2005	79,005
2006	81,783
2007	84,623
2008	87,578
2009	75,127

F-21

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A. CONTROLS AND PROCEDURES

The Company's President and Principal Financial and Accounting Officer and Controller have concluded, based on their evaluation within 90 days of the filing date of this report, that the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a -14(c) and 15d-14(c)) were adequate and designed to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the previously mentioned evaluation.

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS, COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

DIRECTORS, EXECUTIVE OFFICERS AND SIGNIFICANT EMPLOYEES

The following table sets forth the names, ages and current positions with the Company held by the Directors, Executive Officers and Significant Employees, together with the year such positions were assumed. There is no immediate family relationship between or among any of the Directors, Executive Officers or Significant Employees, except Ms. Dermer is the sister-in-law of Mr. Tabin. The Company is not aware of any arrangement or understanding between any Director or Executive officer and any other person pursuant to which he was elected to his current position.

NAME	AGE	POSITION OR OFFICE WITH THE COMPANY	DATE FIRST ELECTED
----	---	-----	-----
Gary Schultheis	38	President, Director	1998
Herbert Tabin	37	Director	1998
Martin Scott	36	Director	2001
Marissa Dermer	36	Controller	2000

GARY SCHULTHEIS is a co-founder of Evolve One, Inc. and has served as its

Edgar Filing: EVOLVE ONE INC - Form 10KSB

President and a Director of the Company since February 1998. Mr. Schultheis currently serves as President and CEO of Millennium Holdings Group, Inc., a corporate consulting firm. In February 1999, Mr. Schultheis became Vice President of Interactive Golf Marketing a publicly traded company that became WowStores.com. In August 1999, Mr. Schultheis resigned as Vice President of WowStores.com after its acquisition by Stockfirst.com. From March 1994 to February 1996, Mr. Schultheis was President of Wall Street Enterprises d/b/a Wall Street Associates, a financial consulting firm specializing in mergers and acquisitions. In February 1996, Wall Street Enterprises was acquired by Millennium Holdings Group, Inc. Currently, Wall Street Enterprises d/b/a Wall Street Associates is a wholly-owned subsidiary of Millennium Holdings Group,

19

Inc. From 1985 to 1992, Mr. Schultheis was employed with Air Express International now Danzas DHL, holding a position in staging and logistics. Mr. Schultheis attended the State University of New York at Farmingdale in 1984.

HERBERT TABIN is a Director and founder of the Company and currently serves as its Director of Marketing. Mr. Tabin has been a Director of Evolve One, Inc. since February 1998. Mr. Tabin is currently the President, CEO and a Director of a related party, OnSpan Networking, Inc., a publicly traded company. Mr. Tabin is also currently Vice President of Millennium Holdings Group, Inc. a private Florida-based venture capital firm. Mr. Tabin has been Vice President with Millennium Holdings since 1996. In February 1999, Mr. Tabin became President of Interactive Golf Marketing a publicly traded company that became WowStores.com. In August 1999, Mr. Tabin resigned as President of WowStores.com following its acquisition by StockFirst.com. Previously, Mr. Tabin was a Vice President of Marketing with LBI Group, Inc., a merchant banking and venture capital group from April 1995 to December 1996. From September 1993 to March 1995 Mr. Tabin was a vice president with HBL Associates a financial relations firm in New York City. From 1989 to August 1993 Mr. Tabin was employed with the American Stock Exchange and New York-based Stock Brokerage firms Stratton Securities, Continental Broker-Dealer and Kensington Wells, Inc. Mr. Tabin received a Bachelor of Science in Business Economics from the State University of New York At Oneonta in 1989. In March 2000, the State University of New York At Oneonta named their campus' largest computer lab, the Tabin Computer Lab.

MARISSA DERMER is currently the controller for the Company. Ms. Dermer is also currently a Director of publicly traded, Onspan Networking Inc., a related party, symbol ONSP and is their Chief Financial Officer. From September 1997 to April 2000, Ms. Dermer was an assistant controller with Mitchell Hutchins Asset Management, Inc., the mutual fund advisory group of Paine Webber Inc. Prior to her employment with Paine Webber, Ms. Dermer was a manager of David Berdon and Company LLP, a prominent public accounting firm headquartered in New York City from 1990 to 1997. Ms. Dermer graduated in 1990 from the State University of New York at Albany with a degree in Business/Accounting.

MARTIN SCOTT is a certified public accountant, he owns a consulting practice that specializes in assisting small public companies in preparing financial reports. He was Chief Financial Officer of Geotec Thermal Generators, Incorporated from January 2000 Until July 2001. Mr. Scott served as Secretary and Treasurer and Principal Accounting and Financial Officer of Registry Magic, Inc., a NASDAQ traded company since October 1997. From June 1996 until October 1997, Millward & Co., CPAs, employed him as an Audit Supervisor. From October 1995 until June 1996, Mr. Scott served as Controller of ERD Waste Corp., a NASDAQ traded company, a waste disposal company. Prior thereto, from January 1995, he was employed as a Senior Accountant with the firm of Richard A. Eisner & Co., LLP. From January 1991 to January 1995, he was employed as a Senior Accountant with the firm of Feldman Radin & Co., P.C.

CODE OF ETHICS

Effective November 18, 2002, our board of directors adopted a Code of Business Conduct and Ethics that applies to, among other persons, our company's President (being our principal executive officer) as well as all employees. As adopted, our Code of Business Conduct and Ethics sets forth written standards that are designed to deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the Securities and Exchange Commission and in other public communications made by us;
- compliance with applicable governmental laws, rules and regulations;
- the prompt internal reporting of violations of the Code of Business Conduct and Ethics to an appropriate person or persons identified in the Code of Business Conduct and Ethics; and
- accountability for adherence to the Code of Business Conduct and Ethics.

Our Code of Business Conduct and Ethics requires, among other things, that all of our company's personnel shall be accorded full access to our President with respect to any matter that may arise relating to the Code of Business Conduct and Ethics. Further, all of our company's personnel are to be accorded full access to our company's board of directors if any such matter involves an alleged breach of the Code of Business Conduct and Ethics by our President.

In addition, our Code of Business Conduct and Ethics emphasizes that all employees, and particularly managers and/or supervisors, have a responsibility for maintaining financial integrity within our company, consistent with generally accepted accounting principles, and federal, provincial and state securities laws. Any employee who becomes aware of any incidents involving financial or accounting manipulation or other irregularities, whether by witnessing the incident or being told of it, must report it to his or her immediate supervisor or to our company's President. If the incident involves an alleged breach of the Code of Business Conduct and Ethics by the President, the incident must be reported to any member of our board of directors. Any failure to report such inappropriate or irregular conduct of others is to be treated as a severe disciplinary matter. It is against our company policy to retaliate against any individual who reports in good faith the violation or potential violation of our company's Code of Business Conduct and Ethics by another.

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

NONE.

On August 6, 2004, the Company received a late filers notice from the Securities And Exchange Commission. The letter dated July 29, 2004, stated: "IT APPEARS THAT THE REGISTRANT ("EVOLVE ONE, INC."), IS NOT IN COMPLIANCE WITH ITS REPORTING REQUIREMENTS UNDER SECTION 13(A) OF THE SECURITIES EXCHANGE ACT OF

Edgar Filing: EVOLVE ONE INC - Form 10KSB

1934. IF THE REGISTRANT IS IN COMPLIANCE WITH ITS REPORTING REQUIREMENTS, PLEASE CONTACT US WITHIN FIFTEEN DAYS FROM THE DATE OF THIS LETTER SO WE CAN DISCUSS THE REASONS WHY OUR RECORDS DO NOT INDICATE THAT COMPLIANCE. IF THE REGISTRANT IS NOT IN COMPLIANCE WITH ITS REPORTING REQUIREMENTS, IT SHOULD FILE ALL REQUIRED REPORTS WITHIN FIFTEEN DAYS FROM THE DATE OF THIS LETTER. IF THE REGISTRANT HAS NOT FILED ALL REQUIRED REPORTS WITHIN FIFTEEN DAYS FROM THE DATE OF THIS LETTER, PLEASE BE AWARE THAT THE REGISTRANT MAY BE SUBJECT, WITHOUT FURTHER NOTICE, TO AN ADMINISTRATIVE PROCEEDING TO REVOKE ITS REGISTRATION UNDER THE SECURITIES EXCHANGE ACT OF 1934. THIS ADMINISTRATIVE PROCEEDING WOULD BE BROUGHT BY THE COMMISSION'S DIVISION OF ENFORCEMENT PURSUANT TO SECTION 12(J) OF THE SECURITIES EXCHANGE ACT OF 1934. IF THE REGISTRANT'S STOCK IS TRADING, IT ALSO MAY BE SUBJECT TO A TRADING SUSPENSION BY THE COMMISSION PURSUANT TO SECTION 12(K) OF THE SECURITIES EXCHANGE ACT OF 1934. FINALLY, PLEASE CONSIDER WHETHER THE REGISTRANT IS ELIGIBLE TO TERMINATE ITS REGISTRATION UNDER THE SECURITIES EXCHANGE ACT OF 1934. IF THE REGISTRANT IS ELIGIBLE TO TERMINATE ITS REGISTRATION, IT WOULD DO SO BY FILING A FORM 15 WITH THE COMMISSION. WHILE THE FILING OF A FORM 15 MAY CEASE THE REGISTRANT'S ON-GOING REQUIREMENT TO FILE PERIODIC AND CURRENT REPORTS, IT WOULD NOT REMOVE THE REGISTRANT'S OBLIGATION TO FILE ALL REPORTS REQUIRED UNDER SECTION 13(A) OF THE SECURITIES EXCHANGES ACT OF 1934 THAT WERE DUE ON OR BEFORE THE DATE THE REGISTRANT FILED ITS FORM 15. AGAIN, IF THE REGISTRANT IS ELIGIBLE TO TERMINATE ITS REGISTRATION UNDER THE SECURITIES EXCHANGE ACT OF 1934, PLEASE NOTE THAT THE FILING OF A FORM 15 WOULD NOT REMOVE THE REGISTRANT'S REQUIREMENT TO FILE DELINQUENT SECURITIES EXCHANGE ACT OF 1934 REPORTS - THE REGISTRANT WOULD STILL BE REQUIRED TO FILE WITH THE COMMISSION ALL PERIODIC REPORTS DUE ON OR BEFORE THE DATE ON WHICH THE REGISTRANT FILED A FORM 15."

ITEM 10. EXECUTIVE COMPENSATION

The following table shows the cash compensation of the Company's chief executive officer and each officer whose total cash compensation exceeded \$100,000, for the three fiscal years ended December 31, 2003. The Company has no long-term compensation plans.

NAME AND PRINCIPAL POSITION -----	FISCAL YEAR ENDED -----	SALARY (\$) -----	BONUS (\$) -----	OTHER ANNUAL COMPENSATION -----	ALL OTHER COMPENSATION -----
Gary Schultheis	12/31/03	\$ 100,000	\$ 5,312	N/A	N/A
	12/31/02	\$ 100,000	\$ 5,572	N/A	N/A
	12/31/01	\$ 100,000	\$ 5,572	N/A	N/A
Herbert Tabin	12/31/03	\$ 100,000	\$ 5,312	N/A	N/A
	12/31/02	\$ 100,000	\$ 5,572	N/A	N/A
	12/31/01	\$ 100,000	\$ 5,052	N/A	N/A

In 2003 the Company accrued \$130,000 in salaries in accordance with the employment agreement signed January 3, 2002 with its President and Director of Marketing, see Employment Contracts below.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

NUMBER OF SECURITIES	PERCENT OF TOTAL OPTIONS/SARS
-------------------------	----------------------------------

Edgar Filing: EVOLVE ONE INC - Form 10KSB

NAME ----	UNDERLYING OPTIONS/SARS GRANTED (NUMBER) -----	GRANTED TO EMPLOYEES IN FISCAL YEAR -----	EXERCISE OR BASE PRICE (\$/SHARE) -----	EXPIRATION DATE -----
Gary Schultheis	4,000	50%	.001	1/3/08
Herbert Tabin	4,000	50%	.001	1/3/08

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION/SAR VALUES

NAME ----	SHARES ACQUIRED ON EXERCISE (NUMBER) -----	VALUE REALIZED (\$) -----	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT FY-END (NUMBER) EXERCISABLE/ UNEXERCISABLE -----	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT FY-END (\$) EXERCISABLE/ UNEXERCISABLE -----
Gary Schultheis	-	0	None	None
Herbert Tabin	-	0	None	None

EMPLOYMENT CONTRACTS

In January 2002, the Company's President and Director of Marketing entered into employment agreements with the Company. The contracts expire in January 2009 and provide for the granting of 4,000 stock options (as restated for the reverse stock split) each to the President and Director of Marketing at an exercise price of the average of closing price for the five (5) trading days preceding the anniversary date less fifteen (15%) percent each year. The annual salary under each of the agreements is \$150,000, which is to be increased by 10% each year.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table indicates all persons who, as of December 31, 2003, the most recent practicable date, are known by the Company to own beneficially more than 5% of any class of the Company's voting securities and all Directors of the Company and all Officers who are not Directors of the Company, as a group. As of December 31, 2003, there were 3,112,304 (1) shares of the Company's common stock outstanding.

23

TITLE OF CLASS -----	NAME AND ADDRESS OF BENEFICIAL OWNER -----	AMOUNT AND NATURE OF BENEFICIAL OWNER -----	% OF CLASS -----
Common	Gary Schultheis (2) 6413 Congress Ave, Suite 230 Boca Raton, FL 33487	1,028,137	33.03%
Common	Herbert Tabin (3) 6413 Congress Ave, Suite 230 Boca Raton, FL 33487	1,026,499	32.98%
Common	All directors and executive officers as a group (two persons)	2,054,636	66.01%

Edgar Filing: EVOLVE ONE INC - Form 10KSB

- (1) This amount includes options to acquire an aggregate of 16,000 common shares of stock, 8,000 common shares at an exercise price of \$.007 per share, and 8,000 shares at an exercise price of \$.001 per share.
- (2) This amount includes options to acquire 8,000 common shares of stock, 4,000 at an exercise price of \$.007 per share and 4,000 at an exercise price of \$.001 per share.
- (3) This amount includes options to acquire 8,000 common shares of stock, 4,000 at an exercise price of \$.007 per share and 4,000 at an exercise price of \$.001 per share.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company issued a demand line of credit with Onspan Networking, Inc. a related party, totaling \$1,000,000, under which Onspan Networking, Inc. may borrow on an unsecured basis with interest at 5% annually. On June 19, 2003 Onspan Networking, Inc. borrowed \$675,000 under this line of credit. The Company has accrued \$17,940 in interest on the note.

The terms of the demand line of credit state that Onspan Networking, Inc. must issue options to the Company to purchase common stock equal to 10% of the dollar amount of the loan advance at an exercise price of \$0.10 per share, and options to purchase common stock equal to 90% of the dollar amount of the loan advance at the ten trading day average at the time of the draw (\$0.30 at June 19, 2003). On June 19, 2003, Onspan Networking, Inc. granted 67,500 stock options to Evolve One, Inc. under the revolving note agreement. The options have an exercise price of \$.10 per share. Onspan Networking, Inc. also granted on June 19, 2003, 607,500 stock options to Evolve One, Inc. in the same note agreement. These options have an exercise price of \$.30 per share. The Company currently has excluded these "options" on common stock from assets of the Company as the underlying stock, due to market conditions, are not readily convertible to cash. If conditions are satisfied and the underlying stock becomes marketable, the "options" would be reclassified as a derivative and recorded at fair value as an adjustment through current period results of operations.

24

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

The following documents are filed as a part of this report or are incorporated by reference to previous filings, if so indicated:

(a) EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
-----	-----
14	Evolve One, Inc. Code of Business Conduct and Ethics Adopted by the Board of Directors On November 18, 2002, (Filed as Exhibit 14 to registrant December 2002, Form 10-KSB)
21	Subsidiaries of Evolve One, Inc. (Filed as Exhibit 21 to registrant December 2002, Form 10-KSB)
31.1	Certification of President and Principal Financial and Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to

Edgar Filing: EVOLVE ONE INC - Form 10KSB

Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of President and Principal Financial and Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) REPORTS ON FORM 8-K

Employment Agreement with President and Principal Financial and Accounting Officer, and Director of Marketing

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

AUDIT FEES

The aggregate audit fees billed by Goldstein Lewin & Co. for professional services rendered for the audit of our annual financial statements included in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003 and for the review of quarterly financial statements included in our Quarterly Reports on Form 10-QSB for the quarters ending March 31, June 30, and September 30, 2003 were \$8,000.

25

The aggregate audit fees billed by Goldstein Lewin & Co. for professional services rendered for the audit of our annual financial statements included in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002 and for the review of quarterly financial statements included in our Quarterly Reports on Form 10-QSB for the quarters ending March 31, June 30, and September 30, 2002 were \$40,750.

AUDIT RELATED FEES

For the fiscal years ended December 31, 2003 and 2002, the aggregate fees billed for assurance and related services by Goldstein, Lewin & Co. relating to the performance of the audit of our financial statements which are not reported under the caption "Audit Fees" above was \$0 and \$0, respectively.

TAX FEES

For the fiscal years ended December 31, 2003 and 2002 the aggregate fees billed for tax compliance, tax advice and tax planning, include the preparation of federal and state corporate income tax returns billed to Evolve One by Goldstein Lewin & Co. for the fiscal years ended December 31, 2003 and 2002 were approximately \$5,400 and \$5,500, respectively.

ALL OTHER FEES

Other than fees relating to the services described above under "Audit Fees," "Audit-Related Fees" and "Tax Fees," there were no additional fees billed by Goldstein Lewin & Co. for services rendered to Evolve One for the fiscal years ended December 31, 2003 and 2002.

AUDIT COMMITTEE POLICIES

Effective May 6, 2003, the Securities and Exchange Commission adopted rules that require that before our independent auditor is engaged by us to render any auditing or permitted non-audit related service, the engagement be:

* approved by our audit committee; or

Edgar Filing: EVOLVE ONE INC - Form 10KSB

* entered into pursuant to pre-approval policies and procedures established by the audit committee, provided the policies and procedures are detailed as to the particular service, the audit committee is informed of each service, and such policies and procedures do not include delegation of the audit committee's responsibilities to management.

The audit committee pre-approves all services provided by our independent auditors, including those set forth above. The audit committee has considered the nature and amount of fees billed by Goldstein Lewin & Co. and believes that the provision of services for activities unrelated to the audit is compatible with maintaining Goldstein Lewin & Co.'s independence.

26

SIGNATURES

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

EVOLVE ONE, INC.

Date: September 24, 2004

By: /s/ Gary Schultheis

Gary Schultheis,
President

(President and Principal Financial and
Accounting Officer)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: September 24, 2004

By: /s/ Gary Schultheis

Gary Schultheis,
Director

Date: September 24, 2004

By: /s/ Herbert Tabin

Herbert Tabin,
Director

Date: September 24, 2004

By: /s/ Martin Scott

Martin Scott,
Director

27