

Edgar Filing: EVOLVE ONE INC - Form 10QSB

EVOLVE ONE INC  
Form 10QSB  
August 14, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

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

For Quarter Ended: June 30, 2002

Commission File Number: 000-26415

EVOLVE ONE, INC.

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

Delaware  
(State of Incorporation)

13-3876100  
(IRS Employer ID No)

6413 Congress Avenue, Suite 240, Boca Raton, FL 33487  
(Address of principal executive office)

(561) 988-0819  
(Issuer's telephone number)

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 .

The number of shares outstanding of registrant's common stock, par value \$.00001 per share, as of June 30, 2002 was 778,988,189.

Transitional Small Business Disclosure Format (Check one): Yes  No .

Evolve One, Inc. and Subsidiaries

INDEX

	Page No.
Part I. Financial Information (unaudited)	
Item 1. Condensed Consolidated:	
Balance Sheet - June 30, 2002 .....	3
Statements of Operations-	
Three and Six Months Ended June 30, 2002 and 2001 .....	4
Statement of Stockholders' Equity -	
Six Months Ended June 30, 2002 .....	5
Statements of Cash Flows -	

## Edgar Filing: EVOLVE ONE INC - Form 10QSB

Six Months Ended June 30, 2002 and 2001 .....	6-7
Notes to Financial Statements -	
Six Months Ended June 30, 2002 and 2001 .....	8-15
Item 2. Managements Discussion and Analysis of Financial Condition and Results of Operations .....	15-19
Part II. Other Information .....	19

2

### Evolve One, Inc. and Subsidiaries

Condensed Consolidated Balance Sheet  
June 30, 2002  
(Unaudited)

#### Assets

##### Current assets

Cash and cash equivalents .....	\$ 1,884,689
Accounts receivable .....	16,993
Marketable equity securities .....	406,527
Inventory .....	246,513
Notes receivable .....	14,945
Prepaid expenses .....	118,748
	-----
Total current assets .....	2,688,415
Property and equipment, net .....	365,980
Marketable equity securities .....	500,700
Other assets .....	21,897
	-----
	\$ 3,576,992
	=====

#### Liabilities and Stockholders' Equity

##### Current liabilities

Accounts payable .....	\$ 22,376
Accrued salaries payable .....	50,000
Note Payable .....	83,856
Accrued expenses .....	12,873
	-----
Total current liabilities .....	169,105

##### 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 778,988,189 shares .....	7,789
Paid-in capital .....	6,742,172
Accumulated deficit .....	(3,290,493)
Accumulated other comprehensive income .....	(51,581)
	-----

Edgar Filing: EVOLVE ONE INC - Form 10QSB

Total stockholders' equity .....	3,407,887
	-----
	\$ 3,576,992
	=====

See accompanying notes to condensed consolidated financial statements.

3

Evolve One, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations  
 Three and Six Months ended June 30, 2002 and 2001  
 (Unaudited)

	Three Months Ended June 30,		
	2002	2001	2000
Sales and revenues .....	\$ 274,913	\$ 320,054	\$ 520,000
Cost of sales .....	181,406	252,645	350,000
	-----	-----	-----
Gross profit .....	93,507	67,409	160,000
Selling, general and administrative expense .....	385,020	371,179	690,000
	-----	-----	-----
Loss from operations .....	(291,513)	(303,770)	(520,000)
	-----	-----	-----
Other income (expense):			
Interest expense .....	(2,201)	(5,891)	(10,000)
Gain from sale of marketable equity securities .....	71,377	2,300	20,000
Investment income .....	4,232	23,304	10,000
Unrealized (loss) on marketable securities .....	-	(2,387)	(10,000)
	-----	-----	-----
Total other income (expense) .....	73,408	17,326	30,000
	-----	-----	-----
Loss before income taxes .....	(218,105)	(286,444)	(490,000)
Income tax expense (benefit) .....	368,000	(106,500)	470,000
	-----	-----	-----
Loss from continuing operations .....	(586,105)	(179,944)	(960,000)
Loss from earnings of a discontinued division .....	-	(52,931)	-
	-----	-----	-----
Net loss .....	\$ (586,105)	\$ (232,875)	\$ (960,000)
	=====	=====	=====
Net loss per share			
Basic .....	\$ (0.00)	\$ (0.00)	\$ (0.00)
	=====	=====	=====
Diluted .....	\$ (0.00)	\$ (0.00)	\$ (0.00)
	=====	=====	=====
Discontinued operations .....	\$ -	\$ (0.00)	\$ (0.00)
	=====	=====	=====
Weighted average shares outstanding			
Basic .....	779,678,009	788,446,187	788,390,000
	=====	=====	=====
Diluted .....	779,678,009	788,446,187	788,390,000
	=====	=====	=====

## Edgar Filing: EVOLVE ONE INC - Form 10QSB

See accompanying notes to condensed consolidated financial statements.

4

Evolve One, Inc. and Subsidiaries

Condensed Consolidated Statement of Stockholders' Equity  
Six Months Ended June 30, 2002  
(Unaudited)

	Common Stock Shares	Par Value	Paid-in Capital	Accumulated Deficit	
	-----	-----	-----	-----	-----
Balance, January 1, 2002 .....	88,446,187	\$ 7,884	\$6,819,781	\$(2,325,225)	\$
Repurchase and Retirement of Common Stock	(9,457,998)	\$ (95)	\$ (77,609)	-	
Comprehensive income:					
Unrealized (loss) on available- for-sale securities, net .....	-	-	-	-	\$
Net loss .....	-	-	-	(965,268)	
Total comprehensive loss .....	-	-	-	-	
	-----	-----	-----	-----	-----
Balance, June 30, 2002 .....	778,988,189	\$ 7,789	\$6,742,172	\$(3,290,493)	\$
	=====	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

5

Evolve One, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows  
Six months ended June 30, 2002 and 2001  
(Unaudited)

	2002	2001
Cash flows from operating activities		
Net earnings (loss) .....	\$ (965,268)	\$ (522,762)
Less: (Loss) from discontinued operations, net .....	-	(106,945)
	-----	-----
(Loss) from continuing operations .....	(965,268)	(415,817)
Adjustments to reconcile (loss) from continued operations to net cash (used in) operating activities:		
Depreciation and amortization .....	82,408	110,627
Gain on marketable investment securities .....	(27,852)	(2,300)
Unrealized (gain) loss on marketable investment securities ...	3,304	1,815
Proceeds from sale of marketable investment securities .....	-	5,642
Deferred income taxes .....	470,300	(245,600)
Net change in operating assets of a discontinued operation ...	-	(81,390)
Decrease (increase) in assets:		
Accounts receivable .....	18,131	28,317

Edgar Filing: EVOLVE ONE INC - Form 10QSB

Inventory .....	22,287	201,680
Other assets .....	56,794	36,731
Increase (decrease) in liabilities:		
Accounts payable .....	(23,558)	(70,573)
Accrued expenses .....	58,071	(34,947)
Net cash (used in) operating activities .....	(305,383)	(465,815)
Cash flows from investing activities		
Capital expenditures .....	(5,180)	(107,219)
Proceeds from sale of marketable investment securities .....	177,801	-
Net cash (used in) investing activities .....	172,621	(107,219)
Cash flows from financing activities		
Repurchase of treasury stock .....	(77,704)	-
Loan repayment .....	(74,107)	(29,693)
Net cash (used in) financing activities .....	(151,811)	(29,693)
Net cash (used in) continuing operations .....	(284,573)	(602,727)
Net cash used in discontinued operations .....	-	(106,945)
Net (decrease) in cash and cash equivalents .....	(284,573)	(709,672)
Cash and cash equivalents, beginning of period .....	2,169,262	3,393,582
Cash and cash equivalents, end of period .....	\$ 1,884,689	\$ 2,683,910

See accompanying notes to condensed consolidated financial statements.

Continued

6

Evolve One, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows  
Six months ended June 30, 2002 and 2001  
(Unaudited)  
(Continued)

	2002	2001
Supplemental Cash Flow Information		
Cash paid for:		
Interest .....	\$ 2,201	\$ 5,891
Income taxes .....	\$ -	\$ -
Supplemental Schedule of Noncash Investing and Financing Activities		
Insurance Financing .....	\$ 157,963	\$ 91,054

See accompanying notes to condensed consolidated financial statements.

7

## Edgar Filing: EVOLVE ONE INC - Form 10QSB

Evolve One, Inc.  
Notes to Consolidated Financial Statements

### A. 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 includes wholly-owned subsidiaries, StogiesOnline.com, Inc. ("Stogies") (www.CigarCigar.com), AlDiscount Perfume, Inc. (www.AlDiscountProducts.com), and International Internet Venture I, LLC ("Ventures"). The Company previously had majority interests in The BroadcastWeb.com, Inc. ("BroadcastWeb") (www.thebroadcastweb.com) sold in 2001 (Note F) and Mr. Cigar, Inc. ("Cigar"). EONE, through its Venture 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 AlDiscountPerfume 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 located at <http://www.AlDiscountProducts.com>. The site 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. The site employs the Microsoft / Great Plains eEnterprise system the Company purchased last year and 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 AlDiscountProducts.com to inexpensively reach customers anywhere, around the clock.

The financial statements included in this report have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission for interim reporting and include all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation. These financial statements have not been audited.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations for interim reporting. The Company believes that the disclosures contained herein are adequate to make the information presented not misleading. However, these financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 2001, which is included in the Company's Form 10-KSB for the year ended December 31, 2001. The financial data for the interim periods presented may not necessarily reflect the results to be anticipated for the complete year. Certain reclassifications of the amounts presented for the comparative period have been made to conform to the current presentation.

### New accounting standards

In July 2001, FASB issued SFAS No. 141, "Business Combinations." SFAS No. 141

## Edgar Filing: EVOLVE ONE INC - Form 10QSB

requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. We believe that the adoption of SFAS No. 141 will not have a significant impact on our financial statements.

In July 2001, FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets", which is effective for fiscal years beginning after December 15, 2001. SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions upon adoption for the reclassification of certain existing recognized intangibles such as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the testing for impairment of existing goodwill and other intangibles. In June 2001, the Emerging Issues Task Force ("EITF") issued EITF Issue No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." EITF Issue No. 00-25 addresses whether consideration from a vendor to a reseller is (a) an adjustment of the selling prices of the vendor's products and, therefore, should be deducted from revenue when recognized in the vendor's income statement or (b) a cost incurred by the vendor for assets or services received from the reseller and, therefore, should be included as a cost or expense when recognized in the vendor's income statement. The Company adopted EITF Issue No. 00-25 effective January 1, 2002. The adoption of EITF Issue No. 00-25 did not have a material impact on the Company's financial statements.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" , which provides the accounting requirements for retirement obligations associated with tangible long-lived assets. This Statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it occurred. This Statement is effective for our 2003 fiscal year, and early adoption is permitted. The adoption of SFAS 143 is not expected to have a material impact on our consolidated results of operations, financial position or cash flows.

In October 2001, the FASB issued SFAS No. 144, " Accounting for the Impairment or Disposal of Long Lived Assets", which excludes from the definition of long-lived assets goodwill and other intangibles that are not amortized in accordance with SFAS 142. SFAS 144 requires that long-lived assets to be disposed of by sale be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS 144 also expands the reporting of discontinued operations to include components of an entity that have been or will be disposed of rather than limiting such discontinuance to a segment of a business. This Statement is effective for our 2003 fiscal year, and early adoption is permitted. We are currently evaluating the impact of SFAS 144 to determine the effect, if any, it may have on our consolidated results of operations, financial position or cash flows.

9

### B. MARKETABLE INVESTMENT 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 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

## Edgar Filing: EVOLVE ONE INC - Form 10QSB

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.

The amortized cost of investment securities as shown in the accompanying balance sheet and their estimated market value at June 30, 2002 are as follows:

	2002
	----
Trading securities:	
Cost .....	\$ 10,572
Unrealized (loss) .....	(7,268)
	-----
	3,304
	-----
Available-for-sale securities:	
Cost .....	986,604
Unrealized (loss) .....	(82,681)
	-----
	903,923
	-----
	907,227
Marketable investment securities classified as current .....	406,527
	-----
Marketable investment securities classified as non-current .....	\$ 500,700
	=====

Gains (losses) from trading securities that were included in earnings for the six months ended June 30, 2002 and 2001 were as follows:

	2002	2001
	----	----
Realized gain .....	\$ 27,852	\$ 2,300
	=====	=====
Unrealized .....	\$ (3,304)	\$ (1,815)
	=====	=====

10

The change in unrealized losses from available-for-sale securities included as a component of equity for the six months ended June 30, 2002 were as follows:

	2002
	----
Unrealized (loss) .....	\$ (1,249,777)
Deferred income tax benefit .....	470,300
	-----
Change in accumulated other comprehensive (loss) .....	\$ (779,477)
	=====

The Company's investment in available-for-sale securities includes 10,200,000 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 \$158,854 and a closing value on June 30, 2002 of \$816,000 (\$.08 per share). The Company's investment represents approximately 10.4% of the outstanding stock of



## Edgar Filing: EVOLVE ONE INC - Form 10QSB

SGD and accordingly the Company is subject to certain restrictions on the number of shares it can sell. The Company classifies 6,259,000 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 twelve months.

### C. OTHER COMPREHENSIVE INCOME

The following represents a reconciliation of other comprehensive income for the six months ended June 30, 2002:

Accumulated other comprehensive income at 12/31/01:		\$ 727,896
Unrealized loss from marketable securities	\$(1,291,777)	
Reclassification adjustment	42,000	
	-----	
Net unrealized loss from marketable securities		(1,249,777)
Deferred income tax benefit		470,300
		-----
Net accumulated other comprehensive income		\$ (51,581)
		=====

11

### D. INCOME TAXES

The components of income tax expense for continuing operations are as follows for the six months ended June 30, 2002 and 2001:

	2002 ----	2001 ----
Current tax expense (benefit):		
Federal .....	\$ -	\$ -
State .....	-	-
	-----	-----
	-	-
Deferred tax expense (benefit) .....	470,300	(245,600)
	-----	-----
Total income tax expense (benefit) .....	\$470,300	\$ (245,600)
	=====	=====

Total income tax expense (benefit) applicable to earnings (loss) from continuing operations before income taxes is reconciled with the "normally expected" federal income tax expense (benefit) as follows for the six months ended June 30, 2002 and 2001:

	2002 ----	2001 ----
"Normally expected" income tax expense (benefit) .....	\$(151,700)	\$(218,900)
Increase (decrease) in taxes resulting from:		
State income taxes, net of Federal income		
Tax benefit .....	(14,800)	(30,200)
Nondeductible meals and other .....	500	3,500
Change in valuation allowance .....	636,300	-
	-----	-----
	\$ 470,300	\$ (245,600)
	=====	=====

12

## Edgar Filing: EVOLVE ONE INC - Form 10QSB

The deferred income tax liabilities (assets) at June 30, 2002 are comprised of the following:

	Current	Noncurrent
Unrealized loss on trading securities .....	\$ (2,700)	\$ -
Unrealized gain on available-for-sale securities ....	(13,900)	(17,200)
Net operating loss .....	(1,124,400)	-
Asset basis .....	-	2,400
	-----	-----
Total deferred income tax liabilities (assets) ...	(1,141,000)	(14,800)
	1,141,000	14,800
	-----	-----
Net deferred income tax liabilities (assets) .....	\$ -	\$ -*
	=====	=====

\* Included in Other Comprehensive Income

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 six months June 30, 2002 was \$636,300. Management utilizes tax planning strategies and projected future taxable income in assessing these assets.

### E. DISCONTINUED OPERATIONS

On December 14, 2001 the Company entered into a Stock Purchase agreement with NYCLE Acquisition Corp (the Purchaser) to sell the Company's interest in the BroadcastWeb (an aggregator and broadcaster of streaming media programming on the Web). The Company sold, transferred and assigned to the Purchaser all of its shares of the Common Stock of the BroadcastWeb representing 1,350 shares of the 1,500 shares of the Common Stock of the BroadcastWeb. The Company assumed liability for the intercompany payable, the Purchaser shall not be responsible for any outstanding debt, federal, state, and local taxes, but is responsible for all vendor payables.

Pursuant to Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB 30"), the Consolidated Financial Statements of EONE have been reclassified to reflect the sale of The BroadcastWeb. Accordingly, the revenues costs and expenses, assets and liabilities, and cash flows of The BroadcastWeb have been segregated in the Consolidated Statements of Income, Consolidated Balance Sheets and Consolidated Statements of Cash Flows. The net operating results, net assets and net cash flows of this business have been reported as "Discontinued Operations."

Following is summarized financial information for the discontinued operations during the six months ended June 30, 2001, including expenses associated with the divestiture:

	2001
	----
Net sales - BroadcastWeb .....	\$ 7,127

Edgar Filing: EVOLVE ONE INC - Form 10QSB

	=====
Loss from operations before income taxes .....	\$(171,045)
Income tax benefit .....	64,100
	-----
Net loss from discontinued operations .....	\$(106,945)
	=====
Net earnings (loss) per common share:	
Basic .....	\$ 0.00
	=====
Diluted .....	\$ 0.00
	=====

F. STOCK REPURCHASE

The Company has been authorized and empowered to acquire in the open market up to one million dollars of common stock of the Corporation 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 six month period ended June 30, 2002 a total of 9,457,998 shares of its common stock for \$77,704. The repurchased shares are held in treasury and have been treated as constructively retired.

G. 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 six months ended June 30, 2002, the Company operated in the following segments, none of which have intersegment revenues:

	Ventures	Stogies	Corporate	A1Discount Perfume	Consolidated
	-----	-----	-----	-----	-----
Revenue .....	\$ -	\$ 511,242	\$ -	\$ 12,200	\$ 523,442
Operating Loss .....	(30,220)	(148,397)	(342,189)	(4,989)	(525,795)
Other income (expense) .....	25,203	-	5,624	-	30,827
Loss from continuing operations .....	(5,017)	(148,397)	(336,565)	(4,989)	(494,968)
Assets .....	1,130,455	787,534	1,629,458	29,545	3,576,992

For the six months ended June 30, 2001, the Company operated in the following segments, none of which have intersegment revenues:

Ventures	Stogies	Corporate	Broadcast Web (Discontinued)	Consolidated
-----	-----	-----	-----	-----

## Edgar Filing: EVOLVE ONE INC - Form 10QSB

Revenue .....	\$	-	\$ 615,792	\$	-	\$	615,792
Operating Loss .....		(33,977)	(336,481)	(340,281)		-	(710,739)
Other income (expense) ....		2,159	-	47,164		-	49,323
Loss from continuing operations ...		(21,418)	(209,981)	(184,418)		-	(415,817)
Assets .....	4,368,501	1,674,520	2,636,328	301,280			8,980,629

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

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 of the majority of the cash and certain notes receivable. Interest expense will be allocated to the other segments to the extent it exceeds interest income.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

From time to time, the Company may publish forward-looking statements relative to such matters as anticipated financial performance, business prospects, technological developments and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. All statements other than statements of historical fact included in this section or elsewhere in this 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 Exchange Act of 1934. 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, trends in

15

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's continuing operations consist of two Internet based businesses. Stogies is an online distributor and retailer of brand name premium cigars within the United States. AlDiscount Perfume is a online retailer of premium perfumes and colognes.

Stogies became operational in November 1998 and it accounts for substantially

## Edgar Filing: EVOLVE ONE INC - Form 10QSB

all of the sales revenue. The following discussion and analysis has been restated to reflect the discontinued operation of The BroadcastWeb Inc.

### CRITICAL ACCOUNTING POLICIES

We have identified the policies outlined below as critical to our business operations and an understanding of our results of operations. The listing is not intended to be a comprehensive list of all of our 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 our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our 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. Our preparation of the financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recorded at cost and is 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 would 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.

16

### 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 June 30, 2002, investments consisted entirely of 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. Net unrealized losses related to investments held for trading as of June 30, 2002, aggregated (\$3,304).

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

## Edgar Filing: EVOLVE ONE INC - Form 10QSB

separate component of stockholders' equity (net of the effect of income taxes).

### Liquidity and Capital Resources

The Company decreased its working capital from \$3,746,452 at December 31, 2001 to \$2,519,310 at June 30, 2002. The working capital decrease in the amount of \$1,227,142 consists primarily of decreases in cash in the amount of \$284,573, and marketable securities in the amount of \$631,781, and a decrease in current and deferred income taxes in the amount of \$242,400.

During the six months ended June 30, 2002 stockholders' equity decreased \$1,822,449, which includes decreases in other comprehensive income in the amount of \$779,477, the net loss for the year of \$965,268, and \$77,704 for the repurchase of 9,457,998 shares of common stock. (See Other Comprehensive Income below)

### Results of Operations

#### Sales and Cost of Sales

During the three and six months ended June 30, 2002, sales decreased from \$320,054 and 615,792 for 2001 to \$274,913 and 523,442 respectively for the current period. The decline in sales is attributed to a number of factors, including the slowing economy which has resulted in a reduction in consumer spending and the Company's efforts to concentrate more on internet and retail sales and less on wholesale sales. Internet and retail sales for the period have increased 16% due to an effort to expand its potential customer market. The Company added Wine Accessories, (including Wine Books, Wine Corkscrews, Wine Decanters and Wine Racks) and Cigar Accessories (including Cigar Ashtrays, Cigar Books, Cigar Cutters, Cigar Humidors and Cigar Lighters) to its list of products carried on its StogiesOnline.com, Inc. CigarCigar.com (<http://www.CigarCigar.com>), website. Since employing the Microsoft / Great Plains eEnterprise system the Company's StogiesOnline.com, Inc. Stogies improved its gross profit percentage of approximately 21.2% during the six months ended June 30, 2001 to 32.5% during the six months ended June 30, 2002, resulting in a consolidated increase of 30% (\$39,173) in gross profit for the six months ending June 30, 2002 compared to June 30, 2001.

On September 28, 2001, the Company created a new Subsidiary named AlDiscountPerfume 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 located at <http://www.AlDiscountProducts.com>. The site is to

17

be a competitor of other discount as well as full price online retailers of Perfume and Cologne, as well as exercise and yoga equipment. The site employs the Microsoft / Great Plains eEnterprise system the Company purchased last year and will permit 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 AlDiscountProducts.com to inexpensively reach customers anywhere, around the clock.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased \$145,771 to \$695,713 in the six month period ended June 30, 2002 as compared to the same period of the prior year. This decrease in selling, general and administrative expense consists primarily of decreases in: salaries and wages - (\$58,120); advertising - (\$55,010); consulting - (\$20,706); legal and professional - (\$7,965); and postage - (\$11,799) and increases in - insurance - \$25,832 and bad debt -

## Edgar Filing: EVOLVE ONE INC - Form 10QSB

\$13,565. The decrease in salaries and wages includes a decrease due to the resignation of a Corporate officer, the reduction of staff in the Stogies division including one wholesale representative, one computer personnel and four administrative staff, offset by \$50,000 in accrued officer salaries as per employment contract signed January 2002. Advertising decreased due to more efficient placement and use of internal advertising. Consulting decreased due to bringing the public relations position in house. The increase in insurance cost is due in part to the Directors and Officers liability insurance premium increasing, as well as an additional property insurance policy starting in February 2001.

### Marketable Investment Securities

The Company sold marketable equity securities and recognized realized gain of \$27,852 during the six month period ended June 30, 2002 and \$2,300 during the six month period ended June 30, 2001.

The Company recorded unrealized losses in the amount of (\$3,304) during the six month period ended June 30, 2002 and unrealized losses in the amount of (\$1,815) during the same period of the prior year. Available-for-sale securities are described in Other Comprehensive Income (below).

### Other Income

The Company had income of \$8,480 and \$54,728 from interest and dividends in the six month periods ended June 30, 2002 and 2001, respectively. The decrease is due primarily to lower interest rates and lower balances in interest bearing money market accounts in 2002.

### Income Taxes

The Company's 2001 income tax benefit of \$245,600 resulted primarily from the net operating loss incurred. In 2002, the deferred tax expense consists primarily of a change in the deferred tax valuation allowance.

18

### Discontinued Operations

On December 14, 2001, the Company entered into a Stock Purchase agreement with NYCLE Acquisition Corp to sell its 90% investment in The BroadcastWeb Inc. The 2001 discontinued operations have been restated to segregate the net loss of The BroadcastWeb of (\$106,945) for the six months ended June 30, 2001.

### Other Comprehensive Income

During the six months ended June 30, 2002, the Company recorded a decrease in its net unrealized gain from available-for-sale securities in the amount of \$779,477. The decrease consisted of a decline in market value of \$1,244,527 plus a reclassification adjustment of \$5,250 and a decrease in related deferred tax liability \$470,300. Available-for-sale securities consists primarily of SGD Limited Holdings (SGD) a holding Company principally engaged in acquiring and developing jewelry related businesses. Our 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 10,200,000 shares held by the Company 3,941,000 shares valued at \$315,280 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 realize the value assigned, under Statement of Accounting Standards #115

## Edgar Filing: EVOLVE ONE INC - Form 10QSB

(Accounting for Certain Investments in Debt and Equity Securities), to these securities.

### ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

99.1 Certification of Chief Executive Officer

99.2 Certification of Chief Financial Officer

(b) Reports on Form 8-K - None during the current quarter.

19

### SIGNATURES

In accordance with Section 13 or 15(d) 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: August 14, 2002

By: /s/ Gary Schultheis

-----

Gary Schultheis,  
President and Principal  
Financial and Accounting Officer

Date: August 14, 2002

By: /s/ Marissa Dermer

-----

Marissa Dermer,  
Controller