EVOLVE ONE INC
Form 10QSB
November 15, 2004

UNITED STATES
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: SEPTEMBER 30, 2004

Commission File Number: 000-26415

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

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

1000 CLINT MOORE ROAD, SUITE 101, BOCA RATON, FL 33487
(Address of principal executive offices)

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

6413 CONGRESS AVENUE, SUITE 230, BOCA RATON, FL 33487
(Former name, former address and former fiscal year,
if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_].

The number of shares outstanding of registrant's common stock, par value $.00001 per share, as of September 30, 2004 was 3,096,304.

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

EVOLVE ONE, INC. AND SUBSIDIARIES

INDEX

EVOLVE ONE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2004
(UNAUDITED)

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 475,435
Accounts receivable	6,403
Marketable equity securities	88,735
Inventory	114,075
Other current assets	680
TOTAL CURRENT ASSETS	685,328
PROPERTY AND EQUIPMENT, NET	153,779
MARKETABLE EQUITY SECURITIES	121,180
NOTE RECEIVABLE	10,000
INTANGIBLES	6,500
OTHER ASSETS	17,667
TOTAL ASSETS	$ 994,454

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable	$ 38,779
Accrued liabilities	8
Accrued salaries payable	422,449
Total current liabilities	461,236
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
Accumulated deficit	(6,048,052)
Accumulated other comprehensive (loss)	(149,104)
Total stockholders' equity	533,218
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 994,454

See accompanying notes to condensed consolidated financial statements.

EVOLVE ONE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30, 2004	THREE MONTHS ENDED SEPTEMBER 30, 2003	N 200
SALES AND REVENUES	$ -	$ 319,590	$ 49
COST OF SALES	-	197,024	32
GROSS PROFIT	-	122,566	17
Selling, general and administrative expense	273,584	332,792	97
Loss from operations	(273,584)	(210,226)	(80
OTHER INCOME (EXPENSE):			
Interest expense	-	-	
(Loss) from sale of marketable equity securities	(5,024)	(448,944)	(5
Investment income	1	9,446	1
Unrealized (loss) gain on marketable securities	(793)	1,206	(
Total other income (expense)	(5,816)	(438,292)	(4
NET LOSS	$ (279,400)	$ (648,518)	$ (84

NET LOSS PER SHARE			
BASIC	$ (0.09)	$ (0.21)	$
DILUTED	$ (0.09)	$ (0.21)	$
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
BASIC	3,096,304	3,096,304	3,09
DILUTED	3,096,304	3,096,304	3,09

See accompanying notes to condensed consolidated financial statements.

EVOLVE ONE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2004
(UNAUDITED)

	Common Stock Shares	Common Stock Par Value	Paid-in Capital	Accumulated Deficit	Accum Ot Compr Incom
BALANCE, January 1, 2004	3,096,304	$31	$6,730,343	$(5,205,514)	$(26
Comprehensive income (loss):					
Unrealized gain on available-for-sale securities, net	-	-	-	-	11
Net loss	-	-	-	(842,538)	
Total comprehensive income (loss)	-	-	-	-	
BALANCE, September 30, 2004	3,096,304	$31	$6,730,343	$(6,048,052)	$(14

See accompanying notes to condensed consolidated financial statements.

EVOLVE ONE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003
(UNAUDITED)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)	$(842,538)	$(1,116,783)

Adjustments to reconcile net (loss) to net cash (used in) operating activities:		
Depreciation and amortization	72,290	80,152
Loss on marketable equity securities	54,074	476,444
Unrealized loss on marketable equity securities	1,487	-
Decrease (increase) in assets:		
Accounts receivable	19,086	22,886
Inventory	241,471	(94,453)
Note receivable	-	(10,000)
Other assets	(1,059)	68,063
Increase (decrease) in liabilities:		
Accounts payable	(46,614)	(50,347)
Other accrued liabilities	(1,816)	-
Accrued salaries	192,449	95,907
Net cash (used in) operating activities	(311,170)	(528,131)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(23,673)	(8,411)
Acquisition of intangibles	(6,500)	-
Loan receivable - Onspan Networking, Inc., Net	675,000	(675,000)
Interest receivable - Onspan Networking, Inc.	17,940	(9,433)
Purchase of marketable equity securities	-	(900)
Proceeds from sale of marketable equity securities	4,926	43,206
Net cash provided by (used in) investing activities	667,693	(650,538)

CONTINUED

See accompanying notes to condensed consolidated financial statements.

EVOLVE ONE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003
(UNAUDITED)
(CONTINUED)

	2004	2003
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	356,523	(1,178,669)
CASH AND CASH EQUIVALENTS, beginning of period	118,912	1,370,983
CASH AND CASH EQUIVALENTS, end of period	$ 475,435	$ 192,314

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for:		
Interest	$ -	$ 59

See accompanying notes to condensed consolidated financial statements.

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), A1Discount Perfume, Inc. (www.A1DiscountProducts.com), Auctionstore.com Inc. ("Auctionstore") (www.Auctionstore.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 A1DiscountPerfume Inc. and in October 2001, launched a new e-commerce site specializing in men's and women's fragrances. The site named A1DiscountProducts.com is located at http://www.A1DiscountProducts.com. The site is a competitor of other discount as well as full price online retailers of Perfume and Cologne.

On July 22, 2004 the Company created a new wholly owned subsidiary, Auctionstore.com a Florida Corporation. The Company is in the preliminary stages of finalizing a business plan relating to Internet sales.

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, 2003, which is included in the Company's Form 10-KSB for the year ended December 31, 2003. 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.

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 quarters ending September 30, 2004 and 2003 excludes 24,000 and 16,000 common shares respectively, issuable pursuant to outstanding options. These shares were excluded because their effect was anti-dilutive.

STOCK-BASED COMPENSATION

The Company granted stock options to directors and employees that are more fully described in Note F. 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."

STOCK SPLIT

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

B. 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 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.

The amortized cost of equity securities as shown in the accompanying balance sheet and their estimated market value at September 30, 2004 are as follows:

	2004
Trading securities:	
Cost	$ 10,572
Unrealized (loss)	(10,407)

	165
Available-for-sale securities:	
Cost	358,854
Unrealized (loss)	(149,104)
	209,750
	209,915
Marketable equity securities classified as current	88,735
Marketable equity securities classified as non-current	$ 121,180

(Losses) from trading securities that were included in earnings for the nine months ended September 30, 2004 and 2003 were as follows:

	2004	2003
Realized (loss)	$ (54,074)	$(476,444)
Unrealized (loss)	$ (1,487)	$ -

The change in unrealized gains (losses) from available-for-sale securities included as a component of equity for the nine months ended September 30, 2004 and 2003 were as follows:

	2004	2003
Net unrealized gain	$ 113,335	$ 113,144
Decrease in deferred tax asset	42,600	42,500
Allowance deferred taxes	(42,600)	(42,500)
Unrealized gain	$ 113,335	$ 113,144

10

The Company's investment in available-for-sale securities includes 10,000,000 shares 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 $58,854 and a closing value on September 30, 2004 of $200,000 ($.02 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. There can be no assurance that the company will realize the calculated carrying value of the securities. The Company classifies 6,059,000 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.

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 September 30, 2004 and 2003 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 September 30, 2004, rather then being included in the accompanying balance sheet as $200,000 (current $78,820; long-term $121,180) 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.

C. INTANGIBLES

On June 25, 2004, the company purchased the URL named (www.Auctionstore.com) for $6,500.

D. OTHER COMPREHENSIVE INCOME (LOSS)

The following represents a reconciliation of other comprehensive income for the nine months ended September 30, 2004:

Accumulated other comprehensive income (loss) at 12/31/03:		$(262,439)
Unrealized gain from marketable equity securities	$57,500	
Reclassification adjustment	55,835	
Net unrealized gain from marketable equity securities		113,335
Net accumulated other comprehensive income (loss)		$(149,104)

E. INCOME TAXES

The Company recorded no income tax expense for the three and six month periods ended September 30, 2004 and 2003.

Total income tax expense (benefit) applicable to earnings (loss) before income taxes is reconciled with the "normally expected" federal income tax expense (benefit) as follows for the nine months ended September 30, 2004 and 2003:

	2004	2003
"Normally expected" income tax expense (benefit) ...	$ (286,500)	$ (379,706)
Increase (decrease) in taxes resulting from:		
State income taxes, net of Federal income tax benefit	(30,500)	(15,704)
Other	46,800	19,710
Change in valuation allowance	270,200	375,700
	$ -	$ -

The deferred income tax liabilities (assets) at September 30, 2004 are comprised of the following:

	CURRENT	NONCURRENT
Unrealized loss on trading securities	$ (4,000)	$ -
Unrealized gain on available-for-sale securities ...	(23,700)	(32,400)
Officers Salaries	(158,900)	-
Net operating loss	(2,178,400)	-
Asset basis	-	700
Total deferred income tax (assets)	(2,365,000)	(31,700)
Valuation allowance	2,365,000	31,700
Net deferred income tax (assets)	$ -	$ -

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 nine months ended September 30, 2004 and 2003 was $270,200 and $375,700, respectively. Management utilizes tax planning strategies and projected future taxable income in assessing these assets.

NOTE F. NOTE RECEIVABLE

The Company issued a demand line of credit with Onspan Networking, Inc a related party, totaling $1,000,000, under which Onspan Networking, Inc. was allowed to borrow on an unsecured basis at 5%

12

annually. On June 19, 2003 Onspan Networking, Inc. borrowed $675,000 under this line of credit. On March 30, 2004, Onspan Networking, Inc. borrowed an additional $6,000 under this line of credit, for a total of $681,000. On April 5, 2004 Onspan Networking, Inc. repaid the additional $6,000. On May 27, 2004, Onspan Networking, Inc. repaid the original balance outstanding under the line of credit, including accrued interest. This line of credit expired upon repayment on May 27, 2004.

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 30, 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.

NOTE G. STOCK OPTIONS

In November 1999, the Board of Directors approved the establishment of Evolve 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. These options were granted in accordance with employment agreements. 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. . On January 3, 2003 the Company granted nonqualified options to purchase an additional 8,000 shares of common stock to directors outside of the Plan. The additional stock options, expiring January 3, 2008, have en exercise price of $.001 per share and vest immediately. On January 3, 2004 the Company granted nonqualified options to purchase an additional 8,000 shares of common stock to directors outside of the Plan. The additional stock options, expiring January 3, 2009, have en exercise price of $.131 per share and vest immediately.

13

A summary of the status of the Company's stock options as of September 30, 2004 and the changes during the nine months ended September 30, 2004 and the year ended December 31, 2003 is presented below:

	SHARES	WEIGHTED AVERAGE PRICE
Beginning Balance, January 1, 2003	8,000	$.007
Options granted	8,000	.001
Options exercised	-	-
Options cancelled	-	-
Ending Balance, December 31, 2003	16,000	$.004
Options granted	8,000	$.131
Options exercised	-	-
Options cancelled	-	-
Ending Balance, September 30, 2004	24,000	$.046

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 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	3.81%
Expected Dividend Yield	0%
Expected Option Life	5 years
Expected Stock Price Volatility	138%

NOTE H. 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 nine months ended September 30, 2004, the Company operated in the following segments, none of which have inter-segment revenues:

	Ventures	Stogies	Corporate	A1Discount Perfume	Auctionstore	Consolidated
Revenue	$ -	$ 480,006	$ -	$ 14,861	$ 86	$ 494,953
Operating (Loss)	(282)	(215,034)	(560,420)	(10,439)	(14,466)	(800,641)
Other income (expense) ..	(55,561)	-	13,664	-	-	(41,897)
Net (Loss) .	(55,843)	(215,034)	(546,756)	(10,439)	(14,466)	(842,538)
Assets	213,879	228,688	508,433	29,625	13,829	994,454

For the nine months ended September 30, 2003, the Company operated in the following segments, none of which have inter-segment revenues:

	Ventures	Stogies	Corporate	A1Discount Perfume	Consolidated
Revenue	$ -	$1,003,122	$ -	$ 33,295	$ 1,036,417
Operating Loss	(19,264)	(153,554)	(462,313)	(16,288)	(651,419)
Other income (expense) ..	(476,397)	(59)	11,092	-	(465,364)
Net Loss ...	(495,661)	(153,613)	(451,221)	(16,288)	(1,116,783)
Assets	252,323	664,729	765,168	59,626	1,741,872

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 A1Discount segment is an online distributor and retailer of brand name premium colognes, perfumes and exercise and yoga equipment within the United States. A1Discount revenue includes retail sales to internet customers.

The Auctionstore segment is in the preliminary stages of finalizing a business plan relating to internet sales.

Corporate assets consist primarily of cash. Interest expense will be allocated to the other segments to the extent it exceeds interest income.

NOTE I. LEGAL PRECEEDINGS

SECURITIES ACTIONS:

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 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.

NOTE J. SUBSEQUENT EVENTS

On October 13, 2004, the Company's stock obtained a dual listing on both the Pink Sheets and the Over-The-Counter Bulletin Board. On November 12, 2004, the Company's stock became majority traded on the Over-the-Counter Bulletin Board. As of October 7, 2004, the Company had filed all reports required under Section 13(a) of the Securities Exchanges Act of 1934 to become fully compliant with its reporting requirements under Section 13(a) of the Securities Exchange Act of 1934.

16

On October 15, 2004, the Company issued in a private transaction exempt from registration under the Securities Act of 1933, as amended (the "Securities Act") in reliance on an exemption provided by Section4(2) of the Securities Act 170,000 shares of common stock of the Company. OnSpan Networking Inc., a related party where certain officers and directors of the Company are also officers and directors of Onspan Networking Inc., purchased 150,000 shares of common stock for $27,000. Martin Scott and Dr. Irwin Horowitz, directors of the Company, each purchased 10,000 shares of common stock for $1,800.

On October 20, 2004, the following actions were approved by our board of directors, the Company amended its Certificate of Incorporation to effect a forward stock split of all of the outstanding shares of our common stock at a ratio of eight-for-one (8:1) effective on December 3, 2004, and ratify an amendment to its Stock Option Plan to increase the number of shares available for issuance under the Plan from 100,000 shares to 1,000,000 shares, which will be further increased to 8,000,000 shares on the effective date of the forward stock split. The Company filed a Definitive Information Statement Pursuant to Section 14(c) of the Securities Exchange Act of 1934 on November 12, 2004.

On October 20, 2004 the Company issued 335,000 stock options (increasing to 2,680,000 options upon stock split) under the Company's Stock Option Plan to certain officers, employees and service providers of the Company.

On November 12, 2004, the Company named Dr. Irwin Horowitz as a new independent director and member of the Compensation Committee. Dr. Horowitz was formally a director with the Company from 1997 to late 2000 who left to pursue other opportunities. Dr. Horowitz received his podiatry degree from the M.J. Lewi College of Podiatric Medicine in 1959. Dr. Horowitz is the Chairman of the Board, Chief Executive Officer and the President of Diversifax Inc. Dr. Horowitz has been Chairman of the Board and President of IMSG Systems, Inc. and certain affiliated companies that were acquired by Diversifax. Dr. Horowitz has also been a Director of the Langer Biomechanics Group, Inc., a public company primarily engaged in the business of manufacturing and selling orthotic products.

On November 12, 2004, the Company named Martin Scott as a member of its Audit Committee and Compensation Committee. Martin Scott who currently is an independent member of the Company's Board of Directors is a certified public accountant, he owns a consulting practice that specializes in assisting small public companies in preparing financial reports.

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

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 Condensed 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 and equipment are stated at cost and depreciated on an accelerated basis over the assets' estimated useful lives. 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.

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 September 30, 2004, 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 based on changes in the fair value of the security as quoted on national or inter-dealer stock

exchanges. 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).

The Company's continuing operations consist of two Internet based businesses within the United States. Stogies is an online distributor and retailer of brand name premium cigars and accessories. A1Discount Perfume is an online retailer of premium perfumes and colognes.

Stogies became operational in November 1998 and it accounts for substantially all sales revenue.

LIQUIDITY AND CAPITAL RESOURCES

The Company decreased its working capital from $946,932 at December 31, 2003 to $224,092 at September 30, 2004. The working capital decrease in the amount of $722,840 consists primarily of increases in cash in the amount of $356,523, marketable securities in the amount of $55,848 and accrued salaries $192,449, and decreases in inventory of $241,471, loan receivable - Onspan Networking, Inc., a related party, $675,000, interest receivable $17,940 , and accounts payable of $46,614.

During the nine months ended September 30, 2004 stockholders' equity decreased $729,203, which includes an increase in other comprehensive income in the amount of $113,335, and the net loss for the period of $842,553. (See Other Comprehensive Income below)

RESULTS OF OPERATIONS

SALES AND COST OF SALES

During the nine months ended September 30, 2004, consolidated sales decreased

52% from $1,036,417 for 2003 to $494,953 for the current period. The decrease in sales is attributed to a number of factors, including the Company's plan to reduce inventory due to a refocus of its business effort to concentrate more on cigar accessories (including Cigar Ashtrays, Cigar Books, Cigar Cutters, Cigar Humidors and Cigar Lighters) which earn a greater gross profit percentage than cigars and a move out of the Company's warehouse space into a temporary location at which time sales were halted for the three month period ended September 30, 2004 due to the inability to ship and process orders while in a temporary space. The Company plans to resume shipping in November 2004.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased $62,023 to $971,127 in the nine month period ended September 30, 2004, as compared to the same period of the prior year. This decrease in selling, general and administrative expense consists primarily of increases in: salaries and wages - $52,405; due to $62,500 in payments to two temporary employees for services completed offset by less employees; legal - $26,955; due to lawsuit with Lakewood Development (Note I); accounting - $37,179 due to the 2002 and 2003 audit not being performed until 2004; offset by decreases to insurance - ($33,583); due to the cancellation of

19

the D & O policy in 2003; rent - ($24,625); due to the Company non-renewal of the lease of its former corporate headquarters at Suite 240 and its warehouse space at Suite 160; advertising - ($36,257); due to decreased usage of internet search engine and no advertising during the third quarter of 2004; consulting - ($18,351); due to move of servers in 2003; software costs - ($6,578); due to purchase of upgrades on programs in 2003.

MARKETABLE EQUITY SECURITIES

The Company sold marketable equity securities and recognized a realized loss of ($5,024) for the three month period ended September 30, 2004, and recognized a realized loss of ($448,944) during the three month period ended September 30, 2003.

The Company sold marketable equity securities and recognized a realized loss of ($54,074) during the nine month period ended September 30, 2004 and a realized loss of ($476,444) during the nine month period ended September 30, 2003.

The Company recorded unrealized (losses) gains in the amount of ($793) and $1,206 during the three month periods ended September 30, 2004 and 2003, respectively. Available-for-sale securities are described in Other Comprehensive Income (below).

The Company recorded unrealized losses in the amount of ($1,487) nine month period ended September 30, 2004. There were no unrealized losses in the nine month period ended September 30, 2003. Available-for-sale securities are described in Other Comprehensive Income (below).

INVESTMENT INCOME

The Company had income of $1 and $9,446 from interest and dividends in the three month period ended September 30, 2004 and 2003, respectively. The Company had income of $13,664 and $11,139 from interest and dividends in the nine month periods ended September 30, 2004 and 2003, respectively. The interest income for 2004 was mainly earned on the outstanding loan balance from Onspan Networking, Inc. (Note F).

INCOME TAXES

The Company recorded no income tax expense for 2004 and 2003.

OTHER COMPREHENSIVE INCOME (LOSS)

During the nine months ended September 30, 2004, the Company recorded a decrease in its net unrealized loss from available-for-sale securities in the amount of $113,335, due to an increase in market value. 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 10,000,000 shares held by the Company 3,941,000 shares valued at $78,820 have been classified as current. Due to the size of the Company's investment and the

20

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 (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 September 30, 2004 and 2003 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 September 30, 2004, rather then being included in the accompanying balance sheet as $200,000 (current $78,820; long-term $121,180) 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.

ITEM 3. 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.

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 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.

PART II - ITEM 1 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 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.

PART II - ITEM 2 CHANGES IN SECURITIES AND USE OF PROCEEDS

NONE

PART II - ITEM 3 DEFAULTS UPON SENIOR SECURITIES

NONE

PART II - ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

NONE

PART II - ITEM 5 OTHER INFORMATION

NONE

PART II - ITEM 6 EXHIBITS

(a) EXHIBITS

EXHIBIT NO.	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's December 2002, Form 10-KSB)
21	Subsidiaries of Evolve One, Inc. (Filed as Exhibit 21 to registrant's 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 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

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: November 15, 2004

By: /s/ Gary Schultheis

Gary Schultheis,
President and Principal
Financial and Accounting Officer