PROQUEST CO
Form 10-Q
August 10, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 2, 2005

OR

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

For the transition period from ______ to ______.

Commission file number 1-3246

ProQuest Company

(Exact name of registrant as specified in its charter)

Delaware	**36-3580106**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S.Employer Identification No.)**
777 Eisenhower Parkway, Ann Arbor, Michigan	**48106-1346**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code: (734) 761-4700

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). x

The number of shares of the Registrant s Common Stock, $.001 par value, outstanding as of August 8, 2005 was 29,868,120.

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ProQuest Company and Subsidiaries

Consolidated Statements of Operations

For the Thirteen and Twenty-Six Week Periods

Ended July 2, 2005, and July 3, 2004

(In thousands, except per share data)

(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
Net sales	$ 140,345	$ 112,191	$ 261,465	$ 223,041
Cost of sales	(70,338)	(55,168)	(127,503)	(109,133)
Gross profit	70,007	57,023	133,962	113,908
Research and development expense	(3,676)	(4,083)	(8,465)	(8,482)
Selling and administrative expense	(38,902)	(29,257)	(79,283)	(60,899)
Earnings from continuing operations before interest and income taxes	27,429	23,683	46,214	44,527
Net interest expense:				
Interest income	378	628	773	889
Interest expense	(8,709)	(4,501)	(15,857)	(8,898)
Net interest expense	(8,331)	(3,873)	(15,084)	(8,009)
Earnings from continuing operations before income taxes	19,098	19,810	31,130	36,518
Income tax expense	(6,771)	(6,919)	(11,045)	(12,753)
Earnings from continuing operations	12,327	12,891	20,085	23,765
Earnings from discontinued operations (less applicable income taxes of $0, $121, $0 and $470, respectively)		182		792
Gain on sale of discontinued operations (less applicable income taxes of $0, $515, $0 and $515, respectively)		15,338		15,338
Net earnings	$ 12,327	$ 28,411	$ 20,085	$ 39,895
Net earnings per common share:				
Basic:				
Earnings from continuing operations	$ 0.42	$ 0.45	$ 0.68	$ 0.83
Earnings from discontinued operations		0.01		0.03
Gain on sale of discontinued operations		0.54		0.54

Basic net earnings per common share	**$ 0.42**	**$ 1.00**	**$ 0.68**	**$ 1.40**
Diluted:				
Earnings from continuing operations	**$ 0.41**	**$ 0.45**	**$ 0.67**	**$ 0.82**
Earnings from discontinued operations		**0.01**		**0.04**
Gain on sale of discontinued operations		**0.53**		**0.53**
Diluted net earnings per common share	**$ 0.41**	**$ 0.99**	**$ 0.67**	**$ 1.39**
Weighted average number of common shares and equivalents outstanding:				
Basic	**29,738**	**28,487**	**29,528**	**28,447**
Diluted	**30,245**	**28,782**	**30,013**	**28,797**

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

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ProQuest Company and Subsidiaries

Consolidated Balance Sheets

As of July 2, 2005, January 1, 2005, and July 3, 2004

(In thousands)

	July 2, 2005 (Unaudited)	January 1, 2005	July 3, 2004 (Unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 9,692	$ 4,313	$ 2,074
Accounts receivable, net	85,559	95,279	82,261
Inventory, net	14,267	5,312	4,867
Other current assets	63,039	50,133	55,964
Total current assets	172,557	155,037	145,166
Property, plant, equipment, and product masters, at cost	462,618	422,803	395,495
Accumulated depreciation and amortization	(243,212)	(222,806)	(204,148)
Net property, plant, equipment, and product masters	219,406	199,997	191,347
Long-term receivables	9,450	8,084	5,735
Goodwill	598,986	311,279	297,457
Identifiable intangibles, net	22,587	15,379	13,567
Curriculum, net	95,231		
Purchased and developed software, net	39,710	41,699	48,702
Other assets	22,867	21,454	19,274
Total assets	$ 1,180,794	$ 752,929	$ 721,248
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Current maturities of long-term debt	$ 168	$ 5,000	$
Accounts payable	48,710	49,364	41,157
Accrued expenses	35,557	35,303	37,202
Current portion of monetized future billings	20,635	24,331	25,198
Deferred income	59,733	100,480	82,961
Total current liabilities	164,803	214,478	186,518
Long-term liabilities:			
Long-term debt, less current maturities	551,008	150,000	192,680
Monetized future billings, less current portion	26,542	36,197	43,432
Other liabilities	121,627	82,533	68,550
Total long-term liabilities	699,177	268,730	304,662
Shareholders equity:			

Common stock ($.001 par value, 50,000 shares authorized, 30,557 shares issued and 29,868 shares outstanding at July 2, 2005, 29,389 shares issued and 28,731 shares outstanding at January 1, 2005, and 29,147 shares issued and 28,524 shares outstanding at July 3, 2004)	**30**	**29**	**29**
Capital surplus	**354,505**	**320,033**	**314,267**
Unearned compensation on restricted stock	**(3,419)**	**(236)**	**(125)**
Notes receivable arising from stock purchases	**(194)**	**(194)**	**(287)**
Retained earnings (accumulated deficit)	**(15,934)**	**(36,019)**	**(63,116)**
Treasury stock, at cost (689 shares at July 2, 2005, 658 shares at January 1, 2005 and 623 shares at July 3, 2004)	**(17,424)**	**(16,276)**	**(15,505)**
Other comprehensive income (loss):			
Accumulated foreign currency translation adjustment	**1,683**	**4,562**	**(3,212)**
Unrealized (loss) from derivatives, net of tax	**(894)**	**(536)**	**(736)**
Minimum pension liability, net of tax	**(1,970)**	**(1,970)**	**(1,247)**
Net unrealized gain on securities, net of tax	**431**	**328**	
Accumulated other comprehensive income (loss)	**(750)**	**2,384**	**(5,195)**
Total shareholders equity	**316,814**	**269,721**	**230,068**
Total liabilities and shareholders equity	**$ 1,180,794**	**$ 752,929**	**$ 721,248**

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

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ProQuest Company and Subsidiaries

Consolidated Statements of Cash Flows

For the Twenty-Six Week Periods

Ended July 2, 2005, and July 3, 2004

(In thousands)

(Unaudited)

	Twenty-Six Weeks Ended	
	July 2, 2005	July 3, 2004
Operating activities:		
Net earnings	**$ 20,085**	**$ 39,895**
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Gain on sale of discontinued operations, net		**(15,338)**
Depreciation and amortization	**37,624**	**32,617**
Deferred income taxes	**5,135**	**10,901**
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	**22,283**	**11,307**
Inventory, net	**(1,239)**	**(488)**
Other current assets	**(10,457)**	**(8,687)**
Long-term receivables	**(1,375)**	**(631)**
Other assets	**1,570**	**12**
Accounts payable	**(3,061)**	**(7,740)**
Accrued expenses	**(5,694)**	**(7,226)**
Deferred income	**(43,577)**	**(39,410)**
Other long-term liabilities	**(2,458)**	**2,922**
Other, net	**(524)**	**504**
Net cash provided by operating activities	**18,312**	**18,638**
Investing activities:		
Expenditures for property, plant, equipment, product masters, curriculum development costs, and software	**(47,734)**	**(39,057)**
Acquisitions, net of cash acquired	**(351,755)**	**(11,462)**
Purchases of equity investments available for sale	**(2,605)**	**(7,289)**
Proceeds from disposals of equity investments available for sale	**1,561**	**4,079**
Proceeds from (expenditures associated with) sales of discontinued operations	**(74)**	**33,050**
Net cash used in investing activities	**(400,607)**	**(20,679)**
Financing activities:		
Net decrease in short-term debt	**(4,951)**	**(449)**
Proceeds from long-term debt	**892,600**	**233,700**
Repayment of long-term debt	**(491,904)**	**(232,020)**
Principal payments under capital lease obligations	**(66)**	

Cash paid for settlement of treasury locks	**(490)**	
Debt issuance costs	**(2,013)**	
Monetized future billings	**(13,352)**	**(3,788)**
Proceeds from exercise of stock options	**8,242**	**2,667**
Net cash provided by financing activities	**388,066**	**110**
Effect of exchange rate changes on cash	**(392)**	**(18)**
Increase (decrease) in cash and cash equivalents	**5,379**	**(1,949)**
Cash and cash equivalents, beginning of period	**4,313**	**4,023**
Cash and cash equivalents, end of period	**$ 9,692**	**$ 2,074**

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

ProQuest Company and Subsidiaries

Notes to the Consolidated Financial Statements

(Dollars and shares in thousands, except per share amounts)

(Unaudited)

Note 1 - Basis of Presentation

The Consolidated Financial Statements include the accounts of ProQuest Company and its subsidiaries, including ProQuest Information & Learning (PQIL) and ProQuest Business Solutions (PQBS), and are unaudited.

As permitted under the Securities and Exchange Commission (SEC) requirements for interim reporting, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. Certain reclassifications to the 2004 Consolidated Financial Statements have been made to conform to the 2005 presentation. We believe that these financial statements include all necessary and recurring adjustments for the fair presentation of the interim period results. These financial statements should be read in conjunction with the Consolidated Financial Statements and related notes included in our annual report on Form 10-K for the fiscal year ended January 1, 2005.

In June 2004, we sold our Dealer Management System (DMS) business. For periods prior to June 2004, the operating results of this business have been segregated from our continuing operations in our Consolidated Statements of Operations.

Note 2 - Significant Accounting Policies

Accounts Receivable. Accounts receivable are stated net of the allowance for doubtful accounts which was $ 2,001, $1,452, and $2,285 at July 2, 2005, January 1, 2005, and July 3, 2004, respectively.

Inventory. Inventory costs include material, labor, and overhead. Inventories are stated at the lower of cost (determined using the first-in, first-out (FIFO) method) or market, net of reserves.

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The components of inventory are shown in the table below as of the dates indicated:

	July 2, 2005	January 1, 2005	July 3, 2004
Finished products	**$ 12,141**	**$ 3,411**	**$ 2,691**
Products in process and materials	**2,126**	**1,901**	**2,176**
Total inventory, net	**$ 14,267**	**$ 5,312**	**$ 4,867**

Property, Plant, Equipment, and Product Masters. Property, plant, equipment, and product masters are recorded at cost. The straight-line method of depreciation is primarily used, except for PQIL product masters (which represent the cost to create electronic and microform master document copies which are subsequently used in the production process to fulfill customers information requirements), which are depreciated on the double declining balance method. The carrying value of the product masters is $191,287 (net of $176,824 of accumulated depreciation), $171,368 (net of $161,321 of accumulated depreciation), and $169,307 (net of $142,321 of accumulated depreciation) at July 2, 2005, January 1, 2005, and July 3, 2004, respectively.

As of July 2, 2005, fixtures and equipment held under capital leases totaled $548 (net of $102 accumulated depreciation). There were no capital leases as of January 1, 2005 or July 3, 2004.

Curriculum. Curriculum includes the acquired curriculum in the amount of $97,000 resulting from the acquisition of Voyager in the first quarter of 2005, as well as additional ongoing curriculum development costs. The curriculum that was acquired with Voyager is being amortized over 10 years on a straight-line basis. New curriculum development costs for programs that have an estimated life of more than one year are capitalized and amortized over the expected lives of the programs, typically 3 years. Curriculum development costs on programs with a one-year shelf life are expensed as incurred. The carrying value of curriculum is $95,231 (net of $4,053 of accumulated amortization) at July 2, 2005.

Stock Option Plan. As permitted by Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock Based Compensation* , we account for our stock option plan using the intrinsic method prescribed in Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations. Accordingly, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price of the stock option. Pro forma net earnings and earnings per share disclosures for employee stock option

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grants based on the fair value-based method (defined in SFAS No. 123), whereby the fair value of stock-based awards at the date of grant would be subsequently expensed over the related vesting periods, are indicated below:

	Thirteen weeks ended		Twenty-six weeks ended	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
Net earnings, as reported	$ 12,327	$ 28,411	$ 20,085	$ 39,895
Add: Stock-based compensation, as reported	217	8	326	8
Deduct: Total stock-based employee compensation expense determined under fair-value based method for all awards, net of related tax effects	(1,304)	(1,441)	(2,667)	(3,125)
Pro forma net earnings	$ 11,240	$ 26,978	$ 17,744	$ 36,778
Earnings per share:				
Basic - as reported	$ 0.42	$ 1.00	$ 0.68	$ 1.40
Basic - pro forma	$ 0.38	$ 0.95	$ 0.60	$ 1.29
Diluted - as reported	$ 0.41	$ 0.99	$ 0.67	$ 1.39
Diluted - pro forma	$ 0.37	$ 0.94	$ 0.59	$ 1.28

The fair value of restricted stock is based on the market value of those shares at the grant date. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model or a binomial model. The assumptions for the Black-Scholes option-pricing model are as follows:

	Thirteen weeks ended		Twenty-six weeks ended	
	July 2, 2005 (1)	July 3, 2004	July 2, 2005	July 3, 2004
Expected stock volatility	0.00%	38.13%	37.35%	38.64%
Risk-free interest rate	0.00%	3.66%	3.86%	3.03%
Expected years until exercise		4	4	4
Dividend yield	0.00%	0.00%	0.00%	0.00%

(1) There were no stock option grants during the thirteen weeks ended July 2, 2005.

On February 4, 2004, the Compensation Committee of our Board of Directors granted 1,961.5 nonqualified stock options with an exercise price of $30.97 to six members of our senior executive team. These stock options are intended to serve as a long-term incentive consistent with the Board s desire that management deliver long-term sustainable stockholder value.

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Based on the complexity of this plan, we have utilized a binomial model to estimate the fair value of the options, utilizing the following assumptions:

Expected stock volatility	**31.50%**
Risk-free interest rate	**3.07%**
Expected years until exercise	**5**
Dividend yield	**0.00%**

We also issue shares of restricted stock to certain employees and non-employees. For the thirteen and twenty-six weeks ended July 2, 2005, we issued one and 109 shares respectively, compared to five and five, respectively, for the thirteen and twenty-six weeks ended July 3, 2004. These shares are valued at the market price at their respective award dates, recorded in Unearned compensation on restricted stock on our Consolidated Balance Sheets, and recognized as expense over the vesting period, typically 3 years.

Derivative Financial Instruments and Hedging Activities. All derivative instruments are recognized as assets or liabilities in the balance sheet at fair value.

Net Earnings per Common Share. Basic net earnings per common share is computed by dividing net earnings by the weighted-average number of common shares outstanding during the period. Diluted net earnings per common share is computed by dividing net earnings by the weighted-average number of common shares outstanding during the period, and reflects the potential dilution that could occur if all of our outstanding stock options that are in-the-money were exercised and the restricted stock was fully vested, using the treasury stock method. Under the treasury stock method, the proceeds that would be received from the exercise of all in-the-money options are assumed to be used to repurchase shares. A reconciliation of the weighted-average number of common shares and equivalents outstanding in the calculation of basic and diluted net earnings per common share is shown in the table below for the periods indicated:

	Thirteen Weeks Ended		**Twenty-Six Weeks Ended**	
	July 2, 2005	**July 3, 2004**	**July 2, 2005**	**July 3, 2004**
Basic	**29,738**	**28,487**	**29,528**	**28,447**
Dilutive effect of stock options and non-vested restricted stock	**507**	**295**	**485**	**350**
Diluted	**30,245**	**28,782**	**30,013**	**28,797**

In accordance with SFAS No. 128, *Earnings per Share* , 316 and 2,973 common stock equivalent shares for the thirteen weeks ended July 2, 2005 and July 3, 2004, respectively, and 316 and 2,949 common stock equivalent shares for the twenty-six weeks ended July 2, 2005 and July 3, 2004, respectively, issuable upon the exercise of stock options were excluded from the above computations because the exercise price of such options were greater than the average market prices of the common stock and therefore the impact of these shares was antidilutive.

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Note 3 - Discontinued Operations

In June 2004, we sold our DMS business, which was a component of PQBS. The DMS business was a software business, which did not fit with our core electronic publishing strategy.

Results for discontinued operations are shown in the table below for the periods indicated:

	Thirteen Weeks Ended July 3, 2004	Twenty-Six Weeks Ended July 3, 2004
Net sales	**$ 3,177**	**$ 8,567**
Earnings before interest and income taxes	**422**	**1,499**
Interest expense, net	**(119)**	**(237)**
Income tax expense	**(121)**	**(470)**
Earnings from discontinued operations	**$ 182**	**$ 792**

We will continue to provide parts and service products for powersports, recreational vehicles, and marine dealers. In addition, we entered into an exclusive distributor agreement with the DMS buyer. Approximately $5,100 was recorded as deferred revenue related to this agreement, and will be recognized as revenue over the sixty-month contract. For the thirteen and twenty-six weeks ended July 2, 2005, $255 and $510 respectively, were recognized as revenue related to this contract.

Note 4 - Comprehensive Income

Comprehensive income or loss includes net earnings, net unrealized gain (loss) on derivative instruments related to interest rate hedging, foreign currency translation adjustments, minimum pension liability, and net unrealized gain on available-for-sale securities.

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Comprehensive income is shown in the table below for the periods indicated:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
Net earnings	$ 12,327	$ 28,411	$ 20,085	$ 39,895
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative instruments, net of tax	45	35	(358)	70
Foreign currency translation adjustments	(2,232)	(19)	(2,879)	19
Unrealized gain on securities, net of tax	100		103	
Comprehensive income	$ 10,240	$ 28,427	$ 16,951	$ 39,984

The net unrealized gain (loss) on derivative instruments, foreign currency translation adjustments, minimum pension liability, and net unrealized gain on securities does not impact our current income tax expense.

Note 5 - Segment Reporting

Information concerning our reportable business segments is shown in the tables below for the periods indicated:

	As of and for the thirteen weeks ended July 2, 2005			
	PQIL	PQBS	Corporate	Total
Net sales	$ 95,111	$ 45,234	$	$ 140,345
Earnings from continuing operations before interest and income taxes	$ 19,137	$ 11,766	$ (3,474)	$ 27,429
Expenditures for property, plant, equipment, product masters, curriculum development costs, and software	$ 22,366	$ 975	$ 158	$ 23,499
Depreciation and amortization	$ 17,861	$ 1,325	$ 77	$ 19,263
Total assets	$ 1,037,555	$ 113,704	$ 29,535	$ 1,180,794

	As of and for the thirteen weeks ended July 3, 2004			
	PQIL	PQBS	Corporate	Total
Net sales	$ 70,045	$ 42,146	$	$ 112,191
Earnings from continuing operations before interest and income taxes	$ 13,654	$ 13,034	$ (3,005)	$ 23,683
Expenditures for property, plant, equipment, product masters, curriculum development costs, and software	$ 14,710	$ 3,603	$	$ 18,313
Depreciation and amortization	$ 14,289	$ 1,888	$ 75	$ 16,252

Total assets	**$ 590,034**	**$ 101,984**	**$ 29,230**	**$ 721,248**

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	As of and for the twenty-six weeks ended July 2, 2005			
	PQIL	PQBS	Corporate	Total
Net sales	**$ 171,884**	**$ 89,581**	**$**	**$ 261,465**
Earnings from continuing operations before interest and income taxes	**$ 30,604**	**$ 23,414**	**$ (7,804)**	**$ 46,214**
Expenditures for property, plant, equipment, product masters, curriculum development costs, and software	**$ 46,209**	**$ 993**	**$ 532**	**$ 47,734**
Depreciation and amortization	**$ 34,846**	**$ 2,622**	**$ 156**	**$ 37,624**

	As of and for the twenty-six weeks ended July 3, 2004			
	PQIL	PQBS	Corporate	Total
Net sales	**$ 138,622**	**$ 84,419**	**$**	**$ 223,041**
Earnings from continuing operations before interest and income taxes	**$ 27,695**	**$ 24,040**	**$ (7,208)**	**$ 44,527**
Expenditures for property, plant, equipment, product masters, curriculum development costs, and software	**$ 34,060**	**$ 4,987**	**$ 10**	**$ 39,057**
Depreciation and amortization	**$ 28,414**	**$ 4,052**	**$ 151**	**$ 32,617**

Note 6 - Investments in Affiliates

On December 4, 2000, we entered into a Limited Liability Company Agreement with DaimlerChrysler Corporation, Ford Motor Company, and General Motors Corporation to form OEConnection (OEC).

For reporting purposes, OEC s balance sheet and statement of operations are not consolidated with our results. Beginning January 1, 2003 until December 31, 2007, we earn a royalty on OEC s net revenues, which is recorded in Net sales in our Consolidated Statement of Operations. The royalty recognized was $362 and $693 for the thirteen and twenty-six week periods ended July 2, 2005, respectively, compared to $310 and $612 for the thirteen and twenty-six weeks ended July 3, 2004, respectively.

Note 7 - Goodwill, Software, Curriculum, and Other Intangible Assets

We follow SFAS No. 142, *Goodwill and Other Intangible Assets* . SFAS No. 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment on an annual basis. We performed this annual analysis during the second fiscal quarter based on the goodwill balance as of the end of the first fiscal quarter. During the first step of this impairment test, no indication of impairment was evident; therefore, the second step was not required.

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The following table summarizes the changes in the carrying amount of goodwill by segment for the periods indicated:

	PQIL	PQBS	Total
Balance as of January 3, 2004	**$ 255,332**	**$ 48,361**	**$ 303,693**
Goodwill acquired (1)	**4,800**		**4,800**
Goodwill disposed		**(11,036)**	**(11,036)**
Balance as of July 3, 2004	**$ 260,132**	**$ 37,325**	**$ 297,457**
Goodwill acquired (1)	**12,789**	**1,991**	**14,780**
Reclassification of goodwill to other assets	**(958)**		**(958)**
Balance as of January 1, 2005	**$ 271,963**	**$ 39,316**	**$ 311,279**
Goodwill acquired (1)	**281,816**	**5,891**	**287,707**
Balance as of July 2, 2005	**$ 553,779**	**$ 45,207**	**$ 598,986**

(1) Changes in goodwill consist primarily of current acquisitions and disposals as well as the finalization of our preliminary purchase price allocations for prior acquisitions.

We follow the guidance in Statement of Position (SOP) 98-1 *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* for capitalizing software projects. We follow SFAS No. 86 *Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed* for software projects related to external use. Included in depreciation and amortization expense was $3,588 and $7,131 of software amortization expense for the thirteen and twenty-six weeks ended July 2, 2005, respectively and $3,891 and $7,940 for the thirteen and twenty-six weeks ended July 3, 2004, respectively.

Curriculum includes the acquired curriculum in the amount of $97,000 resulting from the acquisition of Voyager in the first quarter of 2005, as well as additional ongoing curriculum development costs. Included in depreciation and amortization expense was $2,437 and $4,053 of curriculum amortization expense for the thirteen and twenty-six weeks ended July 2, 2005.

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The following table summarizes our Identifiable intangibles and related accumulated amortization at the dates indicated:

	Balance as of July 2, 2005		
	Gross	Accumulated Amortization	Net
Customer lists	**$ 21,813**	**$ (6,626)**	**$ 15,187**
Trademark	**6,240**	**(990)**	**5,250**
Acquired software	**1,795**	**(360)**	**1,435**
Non-compete agreement	**960**	**(245)**	**715**
Total intangibles	**$ 30,808**	**$ (8,221)**	**$ 22,587**

	Balance as of January 1, 2005		
	Gross	Accumulated Amortization	Net
Customer lists	**$ 17,250**	**$ (4,860)**	**$ 12,390**
Trademark	**2,641**	**(576)**	**2,065**
Acquired software	**211**	**(98)**	**113**
Non-compete agreement	**960**	**(149)**	**811**
Total intangibles	**$ 21,062**	**$ (5,683)**	**$ 15,379**

	Balance as of July 3, 2004		
	Gross	Accumulated Amortization	Net
Customer lists	**$ 13,069**	**$ (2,934)**	**$ 10,135**
Trademark	**2,600**	**(267)**	**2,333**
Acquired software	**211**	**(56)**	**155**
Non-compete agreement	**950**	**(6)**	**944**
Total intangibles	**$ 16,830**	**$ (3,263)**	**$ 13,567**

We recorded $1,429 and $2,756 of intangible amortization expense for the thirteen and twenty-six weeks ended July 2, 2005, respectively compared to $660 and $1,219 during the thirteen and twenty-six weeks ended July 3, 2004, respectively. Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for each of the succeeding five years is as follows:

Remainder of 2005	**$ 3,862**
2006	**5,475**

2007	**4,822**
2008	**3,073**
2009	**1,085**
2010 and thereafter	**4,270**
	$ 22,587

These amounts may vary as acquisitions and dispositions occur in the future, and as purchase price allocations are finalized.

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During the twenty-six weeks ended July 2, 2005, we acquired the following intangible assets:

		Weighted-Average Amortization Period
Customer lists	$ 4,800	10 years
Trademark	3,600	10 years
Acquired software	1,583	3 years
Total intangibles	$ 9,983	

Note 8 - Other Current Assets

Other current assets at July 2, 2005, January 1, 2005, and July 3, 2004 consisted of the following:

	As of		
	July 2, 2005	January 1, 2005	July 3, 2004
Short-term deferred tax asset	$ 8,939	$ 7,705	$ 9,549
Prepaid taxes		602	5,483
Prepaid royalties	24,093	17,793	17,953
Commissions	9,067	7,472	4,944
Available-for-sale securities	8,307	7,172	6,499
Maintenance agreements	2,512	3,063	2,557
Other prepaids	10,121	6,326	8,979
Total	$ 63,039	$ 50,133	$ 55,964

Note 9 - Other Assets

Other assets at July 2, 2005, January 1, 2005, and July 3, 2004 consisted of the following:

As of		
July 2,	January 1,	July 3,

	2005	2005	2004
Long-term deferred tax asset	**$ 4,581**	**$ 3,218**	**$ 2,195**
Licenses, net	**6,764**	**7,728**	**8,574**
Long-term commissions	**5,104**	**4,893**	**4,550**
Deferred financing costs	**2,939**	**1,173**	**973**
Other	**3,479**	**4,442**	**2,982**
Total	**$ 22,867**	**$ 21,454**	**$ 19,274**

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Note 10 - Accrued Expenses

Accrued expenses at July 2, 2005, January 1, 2005, and July 3, 2004 consisted of the following:

	As of		
	July 2, 2005	January 1, 2005	July 3, 2004
Salaries, wages and bonuses	$ 19,059	$ 21,861	$ 15,480
Profit sharing	1,963	2,002	1,287
Discontinued operations reserve	336	409	1,843
Accrued income taxes	980	3,577	10,635
Accrued interest	6,912	2,171	2,123
Other	6,307	5,283	5,834
Total	$ 35,557	$ 35,303	$ 37,202

Note 11 - Other Liabilities

Other liabilities at July 2, 2005, January 1, 2005, and July 3, 2004 consisted of the following:

	As of		
	July 2, 2005	January 1, 2005	July 3, 2004
Deferred compensation and pension benefits	$ 44,672	$ 46,503	$ 43,895
Deferred income taxes	46,336	6,846	110
Other	30,619	29,184	24,545
Total	$ 121,627	$ 82,533	$ 68,550

Note 12 - Pension and Other Postretirement Benefit Plans

Components of net periodic benefit costs are:

	Thirteen Weeks Ended					
	U.S. Plans		Non-U.S. Plans		Other Postretirement	
	Pension Benefits		Pension Benefits		Benefits	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
Service cost	$	$ 68	$ 36	$ 56	$ (2)	$ 21
Interest cost	312	324	837	838	2	29
Expected return on plan assets			(733)	(692)		
Amortization of prior service cost						

(The accompanying notes are an integral part of these consolidated financial statements)

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ENTHEOS TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
for the years ended December 31, 2008 and 2007
(Expressed in U. S. Dollars)

	2008	2007
Revenue		
Oil and gas sales	$ 13,770	$ -
Expenses		
Oil and gas production and operating costs	9,080	-
General and administrative expenses	190,693	27,610
Impairment of oil and gas properties	93,444	-
Total operating expenses	293,217	27,610
Operating Loss	(279,447)	(27,610)
Other income		
Interest income	14,297	2,928
	14,297	2,928
Net loss attributable to common stockholders	$ (265,149)	$ (24,682)
Loss per common share - basic and diluted	$ 0.00	$ 0.00
Weighted average number of common shares outstanding - basic and diluted	59,374,302	96,515,533

(The accompanying notes are an integral part of these consolidated financial statements)

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ENTHEOS TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
for the years ended December 31, 2008 and December 31, 2007
(Expressed in U. S. Dollars)

	Common Stock		Additional paid-in	Accumulated earnings	Total Stockholder's
(Expressed in U. S. Dollars)	Shares	Amount	capital	(deficit)	Equity
Balance, December 31, 2006	96,625,122	$ 966	$ 3,838,116	$ (3,793,206)	$ 45,876
Cancellation of common shares at $0.0033 per share	(40,000,000)	(400)	400	-	-
Net loss, year ended December 31, 2007	-	-	-	(24,682)	(24,682)
Balance, December 31, 2007	56,625,122	566	3,838,516	(3,817,888)	21,194
Units issued for cash and legal services at $0.50 per share in July 2008	6,450,000	65	3,224,935	-	3,225,000
Stock based compensation expense	-	-	19,360	-	19,360
Settlement of related party payables	-	-	24,811	-	24,811
Net loss, year ended December 31,	-	-	-	(265,149)	(265,149)

2008					
Balance, December 31, 2008	63,075,122	$ 631	$ 7,107,622	$ (4,083,037)	$ 3,025,216

(The accompanying notes are an integral part of these consolidated financial statements)

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ENTHEOS TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31, 2008 and 2007
(Expressed in U. S. Dollars)

	2008	2007
Cash flows from (used in) operating activities		
Net loss	$ (265,149)	$ (24,682)
Impairment of oil and gas properties	93,444	-
Stock-based compensation	19,360	-
Stock issued for legal services	25,000	-
Change in non-cash working capital item:		
Decrease in accounts receivable - related party	-	84,088
Increase in accounts receivable	(4,252)	-
Increase in prepaid assets	(720)	-
Increase (decrease) in accounts payable & accrued liabilities	62,630	(13,278)
Net cash flows provided by (used in) operating activities	(69,687)	46,128
Cash flows (used in) investing activities		
Acquisition of oil and gas properties	(442,028)	-
Net cash used in investing activities	(442,028)	-
Cash flows from financing activities		
Proceeds from issuance of common stock, net	3,200,000	-
Net cash provided by financing activities	3,200,000	-
Increase in cash and cash equivalents	2,688,285	46,128
Cash and cash equivalents, beginning of period	46,306	178
Cash and cash equivalents, end of period	$ 2,734,591	$ 46,306
Supplemental disclosure of cash flow information:		
Interest paid in cash	$ -	$ -
Income tax paid in cash	$ -	$ -
Supplemental schedule of non-cash investing and financing activites:		

Settlement of related party payables	$	24,811	$	-

(The accompanying notes are an integral part of these consolidated financial statements)

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ENTHEOS TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

(Expressed in U.S. Dollars)

Note 1. Organization and Nature of Operations

Entheos Technologies, Inc. (“the Company”) is a small independent diversified energy company engaged in the acquisition and development of crude oil and natural gas interests in the United States. The Company pursues oil and gas prospects in partnership with oil and gas companies with exploration, development and production expertise. The Company has a non-operating, minority working interest in five properties. The Company’s prospect areas consist of land in La Salle County, Lee County, Fayette County and Frio County, Texas. Currently four of the five wells in which we have a minority interest are producing. We currently do not operate any of the wells in which we have an interest.

Incorporated under the laws of the State of Nevada, the Company has an authorized capital of 200,000,000 shares of $0.00001 par value common stock, of which 63,075,122 shares are outstanding and 10,000,000 shares of $0.0001 par value preferred stock, of which none are outstanding.

From 2002 until September 2008, through its wholly-owned subsidiary Email Solutions, Inc., the Company served as an Application Service Provider (“ASP”) providing reliable, real time, high volume outsourced email and search engine optimization services. Due to the limited success of the ASP business, management decided that it was in the best interest to abandon the Application Service Provider business and focus on identifying undervalued oil and gas opportunities for acquisition, development and exploration. The assets and liabilities, the results of operations and cash flows related to the ASP business were not classified as discontinued operations as the amounts were not significant.

The Company has recently incurred net operating losses and operating cash flow deficits. It may continue to incur losses from operations and operating cash flow deficits in the future. However, management believes the Company’s cash and cash equivalent balances, anticipated cash flows from operations and other external sources of credit will be sufficient to meet its cash requirements through March 2010. The future of the Company after March 2010 will depend in large part on its ability to successfully generate cash flows from operations and raise capital from external sources to fund operations.

Note 2. Accounting Policies

Principles of Accounting

These financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation

The consolidated financial statements include the accounts of Entheos Technologies, Inc. (a Nevada corporation) and its wholly-owned subsidiary, Email Solutions, Inc. (a Nevada corporation). There are no assets and liabilities in the wholly owned subsidiary. The Company accounts for its undivided interest in oil and gas properties using the proportionate consolidation method, whereby its share of assets, liabilities, revenues and expenses are included in its consolidated financial statements.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Management's judgments and estimates in these areas are based on information available from both internal and external sources, including engineers, geologists, consultants and historical experience in similar matters. The more significant reporting areas impacted by management's judgments and estimates are accruals related to oil and gas sales and expenses; estimates of future oil and gas reserves; estimates used in the impairment of oil and gas properties; and the estimated future timing and cost of asset retirement obligations.

Actual results could differ from the estimates as additional information becomes known. The carrying values of oil and gas properties are particularly susceptible to change in the near term. Changes in the future estimated oil and gas reserves or the estimated future cash flows attributable to the reserves that are utilized for impairment analysis could have a significant impact on the future results of operations.

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Full Cost Method of Accounting for Oil and Gas Properties

The Company has elected to utilize the full cost method of accounting for its oil and gas activities. In accordance with the full cost method of accounting, all costs associated with acquisition, exploration, and development of oil and gas reserves, including directly related overhead costs and related asset retirement costs, are capitalized.

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, are amortized on the unit-of-production method using estimates of proved reserves once proved reserves are determined to exist. The Company has not yet obtained reserve reports because of its recent acquisition of its oil and gas properties and because these properties recently began producing. Management is assessing geographic and production data to determine the need for reserves studies. At December 31, 2008, there were no capitalized costs subject to amortization.

Oil and gas properties without estimated proved reserves are not amortized until proved reserves associated with the properties can be determined or until impairment occurs. The cost of these properties is assessed quarterly, on a property-by-property basis, to determine whether the properties are recorded at the lower of cost or fair market value. In determining whether such costs should be impaired, the Company evaluates historical experience, current drilling results, lease expiration dates, current oil and gas industry conditions, international economic conditions, capital availability, and available geological and geophysical information. As a result of this analysis, the Company recorded an impairment of $93,444 for 2008. This impairment is similar to amortization and therefore is not added to the cost of properties being amortized.

Sales of oil and gas properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income. The Company did not sell any properties during 2008 or 2007.

Full Cost Ceiling Test

At the end of each quarterly reporting period, the unamortized costs of oil and gas properties are subject to a “ceiling test” which basically limits capitalized costs to the sum of the estimated future net revenues from proved reserves, discounted at 10% per annum to present value, based on current economic and operating conditions, adjusted for related income tax effects.

Oil and Gas Revenues

The Company recognizes oil and gas revenues when oil and gas production is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title has transferred, and if collectability of the revenue is probable. Delivery occurs and title is transferred when production has been delivered to a purchaser's pipeline or truck. As a result of the numerous requirements necessary to gather information from purchasers or various measurement locations, calculate volumes produced, perform field and wellhead allocations and distribute and disburse funds to various working interest partners and royalty owners, the collection of revenues from oil and gas production may take up to 45 days following the month of production. Therefore, the Company may make accruals for revenues and accounts receivable based on estimates of its share of production. Since the settlement process may take 30 to 60 days following the month of actual production, its financial results may include estimates of production and revenues for the related time period. The Company will record any differences between the actual amounts ultimately received and the original estimates in the period they become finalized. As of December 31, 2008, all revenue and expense information had been received from the operators so there was no estimated revenue or expense.

Asset Retirement Obligation

The Company has adopted the provisions of SFAS 143, "Accounting for Asset Retirement Obligations." SFAS 143 amended SFAS 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies," and, among other matters, addresses financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred, with the associated asset retirement cost capitalized as part of the related asset and allocated to expense over the asset's useful life.

In March 2005, the FASB issued FASB Interpretation No. 47 ("FIN No. 47"), Accounting for Conditional Asset Retirement Obligations. FIN No. 47 clarifies that a conditional asset retirement obligation, as used in SFAS 143, refers to a legal obligation to perform an asset retirement activity in which the timing or method of the settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated.

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The Company does not have material asset retirement obligations as of December 31, 2008 or 2007.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Company did not have any cash equivalents at December 31, 2008 and 2007. The Company occasionally has cash deposits in excess of insured limits.

Income Taxes

The Company adopted SFAS 109, "Accounting for Income Taxes." Under SFAS 109, deferred income tax assets and liabilities are computed for differences between the financial statements and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary, to reduce deferred income tax assets to the amount expected to be realized.

In June 2006, the FASB issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes", effective for the Company beginning on January 1, 2007. FIN 48 clarifies the recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on disclosure and other matters. The adoption of FIN 48 had no impact on the Company's financial position.

Stock-Based Compensation

The Company accounts for stock-based compensation under SFAS 123(R) "Share-Based Payment" which requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. The fair value of stock options is determined using the Black-Scholes valuation model.

Loss Per Share

Basic earnings or loss per share is based on the weighted average number of common shares outstanding. Diluted earnings or loss per share is based on the weighted average number of common shares outstanding and dilutive common stock equivalents. Basic earnings/loss per share is computed by dividing net income applicable to common stockholders (numerator) by the weighted average number of common shares outstanding (denominator) for the period. All earnings or loss per share

amounts in the financial statements are basic earnings or loss per share, as defined by SFAS 128, "Earnings Per Share." Convertible securities that could potentially dilute basic earnings or loss per share in the future, such as options and warrants, are not included in the computation of diluted earnings or loss per share because to do so would be antidilutive.

Comprehensive Income (Loss)

The Company has adopted SFAS 130, "Reporting Comprehensive Income," which establishes standards for reporting and display of comprehensive income, its components and accumulated balances. For 2008 and 2007 the Company did not have any items of comprehensive income, other than net loss.

Foreign Currency Translation

The Company translates foreign assets and liabilities of its subsidiaries, other than those denominated in United States Dollars, at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the average rate of exchange throughout the year. Gains or losses from these translations are reported as a separate component of other comprehensive income (loss), until all of the investment in the subsidiaries is sold or liquidated. The translation adjustments do not recognize the effect of income tax because the Company expects to reinvest the amounts indefinitely in operations.

Transaction gains (losses) that arise from exchange rate fluctuations on transactions denominated in a currency other than the local functional currency are included in the statements of operations.

Fair Value of Financial Instruments

The determination of fair value of financial instruments is made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values. The carrying value of cash and cash equivalents, accounts payable and accrued liabilities, and accounts payable – related parties approximates their fair value because of the short-term nature of these instruments. The Company places its cash with high credit quality financial institutions.

Related Party Transactions

A related party is generally defined as (i) any person that holds 10% or more of the Company's securities and their immediate families, (ii) the Company's management, (iii) someone that directly or indirectly controls, is controlled by or is under common control with the Company, or (iv) anyone who can significantly influence the financial and operating decisions of the Company. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. (See Note 5).

Recent and Adopted Accounting Pronouncements

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements" (SFAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair-value measurements required under other accounting pronouncements. It does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS 157 was effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position No. FAS 157-1 (FSP FAS 157-1), which excludes SFAS 13, "Accounting for Leases" and certain other accounting pronouncements that address fair value measurements under SFAS 13, from the scope of SFAS 157. In February 2008, the FASB issued FASB Staff Position No. 157-2 (FSP 157-2), which provides a one-year delayed application of SFAS 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Therefore, the Company adopted the provisions of SFAS 157 with respect to financial assets and liabilities only. The Company is required to adopt SFAS 157 as amended by FSP FAS 157-1 and FSP FAS 157-2 on January 1, 2009, the beginning of its fiscal year as related to nonfinancial assets and liabilities. The Company does not expect the application of the amended aspects of SFAS No. 157 to have a material effect on the Company's consolidated financial statements.

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset in a Market That Is Not Active" (FSP 157-3), which clarifies the application of SFAS 157 when the market for a financial asset is inactive. Specifically, FSP 157-3 clarifies how (1) management's internal assumptions should be considered in measuring fair value when observable data are not present, (2) observable market information from an inactive market should be taken into account, and (3) the use of broker quotes or pricing services should be considered in assessing the relevance of observable and unobservable data to measure fair value. The guidance in FSP 157-3 is effective immediately and did not have an impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115," which is effective for fiscal years beginning after November 15, 2007. The statement permits entities to choose to measure many financial instruments and certain other items at fair value. The Company has not elected the fair value option under SFAS 159 for any instrument, but may elect to do so in future periods.

In July 2007, the Emerging Issues Task Force (EITF) issued EITF 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to be Used in Future Research and Development Activities" (EITF 07-3). EITF 07-3 clarifies the accounting for nonrefundable advance payments for goods or services that will be used or rendered for research and development activities. EITF 07-3 states that such payments should be capitalized and recognized as an expense as the goods are delivered or the related services are performed. If an entity does not expect the goods to be delivered or the services rendered, the capitalized advance payment should be charged to expense. EITF 07-3 is effective for fiscal years beginning after December 15, 2007. The Company's adoption of EITF 07-3 did not have an impact on the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of Accounting Research Bulletin No 51" (SFAS 160). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, changes in a parent's ownership of a noncontrolling interest, calculation and disclosure of the consolidated net income attributable to the parent and the noncontrolling interest, changes in a parent's ownership interest while the parent retains its controlling financial interest and fair value measurement of any retained noncontrolling equity investment. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company must adopt SFAS 160 on January 1, 2009, the beginning of its fiscal year. The Company does not expect the application of SFAS No. 160 to have a material effect on the consolidated financial statements.

In December 2007, the FASB issued SFAS 141R, "Business Combinations" (SFAS 141R), which establishes principles and requirements for the reporting entity in a business combination, including recognition and measurement in the financial statements of the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and interim periods within those fiscal years. The Company must adopt SFAS 141R on January 1, 2009, the beginning of its fiscal year. The Company does not expect the application of SFAS

141R to have a material effect on the consolidated financial statements.

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In December 2007, the SEC staff issued Staff Accounting Bulletin (SAB) 110, “Share-Based Payment” (SAB 110) which amends SAB 107, “Share-Based Payment,” to permit public companies, under certain circumstances, to use the simplified method in SAB 107 for employee option grants after December 31, 2007. Use of the simplified method after December 2007 is permitted only for companies whose historical data about their employees’ exercise behavior does not provide a reasonable basis for estimating the expected term of the options. The Company currently uses the simplified method to estimate the expected term for employee option grants as adequate historical experience is not available to provide a reasonable estimate. SAB 110 is effective for employee options granted after December 31, 2007. The Company adopted SAB 110 effective January 1, 2008 and continues applying the simplified method until enough historical experience is readily available to provide a reasonable estimate of the expected term for employee option grants.

In June 2008, the FASB issued Staff Position EITF 03-06-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities” (FSP EITF 03-06-1). FSP EITF 03-06-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method in SFAS No. 128, “Earnings per Share” and is effective for fiscal years beginning after December 15, 2008. The Company does not believe the implementation of FSP EITF 03-06-1 will have any impact on the Company’s consolidated financial statements.

Note 3. Loss Per Share

Basic earnings or loss per common share is based on the weighted average number of shares outstanding during the period of the financial statements. Diluted earnings or loss per share are based on the weighted average number of common shares outstanding and dilutive common stock equivalents. All share and per share information are adjusted retroactively to reflect stock splits and changes in par value, when applicable. All loss per share amounts in the financial statements are basic loss per share because the inclusion of stock options and warrants outstanding would be antidilutive.

	For the years ended December 31,			
		2008		2007
Numerator - net loss attributable to common	$	(265,149)	$	(24,682)

stockholders		
Denominator - weighted average number of common shares outstanding	59,374,302	96,515,533
Basic and diluted loss per common share	$ 0.00	$ 0.00

Note 4. Oil and Gas Properties

During the fiscal year ended December 31, 2008, the Company acquired non-operating, working interests in five wells as follows:

	Acquisition Date	Interest Working	Net Revenue	Month Production Started	Formation
Proven Properties:					
Cooke #6	9/1/2008	21.75%	16.3125%	Dec-07	Escondido
Onnie Ray #1	9/12/2008	20.00%	15.00%	Oct-08	Austin Chalk
Stahl #1	9/12/2008	20.00%	15.00%	Oct-08	Austin Chalk
Pearce #1	10/31/2008	20.00%	15.00%	Dec-08	Austin Chalk
Unproven Properties:					
Haile #1	9/12/2008	20.00%	15.00%	-	Austin Chalk

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Costs incurred in oil and gas property acquisition, exploration and development activities, including capital expenditures are summarized as follows at December 31, 2008 and 2007:

	2008	2007
Acquisition costs	$ 234,599	$ -
Exploration costs	82,875	-
Development costs	124,554	-
	$ 442,028	$ -

The Company amortizes all capitalized costs of oil and gas properties on the unit-of-production method using proved reserves. The Company has not yet obtained reserve studies with estimated proved reserve quantities because of its recent acquisition of these properties and also because these properties recently began producing. Management is assessing geographic and production data to determine the need for reserves studies. Therefore at December 31, 2008, there were no capitalized costs subject to amortization.

Unproven properties costs as of December 31, 2008 are associated with an exploratory oil well which had not been completed and is not producing. These exploratory well costs have also been excluded from amortization. Management expects that the recompletion efforts will be finished during 2009 at which time the capitalized costs will be added to the amortization base.

Properties which are not being amortized are assessed quarterly, on a property-by-property basis, to determine whether they are recorded at the lower of cost or fair market value. As a result of this analysis, the Company recorded an impairment of $93,444 for 2008. This impairment is similar to amortization and therefore is not added to the cost of properties being amortized.

Note 5. Related Party Transactions

Executive Management: For the year ended December 31, 2008, the Company incurred $10,000 in fees paid to the Derek Cooper the President, Chief Executive Officer and Chief Financial Officer of the Company. In addition, during September 2008, the Company granted stock options to purchase 50,000 shares of common stock to Mr. Cooper. For the year ended December 31, 2008, the Company recorded $4,840 as stock compensation expense related to this stock grant.

Director Fees: For the year ended December 31, 2008, the Company incurred $25,000 in board fees for non-employee directors of the

Company. During 2008, the Company granted a total of 150,000 options to purchase common stock to non-employee board members. For the year ended December 31, 2008, the Company recorded $14,520 as stock compensation expense relating to these stock grants. During the year ended December 31, 2007, the Company paid management fees of $1,500 to the directors. There is no management or consulting agreements in effect.

Accounts payable – related party: As of September 1, 2008, the Company settled all amounts owed to a former director and majority shareholder, amounting to $24,811, outstanding for management fees (the balance was forgiven for no consideration). The amount outstanding was recorded as an increase to additional paid-in capital.   As of December 31, 2008 and 2007 accounts payable to related parties were $12,077 and $23,812 respectively.

Rent: Until August 31, 2008, the Company's administrative office was located at 1628 West 1st Avenue, Suite 216, Vancouver, British Columbia, Canada, V6J 1G1. This premise is owned by a private corporation controlled by a former director and majority shareholder. The Company paid rent of $6,663 and $7,812 for the years ended December 31, 2008 and 2007, respectively. Effective September 1, 2008, the Company closed its administrative office in Vancouver, British Columbia, Canada, terminating all of its employees. There were no severance arrangements with any of the terminated employees.

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On December 31, 2007, 40,000,000 common shares owned by Mr. Harmel S. Rayat, a director and major shareholder of the Company, originally subscribed for at $0.0033 each were returned to the Company for cancellation and for no consideration. Mr. Harmel S. Rayat was an officer and director of the Company until September 12, 2008 and a majority stockholder of the Company until September 9, 2008.

All related party transactions are recorded at the exchange amount established and agreed to between related parties and are in the normal course of business.

Note 6. Stockholders' Equity

On December 31, 2007, 40,000,000 common shares owned by Mr. Harmel S. Rayat, a director and major shareholder of the Company, originally subscribed for at $0.0033 each were returned to the Company for cancellation and for no consideration.

On July 28, 2008, the Company completed a self-directed private placement of 6,450,000 units at a price of $0.50 per unit or $3,225,000 in the aggregate. Each unit consists of one share of the Company's common stock, one Series A stock purchase warrant (Series A warrant) to purchase a share of common stock at $0.60 per share for a period of 18 months from the date of issuance and one Series B stock purchase warrant (Series B warrant) to purchase a share of common stock at $0.75 per share for a period of 24 months from the date of issuance. The relative fair value of the common stock was estimated to be $1,571,638 and the relative fair value of the warrants was estimated to be $1,653,362 as determined based on the relative fair value allocation of the proceeds received. The warrants were valued using the Black-Scholes option pricing model. In connection with the private placement, the Company issued an aggregate of 50,000 units in payment of legal fees in the amount of $25,000. These units were otherwise issued on the same terms and conditions as the units sold in the private placement.

Warrants
The Company account for warrants granted to unrelated parties in accordance with EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock." In accordance with the EITF, the fair value of such warrants is classified as a component of permanent equity within additional paid-in capital and is calculated on the date of grant using the Black-Scholes Option pricing model.

Each of the Company's warrants outstanding entitles the holder to purchase one share of the Company's common stock for each warrant share held. No warrants were exercised during the years ended December 31, 2008 and 2007. A summary of the Company's warrants outstanding is as follows:

	Series A Warrants	Series B Warrants
Warrants outstanding and exercisable at December 31, 2008	6,450,000	6,450,000
Exercise price	$ 0.60	$ 0.75
Fair value on date of grant	$ 2,495,800	$ 2,593,247
Black-Scholes option pricing model assumptions:		
Risk-free interest rate	2.435%	2.590%
Expected term	1.5 years	2 years
Expected volatility	96.15%	100.76%
Dividend per share	$ 0	$ 0
Expiration date	January 28, 2010	July 28, 2010

A total of 12,900,000 shares of the Company's common stock have been reserved for issuance upon exercise of warrants shares outstanding as of December 31, 2008.

Note 7. Stock Options

The Company has an active stock option plan that provides shares available for option grants to employees, directors and others. A total of 120,000,000 shares of the Company's common stock have been reserved for award under the stock option plan, of which 119,800,000 were available for future issuance as of December 31, 2008. Options granted under the Company's option plan generally vest over five years or as otherwise determined by the Board of Directors, have exercise prices equal to the fair market value of the common stock on the date of grant, and expire no later than ten years after the date of grant.

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Summary of employee stock option information for years ended December 31, 2008 and 2007 is as follows:

	Number of options	Weighted average exercise price	Remaining contractual term (years)	Aggregate intrinsic value
Outstanding at December 31, 2006	7,230,000	$ 0.01		
Cancelled	(7,230,000)	0.01		
Outstanding at December 31, 2007	0			
Granted	200,000	1.00	9.70	$ -
Outstanding at December 31, 2008	200,000	1.00	9.70	-
Exercisable at December 31, 2008	0			
Available for grant at December 31, 2008	119,800,000			

The aggregate intrinsic value in the table above represents the total pretax intrinsic value for all “in-the-money” options (i.e. the difference between the Company’s closing stock price on the last trading day of the year ended December 31, 2008 and the exercise price, multiplied by the number of shares) that would have been received by the option holders had all option holders exercised their options on December 31, 2008. This amount is based on the fair market value of the Company’s stock. Total intrinsic value of options exercised was $nil at December 31, 2008 (2007: $nil).

A summary of the Company’s unvested stock options and changes during the years ended December 31, 2008 and 2007 is as follows:

	Number of options	Weighted Average Grant Date Fair Value
Unvested, December 31, 2006	7,230,000	$ 0.51

Granted	-	-
Cancelled	(7,230,000)	0.51
Unvested, December 31, 2007	-	-
Granted	200,000	0.73
Vested	-	-
Unvested, December 31, 2008	200,000	0.73

All stock options outstanding at December 31, 2008, were granted on the same date, have the same exercise price, term and grant date fair value.

During the years ended December 31, 2008 and 2007, the Company granted 200,000 and nil stock options awards. For purposes of determining the stock-based compensation expense for stock option awards granted, the Black-Scholes Option Pricing Model was used with the following assumptions: dividend yield of 0%, expected volatility of 195.38%, risk-free interest rate of 2.97%, and expected term of 5 years.

The weighted average fair value of options granted during the year ended December 31, 2008 was $0.73 per share.

For the year ended December 31, 2008, stock option compensation expense of $19,360 was recognized as general and administrative expenses. There was no stock based compensation expense for the year ended December 31, 2007. The Company had $125,987 of total unrecognized compensation cost related to unvested stock options as of December, 31 2008, which is expected to be recognized over a weighted average period of approximately 4.7 years.

The Company does not repurchase shares to fulfill the requirements of options that are exercised. Further, the Company issue new shares when options are exercised.

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8. Income Taxes

There is no current or deferred tax expense for 2008 and 2007, due to the Company’s loss position. The benefits of temporary differences have not been recorded. The deferred tax consequences of temporary differences in reporting items for financial statement and income tax purposes are recognized, as appropriate. Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company’s ability to generate taxable income within the net operating loss carryforward period. Management has considered these factors in reaching its conclusion as to the valuation allowance for financial reporting purposes and has recorded a full valuation allowance against the deferred tax asset. The income tax effect, utilizing a 34% income tax rate, of temporary differences comprising the deferred tax assets and deferred tax liabilities is a result of the following at December 31:

	2008	2007
Deferred tax assets:		
Net operating loss carryforwards	$ 1,275,000	$ 1,226,000
Stock based compensation	7,000	-
Valuation allowance	(1,271,000)	(1,226,000)
Deferred tax liability	11,000	-
Oil and gas properties	(11,000)	
Net deferred tax assets	$ -	$ -

The 2008 increase in the valuation allowance was $45,000 (2007: $8,000).

The Company has available net operating loss carryforwards of approximately $3,771,000 for tax purposes to offset future taxable income which expires commencing 2011 through to the year 2028. Pursuant to the Tax Reform Act of 1986, annual utilization of the Company’s net operating loss carryforwards may be limited if a cumulative change in ownership of more than 50% is deemed to occur within any three-year period. The tax years 2005 through 2007 remain open to examination by federal agencies and other jurisdictions in which it operates.

A reconciliation between the statutory federal income tax rate (34%) and the effective rate of income tax expense for the years ended December 31 follows:

	2008	2007

Statutory federal income tax rate	-34%	-34%
Valuation allowance	34%	34%
	0%	0%

Note 9. Subsequent Events

Effective January 9th 2009, Frank Fabio resigned as Chief Financial Officer and Secretary of the Company. This resignation was not the result of a disagreement with the Company on any matter relating to the Company's operations, policies or practices.

Also effective January 9th 2009, the Board of Directors of the Company appointed Mr. Derek Cooper, President and Chief Executive Officer of the Company, to also serve as the Company’s Chief Financial Officer and Secretary .

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ITEM 9: CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

We have had no disagreements with our independent registered public accountants with respect to accounting practices, procedures or financial disclosure.

ITEM 9A(T): CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), as of the end of the period covered by this annual report. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded as of December 31, 2008 that the Company's disclosure controls and procedures were effective such that the information required to be disclosed in the Company's United States Securities and Exchange Commission (the "SEC") reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Evaluation of and Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our internal control over financial reporting as of December 31, 2008 based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations (COSO). Based on this evaluation, management concluded that, as of December 31, 2008, our internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Changes in Internal Control over Financial Reporting

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control

over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this annual report.

There have been no changes in internal controls, or in factors that could materially affect internal controls, subsequent to the date that management, including the Chief Executive Officer and the Chief Financial Officer, completed their evaluation.

ITEM 9B. OTHER INFORMATION.

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Directors and Executive Officers

The following table sets forth the names of all of our current directors and executive officers. We have a Board of Directors comprised of three members. Executive officers serve at the discretion of the Board of Directors and are appointed by the Board of Directors. Each director holds office until a successor is duly elected or appointed. Officers are elected annually by the Board of Directors and serve at the discretion of the board.

Name	Age	Position	Director / Officer Since
Derek J. Cooper	31	President, Chief Executive Officer, Chief Financial Officer, and Director	September 2008
Jeet Sidhu	36	Director	September 2008
Christian Hudson	43	Director	September 2008
Harmel S. Rayat	47	President, Chief Executive Officer, Chief Financial Officer, and Director	March 18, 2006
Timothy N. Luu	44	Secretary, Treasurer, Chief Technology Officer, Director	February 7, 2005
Frank Fabio	57	Chief Financial Officer	September 12, 2008

There are no family relationships between any of our directors, executive officers and other key personnel.

Recent Management Changes

We have recently experienced a change in our management and Board of Directors.

Effective on September 12, 2008, each of Messrs. Harmel S. Rayat and Timothy N. Luu resigned from the Company's Board of Directors and as an officer of the Company in order to pursue other interests and not as a result of any disagreement between himself and the Company.

Effective September 12, 2008, the Board of Directors appointed Mr. Derek J. Cooper to serve as the Company's President and Chief Executive Officer. After the resignation of the Chief Financial Officer on January 9, 2009, the Board of Directors appointed Mr. Derek J. Cooper Chief Financial Officer.

Effective September 12, 2008, the Board of Directors appointed Mr. Jeet Sidhu to serve as a director of the Company, and to serve as such until the next annual meeting of the Company's shareholders and until his successor shall have been duly elected and qualified.

Effective September 12, 2008, the Board of Directors appointed Mr. Christian Hudson to serve as a director of the Company, and to serve as such until the next annual meeting of the Company's shareholders and until his successor shall have been duly elected and qualified.

Effective September 12, 2008, Mr. Frank Fabio was appointed our Chief Financial Officer; Mr. Fabio resigned on January 9, 2009.

The directors are elected to one-year terms. Each director holds office until the expiration of the director's term, until the director's successor has been duly elected and qualified or until the earlier of such director's resignation, removal or death. Our board of directors does not have an audit or any other committee. The officers serve at the pleasure of the Board of Directors.

The following is a brief description of the business experience of each of the directors and officers during the past five years, and an indication of directorships held by each director in other companies subject to the reporting requirements under the Federal securities law. As of the date of this filing, the members of our Board of Directors and our executive officers were as follows:

Derek J. Cooper

Mr. Cooper earned his Bachelor of Science degree in Physics in 2001 and his Bachelor of Applied Science in Geological Engineering in 2005, both at the University of British Columbia. From January 2003 through September 2003, Mr. Derek J. Cooper joined Syncrude Canada Ltd., the world's largest producer of crude oil from oil sands. While completing his Applied Sciences degree, from June 2004 thru September 2004, Mr. Cooper undertook and completed a near-term engineering-exploration contract with Stealth Minerals Ltd. From 2005

to March 2008, Mr. Cooper worked at Elk Valley Coal, the world's second largest producer of metallurgical coal, as a Planning Engineer. In April 2008, Mr. Cooper joined TransAlta Utilities, as an Intermediate Engineer in the Fuel Supply Group where he performs life-of-mine planning, costing, and capital equipment selection as well as scoping/feasibility projects. Mr. Cooper joined the Company as Director on September 12, 2008. Mr. Cooper also serves as a director and officer of International Energy, Inc.

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Jeet Sidhu

Mr. Sidhu graduated from the British Columbia Institute of Technology with a Diploma in Corporate Finance in 1995. Since 2002, Mr. Sidhu has been Vice-President of Montgomery Asset Management Corporation, a privately held firm providing financial and management consulting services to emerging growth corporations.

Christian Hudson

Mr. Hudson earned a Bachelor of Arts degree in Economics from the University of California, Santa Barbara in 1987 and also earned a Masters in Business Administration from Columbia University in 1991. From 2002 to 2008, Mr. Hudson served as Chief Information Officer at Swiss American Securities Inc., member of the Credit Suisse Group. Mr. Hudson is currently pursuing entrepreneurial opportunities within Financial Services and Real Estate markets.

Compensation of Directors

Our Board of Directors determines the non-employee directors' compensation for serving on the Board and its committees. In establishing director compensation, the Board is guided by the following goals:

- Compensation should consist of a combination of cash and equity awards that are designed to fairly pay the directors for work required on behalf of a company of the size and scope of Entheos Technologies, Inc.;

- Compensation should align the directors' interests with the long-term interests of stockholders; and

- Compensation should assist with attracting and retaining qualified directors.

The Company does not pay director compensation to directors who are also employees. Non-employee directors receive between $2,000 and $2,500 per month for their services as directors; each is entitled to be reimbursed for reasonable and necessary expenses incurred on our behalf. During the years ended December 31, 2008, 2007 and 2006, $25,000, $1,500 and $31,800 respectively was paid to directors for services rendered. Stock-based compensation expense relating to director stock option awards totaled $14,519, $0 and $0 for the years ended December 31, 2008, 2007 and 2006 respectively.

Each non employee director receives an initial stock option entitling him to purchase up to 50,000 shares of stock at a price per share equal to the closing price of our common stock, as reported on the Over the Counter

Bulletin Board on the date of the option grant; the options vest at the rate of 20% per annum in arrears.

We have no other arrangements pursuant to which any our directors were compensated during the years ended December 31, 2008 and 2007 for services as a director.

In accordance with applicable SEC rules and regulations, the following table reports all compensation the Company paid to non-employee directors during the fiscal year ended December 31, 2008:

Name	Fees Earned or Paid in Cash ($) (1)	Stock Awards ($) (2)	Total ($)
Jeet Sidhu	$ 8,000	$ 4,840(3)	$ 12,840
Christian Hudson	8,000	4,840(3)	12,840
Frank Fabio	6,000	4,839	10,839
Tim N. Luu	3,000	0	3,000

(1) The amounts in this column represent the monthly cash meeting fee earned by or paid to the Company's non-employee directors for service during the fiscal year ended December 31, 2008. Non-employee directors, excluding Tim Luu, receive between $2,500 and $1,500 monthly cash compensation. Tim Luu received $1,500 semi-annually.
(2) This column reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2008 in accordance with FAS 123R for stock option awards. For information regarding significant factors, assumptions and methodologies used in determining the fair value of the Company's stock options, see Note 7. Stock Options.
(3) On September 12, 2008 the Company granted a stock option to purchase 50,000 shares of common stock to each to Mr. Sidhu, Mr. Hudson and Mr. Fabio at an exercise price of $1.00 per share. Of each 50,000 grant, the first 10,000 stock options vest on September 12, 2009 and then 10,000 stock options will vest every year thereafter. The fair value of each 50,000 stock option grant was $29,069, estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions: dividend yield of 0%, expected volatility of 195.38%, risk-free interest rates of 2.970%, and expected lives of 5 years.

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Directors' and Officers' Liability Insurance

We do not currently maintain directors and officers liability insurance coverage. We are currently reviewing insurance policies and anticipate obtaining coverage for our board of directors and officers.

Legal Proceedings

During the past five years, except as set forth below, none of our directors, executive officers, promoters or control persons has been:

- the subject of any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

- convicted in a criminal proceeding or is subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

- subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or

- found by a court of competent jurisdiction (in a civil action), the Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law.

CORPORATE GOVERNANCE

Director Independence

We are not listed on a US securities exchange and, therefore, not subject to the corporate governance requirements of any such exchange, including those related to the independence of directors. However, at this time, after considering all of the relevant facts and circumstances our, Board of Directors has determined that each of Messrs. Sidhu and Hudson are independent from the Company's management and qualify as "independent directors" under the standards of independence under the applicable National Association of Securities Dealers (" NASD ") listing standards. This means that, in the judgment of the Board of Directors, none of those directors (1) is an officer or employee of the Company or its subsidiaries or (2) has any direct or indirect relationship with the Company that would interfere with the exercise of his independent judgment in carrying out the responsibilities of a director. As a result, the Company has a majority of independent directors as required by the NASD listing standards. Upon our listing on any national securities exchange or any inter-dealer quotation system, we will elect such independent directors as is necessary under the rules of any such

securities exchange.

Board of Directors Meetings and Committees of the Board of Directors

During the fiscal year ended December 31, 2008, the Board held a total of four meetings. All members of the Board attended at least 75% of all meetings of the Board.

The Company does not currently have any standing committees of the Board of Directors. The full Board is responsible for performing the functions of: (i) the Audit Committee, (ii) the Compensation Committee and (iii) the Nominating Committee.

Audit Committee

The Board does not currently have a standing Audit Committee. The full Board performs the principal functions of the Audit Committee. The full Board monitors the Company's financial reporting process and internal control system and reviews and appraises the audit efforts of the Company's independent accountants.

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Compensation Committee

The Board does not currently have a standing Compensation Committee. The full Board establishes overall compensation policies for the Company and reviews recommendations submitted by the Company's management.

Nominating Committee

The Board does not currently have a standing Nominating Committee.

Code of Ethics

Our Board of Directors has adopted a Code of Ethics that establishes the standards of ethical conduct applicable to all directors, officers and employees of our company. The code addresses, among other things, conflicts of interest, compliance with disclosure controls and procedures and internal control over financial reporting, corporate opportunities and confidentiality requirements. We have also adopted Corporate Governance Guidelines applicable to our Board of Directors. The code of ethics is attached as an exhibit to this annual report.

Compliance with Section 16(a) of the Exchange Act

Pursuant to Section 16(a) of the Exchange Act of 1934, the executive officers and directors of the Company in addition to any person who owns more than 10% of the common stock of the Company are required to report their ownership of the common stock of the Company and changes to such ownership with the SEC. Based on a review of such reports and information provided to the Company, the Company believes that during the most recent fiscal year the executive officers and directors of the Company have complied with applicable filing requirements under Section 16(a), Based solely upon a review of the copies of the forms furnished to the Company, the Company believes that during fiscal 2008, the Section 16(a) filing requirements applicable to its directors and executive officers were satisfied.

Communications with the Board of Directors

Stockholders who wish to communicate with the Board of Directors may do so by addressing their correspondence to the Board of Directors at Entheos Technologies, Inc. 888-3rd Street SW, Suite 1000, Calgary, Alberta, Canada T2P 5C5. The Board of Directors has approved a process pursuant to which the President review and forward correspondence to the appropriate director or group of directors for response.

ITEM 11: EXECUTIVE COMPENSATION.

The following table shows, for the three-year period ended December 31, 2008, the cash compensation paid by the Company, as well as certain other compensation paid for such year, to the Company's Chief Executive Officer and the Company's other most highly compensated executive officers. No executive officer of the Company had a total annual salary and bonus for the fiscal year ended December 31, 2008 that exceeded $100,000.

Summary Compensation Table

Name and Principal Position	Year	Salary	Other	Options Awards ($)	Total
Derek Cooper	2008	0	10,000(2)	$ 4,840	
President, CEO,	2007	n/a			
Chief Financial					
Officer and Director	2006	n/a			
Harmel S. Rayat (1)	2008	$ 0	$ 0	$ 0	0
President, CEO,	2007	$ 0	$ 0	$ 0	0
Chief Financial					
Officer and Director	2006	$ 0	$ 0	$ 4,500	0
Tim Luu (1)	2008	$ 0	$ 0	$ 0	0
Secretary, Treasurer	2007	$ 0	$ 0	$ 3,000	0
Chief Technology					
Officer and Director	2006	$ 0	$ 0	$ 3,300	0

(1) Each of Messrs. Rayat and Luu resigned all of their respective positions with the Company on September 12, 2008.

(2) Other compensation represents fees paid Derek Cooper as a Director of the Company.

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Stock Option Grants in Last Fiscal Year

Shown below is further information regarding stock options awarded during 2008 to the named officers and directors:

Name	Number of Securities Underlying Options	% of Total Options Granted to Employees in 2008	Exercise Price ($/sh)	Expiration Date
Derek J. Cooper	50,000	25%	$ 1.00	9/12/2018
Harmel Rayat(1)	0	0	n/a	n/a
Tim Luu (1)	0	0	n/a	n/a

(1) Resigned as an officer and director on September 12, 2008.

Aggregated Option Exercises During Last Fiscal Year and Year End Option Values

The following table shows certain information about unexercised options at year-end with respect to the named officers and directors:

Name	Common Shares Underlying Unexercised Options on December 31, 2008		Value of Unexercised In-the-money Options on December 31, 2008		Option Expiration Date
	Exercisable	Unexercisable	Exercisable	Unexercisable	
Derek J. Cooper	0	50,000	0	$ 50,000	9/12/2018
Harmel Rayat (1)	0	0	0	0	
Tim Luu (1)	0	0	0	0	

(1) Resigned as an Officer and Director on September 12, 2008.

Employment Contracts and Change in Control Arrangements

On September 12, 2008, the Company and Derek J. Cooper entered into an agreement whereby Mr. Cooper will function as the Company's President and Chief Executive Officer. Compensation for such position was agreed upon in the amount of $2,500 month. In addition, Mr. Cooper was granted 50,000 options vesting evenly over a five year period on the issuance anniversary date. On January 9, 2009, Derek J. Cooper was named the Chief Financial Officer after the resignation of the Frank Fabio.

The Company does not have any change-of-control or severance agreements with any of its executive officers or directors. In the event of the termination of employment of the Named Executive Officers any and all unexercised stock options shall expire and no longer be exercisable after a specified time following the date of the termination.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCK HOLDER MATTERS.

The following table sets forth information with respect to the beneficial ownership of our common stock as of December 31, 2008:

- each person (or group of affiliated persons) who is known by us to beneficially own 5% or more of our common stock;
- each of our directors;
- each of our named executive officers; and
- all of our directors and executive officers as a group.

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The percentages of common stock beneficially owned are reported on the basis of regulations of the Securities and Exchange Commission governing the determination of beneficial ownership of securities. Under the rules of the Securities and Exchange Commission, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or to direct the voting of the security, or investment power, which includes the power to dispose of or to direct the disposition of the security. Except as indicated in the footnotes to this table, each beneficial owner named in the table below has sole voting and sole investment power with respect to all shares beneficially owned and each person's address is c/o our principal office address(unless otherwise indicated) at 888 3 rd Street, Suite 1000, Calgary, Alberta, T2P 5C5.

Person or Group	Number of Shares of Common Stock	Percent
Derek J. Cooper 888 3rd Street SW, Suite 1000 Calgary, AB T2P 5C5	0(1)(2)(3)	0.0%
Christian Hudson 888 3rd Street SW, Suite 1000 Calgary, AB T2P 5C5	0(1)(2)	0.0%
Jeet Sidhu 888 3rd Street SW, Suite 1000 Calgary, AB T2P 5C5	0(1)(2)	0.0%
Frank Fabio 888 3rd Street SW, Suite 1000 Calgary, AB T2P 5C5	0(1)(4)	0.0%
1420525 Alberta Ltd. (5)(6) 1628 West 1st Avenue, Suite 216 Vancouver, BC V6J 1G1	32,639,800(6)	52%
Directors and Executive Officers as a group (4 persons)	0	0.0%

(1) 200,000 stock options (50,000 to each of Messrs. Cooper, Hudson, Fabio and Sidhu) were granted on September 12, 2008; the exercise price per share is $1.00; the options vest at the rate of 10,000 per annum in arrears commencing September 12, 2009.

(2) Each of Messrs. Cooper, Hudson and Sidhu were appointed to the Company's Board of Directors on September 12, 2008.

(3) Mr. Cooper was appointed the Company's Chief Executive Officer and President on September 12, 2008.

(4) Mr. Fabio was appointed the Company's Chief Financial Officer and Secretary on September 12, 2008 and resigned on January 9, 2009. Under the terms of his Option Agreement the unvested options terminated immediately. None of Mr. Fabio's options had vested.

(5) 1420525 Alberta Ltd. Is a private corporation the sole shareholder of which is Harmel S. Rayat; Mr. Rayat was our former Chief Executive Officer, Chief Financial Officer, Secretary and director. Mr. Rayat resigned his positions with us on September 12, 2008.

(6) Does not include 6,000,000 shares held in trust for the benefit of Mr. Rayat's children over which Mr. Rayat has neither voting nor disposition authority; Mr. Rayat disclaims any beneficially ownership interest in and to such shares.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Executive Management: For the year ended December 31, 2008, the Company incurred $10,000 in fees paid to the Derek Cooper the President, Chief Executive Officer and Chief Financial Officer of the Company. In addition, during September 2008, the Company granted stock options to purchase 50,000 shares of common stock to Mr. Cooper. For the year ended December 31, 2008, the Company recorded $4,840 as stock compensation expense related to this stock grant.

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Director Fees: For the year ended December 31, 2008, the Company incurred $25,000 in board fees for non-employee directors of the Company. During 2008, the Company granted a total of 150,000 options to purchase common stock to non-employee board members. For the year ended December 31, 2008, the Company recorded $14,520 as stock compensation expense relating to these stock grants. During the year ended December 31, 2007, the Company paid management fees of $1,500 to the directors. There is no management or consulting agreements in effect.

Accounts payable – related party: As of September 1, 2008, the Company settled all amounts owed a to former director and majority shareholder, amounting to $24,811, outstanding for management fees (the balance was forgiven for no consideration). The amount outstanding was recorded as an increase to additional paid-in capital. As of December 31, 2008 and 2007 accounts payable to related parties were $12,077 and $23,812 respectively.

Rent: Until August 31, 2008, the Company's administrative office was located at 1628 West 1st Avenue, Suite 216, Vancouver, British Columbia, Canada, V6J 1G1. This premise is owned by a private corporation controlled by a former director and majority shareholder. The Company paid rent of $6,663 and $7,812 for the years ended December 31, 2008 and 2007, respectively. Effective September 1, 2008, the Company closed its administrative office in Vancouver, British Columbia, Canada, terminating all of its employees. There were no severance arrangements with any of the terminated employees.

On December 31, 2007, 40,000,000 common shares owned by Mr. Harmel S. Rayat, a director and major shareholder of the Company, originally subscribed for at $0.0033 each were returned to the Company for cancellation and for no consideration. Mr. Harmel S. Rayat was an officer and director of the Company until September 12, 2008 and a majority stockholder of the Company until September 9, 2008.

All related party transactions are recorded at the exchange amount established and agreed to between related parties and are in the normal course of business.

ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The firm of Peterson Sullivan, LLP currently serves as the Company's independent accountants. The Board of Directors of the Company, in its discretion, may direct the appointment of different public accountants at any time during the year, if the Board believes that a change would be in the best interests of the stockholders. The Board of Directors has considered the audit fees, audit-related fees, tax fees and other fees paid to the Company's accountants, as disclosed below, and had determined

that the payment of such fees is compatible with maintaining the independence of the accountants.

The Company does not currently have an audit committee.

The following table presents aggregate fees for professional services rendered by Peterson Sullivan, LLP for the years ended December 31, 2008 and 2007.

	Year Ended December 31, 2008		Year Ended December 31, 2007	
Audit fees	$	20,884	$	17,295
Audit-related fees		-		-
Tax fees				-
All other fees		-		-
Total	$	20,884	$	17,295

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PART IV

ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

The following documents are filed as a part of this Form 10-K:

1. Financial Statements

The following financial statements are included in Part II, Item 8 of this Form 10-K:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2008 and 2007
- Consolidated Statements of Operations for the years ended December 31, 2008 and 2007
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 2008 and 2007
- Consolidated Statements of Cash Flows for the years ended December 31, 2008 and 2007
- Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Financial statement schedules are omitted because they are not required or are not applicable, or the required information is provided in the consolidated financial statements or notes described in Item 15(a)(1) above.

3. Exhibits

The Exhibits listed in the Exhibit Index, which appears immediately following the signature page, are incorporated herein by reference, and are filed as part of this Form 10-K.

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SIGNATURES

Pursuant to the requirements of Sections 13 or 15 (d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report on Form 10-K for the fiscal year ended December 31, 2008, to be signed on its behalf by the undersigned, thereunto duly authorized on this 10 day of April, 2009.

Entheos Technologies, Inc.

/s/ Derek J. Cooper
Derek J. Cooper
President, Chief Executive Office,
Chief Financial Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in capacities and on the dates indicated.

Signature	Title	Date
/s/ Derek Cooper Derek Cooper	President, Chief Executive Officer, Chief Financial Officer and Director	April 10, 2009
/s/ Jeet Sidhu Jeet Sidhu	Director	April 10, 2009
/s/ Christian Hudson Christian Hudson	Director	April 10, 2009

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Exhibit Index

Exhibit No.	Description of Exhibit
14.1	Code of Ethics.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
32.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.