

E-SMART TECHNOLOGIES INC
Form 10QSB/A
May 08, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-QSB/A

(Mark One)

Quarterly report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended: March 31, 2006

Transition report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission File No: 0-30717

e-SMART TECHNOLOGIES, INC.

(Name of small business in its charter)

Nevada
(State or other jurisdiction of incorporation)

88-0409261
(IRS Employer Id. No.)

526 West 26th Street, Suite 710, New York, NY 10001

(Address of Principal Office including Zip Code)

Issuer's telephone Number: **(212) 727-3790**

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 No

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State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common Stock, \$.001 par value, **200,000,000 shares** at March 31, 2006.

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

e-SMART TECHNOLOGIES, INC.

FORM 10-QSB QUARTER ENDED MARCH 31, 2006

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The unaudited condensed consolidated balance sheet of the Registrant at March 31, 2006, the audited balance sheet at December 31, 2005, and the unaudited condensed consolidated statements of operations, shareholders' equity (deficiency), and cash flows for the three months ended March 31, 2006 and March 31, 2005 follow. The unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to a fair statement of the results for the periods presented.

e-SMART TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

[Unaudited]

| | March 31, 2006 | December 31, 2005 |
|--|--------------------|----------------------|
| Assets | | |
| Current assets - | | |
| Cash | \$ 135,183 | \$ 164,584 |
| Prepaid expenses | 2,542 | 2,692 |
| Total current assets | 137,725 | 167,276 |
| Leasehold Improvements and Equipment, net | 48,507 | 44,701 |
| License of Super Smart Card Technology, net | 97,682 | 99,290 |
| Officers advances | 35,523 | 51,674 |
| Lease deposit | 77,195 | 73,484 |
| Total assets | \$ 396,632 | \$ 436,425 |
| Liabilities and Shareholders Equity (Deficiency) | | |
| Current liabilities - | | |
| Accounts payable | \$ 796,481 | \$ 640,197 |
| Note payable IVI Smart Technologies, Inc., a related party | 450,000 | 450,000 |
| Notes payable other | 47,500 | 47,500 |
| Due Associated Business Group, a related party | 12,427 | 12,427 |
| Accrued officer s compensation | 395,996 | 371,060 |
| Accrued expenses | 216,633 | 170,932 |
| Total current liabilities | 1,919,037 | 1,692,116 |
| Note Payable IVI Smart Technologies, Inc., a related party | 3,025,046 | 2,274,722 |
| Total liabilities | 4,944,083 | 3,966,838 |
| Shareholders Equity (Deficiency) - | | |
| Common shares, \$.001 par, 200,000,000 | | |
| authorized, 200,000,000 issued and outstanding | 200,000 | 200,000 |
| Additional paid in capital | 63,777,497 | 63,777,497 |
| Retained deficit | (68,524,948) | (67,507,910) |
| Total shareholders deficiency | (4,547,451) | (3,530,413) |
| Total liabilities and shareholders (deficiency) | \$ 396,632 | \$ 436,425 |

See notes to condensed consolidated financial statements.

e-SMART TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

[Unaudited]

| | Three Months Ended March 31, | | January 1, 2001 (inception of development period) to March 31, 2006 |
|--|------------------------------|--------------|--|
| | 2006 | 2005 | |
| Net Revenue | \$ | \$ | \$ |
| Cost of revenue | | | |
| Gross profit | | | |
| Operating expenses: | | | |
| Research and development | 152,475 | 78,723 | 14,719,209 |
| Selling, general and administrative | 817,515 | 712,112 | 53,577,638 |
| Interest | 46,008 | 20,415 | 220,761 |
| Total operating expenses | 1,015,998 | 811,250 | 68,517,608 |
| Loss before taxes | (1,015,998) | (811,250) | (68,517,608) |
| Income tax | 1,040 | 250 | 7,340 |
| Net Loss | \$ (1,017,038) | \$ (811,500) | \$ (68,524,948) |
| Net income (loss) per common share basic and fully-diluted | \$ (0.01) | \$ (0.01) | \$ (0.45) |
| Weighted average number of common shares outstanding | 200,000,000 | 173,535,944 | 153,345,14944 |

See notes to condensed consolidated financial statements.

e-SMART TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF
SHAREHOLDERS EQUITY (DEFICIENCY)

| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Total |
|----------------------------|------------------|------------|----------------------------------|------------------------|----------------|
| | Shares | Amount | | | |
| Balance, January 1, 2005 | 173,535,944 | \$ 173,536 | \$ 61,053,801 | \$ (62,642,602) | \$ (1,415,265) |
| Shares issued for cash | 26,464,056 | 26,464 | 2,723,696 | | 2,750,160 |
| Net loss | | | | (4,865,308) | (4,865,308) |
| Balance, December 31, 2005 | 200,000,000 | 200,000 | 63,777,497 | (67,507,910) | (3,530,413) |
| | <i>Unaudited</i> | | | | |
| Balance January 1, 2006 | 200,000,000 | 200,000 | 63,777,497 | (67,507,910) | (3,530,413) |
| Net loss | | | | (1,017,038) | (1,017,038) |
| Balance, March 31, 2006 | 200,000,000 | \$ 200,000 | \$ 63,777,497 | \$ (68,524,948) | \$ (4,547,451) |

See notes to condensed consolidated financial statements.

e-SMART TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

[Unaudited]

| | Three Months Ended March 31, | | January 1, 2001 |
|---|------------------------------|------------------|--|
| | 2006 | 2005 | (inception of (development period) to March 31, 2006 |
| Cash flows from Operating Activities - | | | |
| Net loss | \$ (1,017,038) | \$ (811,500) | \$ (68,524,948) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Issuance of common stock and common stock options for services | | | 55,812,844 |
| Depreciation and amortization | 3,511 | 2,200 | 56,863 |
| Bad debt expense | | | 312,505 |
| Changes in Assets and Liabilities - | | | |
| (Increase) decrease in prepaid expenses | 150 | 13,905 | (2,542) |
| (Increase) decrease in officers advances | 16,151 | | (35,523) |
| (Increase) decrease in deposits | | | (73,484) |
| Increase (decrease) in accounts payable | 156,284 | 15,360 | 796,481 |
| Increase (decrease) in accrued expenses | 70,637 | 91,545 | 612,629 |
| Net Cash Used in Operating Activities | (770,305) | (688,490) | (11,045,175) |
| Cash Flows from Investing Activities - | | | |
| Leasehold and improvements | (5,709) | | (74,452) |
| Purchase of Technology Licenses | | | (128,600) |
| Advances to Biosensor, LLC | | | (312,505) |
| Addition to lease deposit | (3,711) | | (3,711) |
| Net Cash Used in Investing Activities | (9,420) | | (519,268) |
| Cash Flows from Financing Activities - | | | |
| Advances from IVI Smart Technologies, Inc., a related party | 750,324 | 655,600 | 4,142,879 |
| Proceeds from other borrowings | | | 47,500 |
| Proceeds from issuances of common stock | | | 7,509,247 |
| Net Cash Provided by Financing Activities | 750,324 | 655,600 | 11,699,626 |
| Net Increase (decrease) in Cash | (29,401) | (32,890) | 135,183 |
| Cash at Beginning of Period | 164,584 | 42,857 | |
| Cash at End of Period | \$ 135,183 | \$ 9,967 | \$ 135,183 |

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Basis of Presentation

The Company has been in the development stage since the commencement of its operations on January 1, 2001. The accompanying unaudited consolidated financial statements include the accounts of the Registrant and those of its wholly-owned subsidiary e-Smart Korea, Inc., and have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month periods ended March 31, 2006 and 2005, are not necessarily indicative of the results that may be expected for the respective years ended December 31, 2006 and 2005.

The unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and related footnotes included in the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005, supplemented by the notes included herein.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain prior year amounts disclosed in the accompanying financial statements and notes thereto have been reclassified to conform to the current period's presentation.

Note 2 Letter of Comment

From time to time the Staff of the Securities and Exchange Commission's Division of Corporate Finance may examine the periodic reports of a Registrant for compliance and form (a Letter of Comment). In January 2006, the Company received a Letter of Comment relating to its Annual Report on Form 10-KSB for the year ended December 31, 2004, its Quarterly Reports on Form 10-QSB for the quarters ending March 31, 2005, June 30, 2005, and September 30, 2005, and its Form 8-K Reports filed August 4, 2005 and November 21, 2005. During February 2006, the Company filed a preliminary response to the Letter of Comment and expects to file its complete response on or before July 23, 2006.

Note 3 Related Party Transactions

Common Ownership

Pursuant to the Company's Plan of Reorganization and subject to the filing of an Amendment increasing its authorized common shares, approximately 68% of the Registrant's outstanding common shares are owned by IVI Smart Technologies, Inc., a Delaware

corporation (the Licensor), that is the sole owner of all of the Super Smart Card technology licensed to the Registrant in November 2000, August 2001, and September 2001, for a 20-year term for commercialization throughout China, the remainder of Asia exclusive of China, and the United States of America, respectively. In addition, the Licensor has advanced the Registrant \$2,274,722 in 6% term notes and \$450,000 in 5% demand notes at various dates throughout 2005, and \$3,025,046 and \$450,000, respectively, during the three months ended March 31, 2006. Mary A. Grace, the Registrant's President and Chief Executive Officer, is a director, executive officer and principal stockholder of the Licensor. Tamio Saito, the Registrant's Chief Technology Officer, is also an executive officer and principal stockholder of the Licensor. The Licensor is in a position to materially influence the direction of the Registrant, its efforts in raising the additional capital critical to its success, and the strategies employed in commercialization of the licensed technology, assuming the Registrant's business plan is ultimately successful.

Note 4 Going Concern

The Registrant's condensed consolidated financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

As shown in the accompanying financial statements, the Registrant had negative working capital at March 31, 2006, of \$1,781,312. In addition, the Registrant has incurred an accumulated deficit of \$(68,524,948) through March 31, 2006. The Registrant is dependent upon the efforts of its management to raise proceeds from continued debt or equity placements to sustain the research and development and ultimate commercialization of their respective interests in the Super Smart Card technology. The Registrant's ability to continue to receive the necessary level of funding support through the efforts of its management cannot be guaranteed. The condensed consolidated financial statements do not include any adjustments that might be necessary if the Registrant is unable to continue as a going concern.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Plan of Operation

Since the inception of our development period on January 1, 2001, and continuing through March 31, 2006, our primary source of funds have been private placements of our equity securities to accredited investors and loans from IVI Smart. We presently expect that this dependence will continue until our first system starts to generate sufficient cash flow to cover our operating costs. As of the date of this Report, we expect this dependence to continue until the third or fourth quarter of 2007. Based upon our current and planned 2006 rate of operating commitments, we will require approximately \$250,000,000 in additional funding during this period. Although management has identified several potential sources of institutional capital, there can be no assurance that we will be able to successfully obtain all or a portion of the funds required to commence commercial operations.

Over the next 12 months we expect to continue our marketing and research and development efforts and to implement our first system, demonstrating the viability of our Super Smart Card and BVS2 based products and related technologies.

Our ability to maintain what we believe to be the state-of-the-art quality of our Super Smart Card and BVS2 system and related technologies is dependent upon our ability to continue to improve our products functionality and durability, and to reduce their cost of manufacture. In addition, we are constantly trying to find and develop new products that enhance the functionality of our BVS2 platform. This research and development is expected to continue throughout 2006 and well into 2007. Accordingly, the Company expects to continue to be dependent upon funds from existing accredited, subject to the same risks enumerated in the preceding paragraph.

We are constantly acquiring equipment in connection with our research and development activities. Our planned 2006 budget is approximately \$5,000,000 for such acquisitions, but could change depending upon our rate of accomplishment in the anticipated sales of one or more systems. Should such sales occur, we will also require an operations and testing center near those customers' offices as a condition of contract.

During 2006 in the United States, we intend to fill a number of key management, marketing and technology positions commensurate with our intended growth and expanded operations.

Off-Balance Sheet Arrangements

During the three months ended March 31, 2006, we had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors. The Company is presently negotiating certain proposed relationships, which if accepted by all parties, may contain terms that have off-balance sheet implications; see Note 12 to the Consolidated Financial Statements included in Item 7 of our Form 10-KSB for the year ended December 31, 2005, as amended April 30, 2007.

Forward Looking Statements:

The following discussion contains forward-looking statements regarding the Registrant, its business, prospects and results of operations that are subject to certain risks and uncertainties posed by many factors and events that could cause the Registrant's actual business, prospects and results of operations to differ materially from those that may be anticipated by such forward-looking statements. Factors that may affect such forward-looking statements include the Registrant's ability to successfully exploit its licensed technology, develop new products and new markets for its licensed technology; the impact of competition on the Registrant's proposed operations, changes in law or regulatory requirements that adversely affect or preclude customers from using the Registrant's licensed technology, delays in the Registrant's introduction of new products or services, and failure by the Registrant to keep pace with emerging technologies.

When used in this discussion, words such as believes, anticipates, expects, intends, and similar expressions are intended to

identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. The Registrant undertakes no obligation to revise any forward-looking statements in order to reflect events or circumstances that may subsequently arise. Readers are urged to carefully review and consider the various disclosures made by the Registrant in this report and other reports filed with the Securities and Exchange Commission (SEC) that attempt to advise interested parties of the risks and factors that may affect the Registrant s business.

Discussion and Analysis of Three Months Ended March 31, 2006 and March 31, 2005

Revenues Since obtaining the license to the Super Smart Card technology in November 2000, the Registrant has been engaged in research and development efforts to enhance and broaden the technology&#