

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' equity deficiency	(4,547,451)	(3,530,413)
Total liabilities and shareholders' equity (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
	2006	2005	(inception of development period) to March 31, 2006
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	153,345,149

See notes to condensed consolidated financial statements.

e-SMART TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS 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, as amended April 30, 2007, 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 investors, 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's applications and in exploring the global market for its optimal commercialization. In the opinion of management, the Registrant's Super Smart Card is ready for commercialization. This fact notwithstanding, the Registrant is still in its development stage for accounting purposes as it has not experienced revenues in either of the three month periods ended March 31, 2006 (1Q06) or March 31, 2005 (1Q05).

Cost of Revenues Consistent with the Registrant still being in its development stage, it did not experience cost of revenues in either 1Q06 or 1Q05.

Operating Expenses Operating expenses were \$1,015,998 for 1Q06 compared to \$811,250 for 1Q05 resulting in an increase of \$204,748 or 25%. The principal factors underlying this increase were increased marketing and research and development expenses as we get closer to the commercialization of our technologies.

Loss Before Taxes and Income Taxes As a result of the foregoing, loss before taxes for 1Q06 was \$(1,015,998) compared to \$(811,250) for 1Q05 upon which the Registrant's provision for taxes in both periods was solely attributable to minimum state franchise taxes payable.

Net Loss Consistent with the foregoing analysis, the Registrant reported a net loss of \$(1,017,038) or \$(0.01) per share for 1Q06, compared to a net loss of \$(811,250) or \$(0.01) per share for 1Q05, based upon weighted average shares outstanding of 200,000,000 and 173,535,944, respectively.

Liquidity and Capital Resources The Registrant has limited working capital and is dependent upon the efforts of its management in raising proceeds derived from private securities offerings for funds for the continuation of its proposed smart card business. Currently, the Registrant does not have any existing credit facilities or similar bank borrowing arrangements. The Registrant will need to obtain additional financing in order to carry out its entire business plan. There can be no assurance that any additional financing will be available to the Registrant on acceptable terms, if at all. If the Registrant raises additional funds by issuing additional equity securities, further dilution to existing equity holders will result. If adequate additional funds are not available, the Registrant may be required to curtail significantly its long term business objectives and the Registrant still may not be able to transition out of the development stage, notwithstanding that the BVS2 systems and Super Smart Card and other smart card system technologies are ready for commercialization.

At March 31, 2006, the Registrant had current assets of \$137,725 (including cash of \$135,183, current liabilities of \$1,919,037, and an accumulated deficit of \$(68,524,948)). The Registrant periodically evaluates its liquidity requirements, capital needs and availability of capital resources in view of its plans for commercialization of its technology, and other operating cash needs. In the opinion of Registrant's management, the Registrant is entirely dependent upon a material infusion of capital from the sale of securities to its accredited investors during the next several months in order to sustain its current developmental efforts, commence commercial operations, and ultimately transition out of the development stage.

ITEM 3. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) as of March 31, 2006, as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15. Based upon this evaluation, the CEO and CFO has concluded that as of March 31, 2006, the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to its management, including its principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Controls

The Registrant filled its first full time administrative position at its New York offices on March 13, 2006. As the person occupying this position will oversee much of the Registrant's administrative activities, her ongoing services will positively affect our internal controls subsequent to the date of the evaluation of those controls by the Chief Executive and Chief Financial Officer.

PART II OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits:

31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Reports on Form 8-K: None.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

e-Smart Technologies, Inc.

By: /s/ Mary A. Grace
Chief Executive Officer, and Director

By: /s/ Mary A. Grace
Chief Financial Officer

Dated: May 8, 2007

Exhibit Index

Exhibit

Number	Description
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002