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E-SMART TECHNOLOGIES INC
Form 10QSB
November 15, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

Form 10-QSB

(Mark One)

- Quarterly report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended: September 30, 2004
- Transition report under section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission File No: 000-30717

e-SMART TECHNOLOGIES, INC.

(Name of small business in its charter)

Nevada

88-0409261

(State or other jurisdiction of incorporation)

(IRS Employer Id. No.)

7225 Bermuda Road, Suite C, Las Vegas, Nevada 89119

(Address of Principal Office including Zip Code)

Issuer's telephone Number: (702) 447 - 5210

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

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, 173,272,612 shares at September 30, 2004.

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

e-SMART TECHNOLOGIES, INC.
FORM 10-QSB - QUARTER ENDED SEPTEMBER 30, 2003
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The unaudited condensed consolidated balance sheet of the Registrant at September 30, 2004, the audited balance sheet at December 31, 2003, and the unaudited condensed consolidated statements of operations, shareholders' impairment, and cash flows for the nine month periods ended September 30, 2004 and September 30, 2003 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 interim periods presented.

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e-SMART TECHNOLOGIES, INC. CONDENSED CONSOLIDATED BALANCE SHEETS

	[Unaudited] September 30, 2004	December 31, 2003
Assets		
Current assets -		
Cash	\$ 9,235	\$ 14,096
Due from Associated Business Group, Inc.	--	31,334
Prepaid expenses	30,456	--
Total current assets	39,691	45,430
Super Smart Card TM Technology, net	107,399	109,310
System Development	136,000	--
Leasehold Improvements and Equipment, net	94,510	--
Due from Biosensor, LLC	159,500	--
Deposit - e-Smart Korea, Inc.	--	151,000
Total assets	\$ 37,100	\$ 305,740

Liabilities and Shareholders' Impairment

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Current liabilities -		
Accounts payable	499,847	397,081
Accrued expenses	209,367	38,853
Notes payable	80,000	80,000
Demand note payable - Intermarket Ventures, Inc.	314,000	--
Due to Associated Business Group, Inc.	12,427	--
	-----	-----
Total current liabilities	1,115,641	515,934
Note Payable - Intermarket Ventures, Inc.	300,000	--
	-----	-----
Total liabilities	1,415,641	515,934
	-----	-----
Shareholders' Impairment -		
Common shares, \$.001 par, 200,000,000		
authorized, 173,272,612 and 170,707,012		
issued and outstanding, respectively	173,273	170,707
Additional paid in capital	60,879,453	59,497,446
Accumulated deficit	(61,931,267)	(59,878,347)
	-----	-----
Total shareholders' impairment	(878,541)	(210,194)
	-----	-----
Total liabilities and shareholders' impairment	\$ 537,100	\$ 305,740
	=====	=====

See notes to condensed consolidated financial statements.

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e-SMART TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
[Unaudited]

	Nine Months Ended		Three Months Ended	
	September		September 30	
	2004	2003	2004	2003
	-----	-----	-----	-----
Net Revenue	\$ --	\$ --	\$ --	\$ --
Cost of revenue	--	--	--	--
Gross profit	--	--	--	--
Operating expenses:				
Research and development	413,664	386,042	199,454	105,842
General and administrative	1,625,769	983,371	356,819	465,145
Interest	12,737	27,472	9,737	12,474
	-----	-----	-----	-----
Total operating expenses	2,052,170	1,396,885	566,010	583,461
Loss before taxes	(2,052,170)	(1,396,885)	(566,010)	(583,461)
Provision for taxes	750	250	250	--
	-----	-----	-----	-----
Net Loss	\$(2,052,920)	\$(1,397,135)	\$(566,260)	\$(583,461)
	=====	=====	=====	=====

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Net loss per common share -					
basic and fully-diluted	\$	(0.01)	\$	(0.01)	\$
Weighted average common shares					
shares outstanding	172,434,276	173,820,626	173,127,610	167,404,120	

See notes to condensed consolidated financial statements.

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e-SMART TECHNOLOGIES, INC.
 CONDENSED CONSOLIDATED STATEMENT OF
 SHAREHOLDERS' IMPAIRMENT
 [Unaudited]

	Common Stock Shares	Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance, January 1, 2003	153,771,993	\$ 153,772	\$ 22,714,779	\$ (23,106,740)	\$ (238,189)
Shares issued for cash	16,497,519	16,498	2,531,854	--	2,548,352
Shares issued for services	437,500	437	80,813	--	81,250
Options issued for services	--	--	34,170,000	--	34,170,000
Net loss	--	--	--	(36,771,607)	(36,771,607)
Balance, December 31, 2003	170,707,012	\$ 170,707	\$ 59,497,446	\$ (59,878,347)	\$ (210,194)

Unaudited

Balance January 1, 2004	170,707,012	\$ 170,707	\$ 59,497,446	\$ (59,878,347)	\$ (210,194)
Shares issued for cash	2,565,600	2,566	1,382,007	--	1,384,573
Net loss	--	--	--	(2,052,920)	(2,052,920)
Balance, September 30, 2004	173,272,612	\$ 173,273	\$ 60,879,453	\$ (61,931,267)	\$ (878,541)

See notes to condensed consolidated financial statements.

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e-SMART TECHNOLOGIES, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 [Unaudited]

Nine Months Ended
 September 30,

 2004 2003

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Cash flows of operating activities -	-----	-----
Net loss	\$ (2,052,920)	\$ (1,397,135)
Adjustments to reconcile net loss to net cash used by operations:		
Depreciation and amortization	5,182	4,823
Services received for common shares	--	77,018
Decrease (increase) in assets -		
Due from Associated Business Group, Inc.	31,334	40,000
Prepaid expenses	(30,456)	(4,990)
Increase (decrease) in liabilities -		
Accounts payable	102,766	(4,824)
Accrued expenses	170,514	22,750
Due to Associated Business Group, Inc.	12,427	--
Net cash used by operating activities	(1,761,153)	(1,262,358)
	-----	-----
Cash flows of investing activities -		
System development	(136,000)	--
Leasehold and improvements	(97,781)	--
Advances to Biosensor, LLC	(159,500)	--
Recoupment of e-Smart Korea deposit	151,000	--
Net cash used by investing activities	(242,281)	--
	-----	-----
Cash flows of financing activities -		
Proceeds from sale of common shares	1,384,573	1,717,354
Reduction of notes payable	--	(120,000)
Borrowings from Intermarket Ventures, Inc.	614,000	--
Net cash provided by financing activities	1,998,573	1,597,354
	-----	-----
Net increase(decrease) in cash	(4,861)	334,996
Cash at beginning of period	14,096	1,069
	-----	-----
Cash at end of period	\$ 9,235	\$ 336,065
	=====	=====

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements which include the accounts of the Registrant and (since commencement of its operations on January 1, 2004) those of its wholly-owned subsidiary e-Smart Korea, Inc., 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 nine month and three month periods ended September 30, 2004 and 2003, are not necessarily indicative of the results that may be expected for the respective years ended December 31, 2004 and 2003.

The unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and related footnotes

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included in the Registrant's Annual Report on Form 10-KSB for the two fiscal years ended December 31, 2003, supplemented by the notes included herein. Such Annual Report on Form 10-KSB was the first to be filed by the Registrant since present management assumed control of the Registrant in October 2000. On September 8, 2004, the Registrant additionally filed an Annual Report on Form 10-KSB for the two years ended December 31, 2002. Prior thereto, the Registrant's last audited financial statements were filed with the Registrant's Form 10-SB on May 30, 2000.

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.

Note 2 - Related Party Transactions

Common Ownership

Approximately 77% 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 TM 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's parent, Intermarket ventures, Inc., a Utah corporation ("Ventures") has advanced the Registrant \$300,000 in 6% term notes during June 2004 and \$314,000 in 5% demand notes at various dates throughout the three months ended September 30, 2004. Mary A. Grace, the

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Registrant's President and Chief Executive Officer, is a director, executive officer and principal stockholder of the Licensor and Ventures. Tamio Saito, the Registrant's Chief Technology Officer, is also an executive officer and principal stockholder of the Licensor and Ventures. 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. At September 30, 2004 the Registrant had incurred indebtedness to its parent of \$614,000 consisting of a demand obligation bearing interest at 5% and a term obligation bearing interest at 6% over 36 months.

Note 3 - 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 September 30, 2004, of \$1,075,950. In addition, the Registrant has incurred an accumulated deficit of \$(61,931,267) through September 30, 2004. 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 TM 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

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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

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

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Securities and Exchange Commission ("SEC") that attempt to advise interested parties of the risks and factors that may affect the Registrant's business.

Nine Months Ended September 30, 2004 and September 30, 2003

Revenues - Since obtaining the license to the Super Smart Card TM 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 TM 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 nine month periods ended September 30, 2004 ("9M04") or September 30, 2003 ("9M03").

Cost of Revenues - Consistent with the Registrant still being in its development stage, it did not experience cost of revenues in either 9M04 or 9M03.

Operating Expenses - Operating expenses rose to \$2,052,170 for 9M04 compared to \$1,396,885 for 9M03; an increase of \$655,285 or 47%. The principal factors underlying this increase were as follows: 1) increased marketing expenses during 9M04 compared to 9M03 consistent with the Registrant's efforts to get closer to generating revenues, 2) an increase in general and administrative expenses during 9M04 consistent with the Registrant beginning to create the infrastructure it will require to oversee its affairs, and 3) an increase in research and development expenses in 9M04 in line with the Registrant's technology becoming closer to commercialization.

Loss Before Taxes and Income Taxes - As a result of the foregoing, loss before taxes for 9M04 was \$(2,052,170) compared to \$(1,396,885) for 9M03 upon which

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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 \$(2,052,920) or \$(0.01) per share for 9M04, compared to a net loss of \$(1,397,135) or \$(0.01) per share for 9M03, based upon weighted average shares outstanding of 172,434,276 and 173,820,626, respectively.

Three Months Ended September 30, 2004 and September 30, 2003

Revenues - Since obtaining the license to the Super Smart Card TM 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 TM 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 September 30, 2004 ("3Q04") or September 30, 2003 ("3Q03").

Cost of Revenues - Consistent with the Registrant still being in its development stage, it did not experience cost of revenues in either 3Q04 or 3Q03.

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Operating Expenses - Operating expenses were \$566,010 for 3Q04 compared to \$583,461 for 3Q03 resulting in a decrease of \$17,451 or 3%. The principal factors underlying this decrease were as follows: (1) increased marketing expenses during 3Q04 compared to 2Q03 consistent with the Registrant's efforts to get closer to generating revenues and (2) increased research and development expenses in 3Q04, which were offset by (3) decreased general and administrative expenses during 3Q04 as a result of the Registrant having prepaid a substantial portion of the infrastructure required to oversee its affairs during the first six months of 2004.

Loss Before Taxes and Income Taxes - As a result of the foregoing, loss before taxes for 3Q04 was \$(566,010) compared to \$(583,461) for 3Q03 upon which the Registrant's provision for taxes in 3Q04 was solely attributable to minimum state franchise taxes payable.

Net Loss - Consistent with the foregoing analysis, the Registrant reported a net loss of \$(566,260) or \$(0.00) per share for 3Q04, compared to a net loss of \$(583,461) or \$(0.00) per share for 3Q03, based upon weighted average shares outstanding of 173,127,610 and 167,404,120, 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 TM systems and Super Smart Card TM and other smart card system technologies are ready for commercialization.

At September 30, 2004, the Registrant had current assets of \$39,691 (including

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cash of \$9,235, current liabilities of \$1,115,641, and an accumulated deficit of \$(61,931,267). 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.

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ITEM 3. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

During the quarter ended September 30, 2004, the Registrant continued to implement controls and procedures designed to ensure that information required to be disclosed in the reports that the Registrant files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon their evaluation of the controls and procedures implemented within 90 days of the filing date of this Quarterly Report, the Chief Executive and Chief Financial Officer of the Registrant concluded that the Registrant's disclosure controls and procedures have been improved during the past three months. Such officer also concluded that the Registrant's controls and procedures will likely equal or exceed those required of the Registrant within one or two more operating quarters.

Changes in Internal Controls

The Registrant made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the Chief Executive and Chief Financial Officer.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Administrative Proceeding

On December 12, 2003, the SEC commenced an Administrative Proceeding against the Registrant seeking, inter alia, to interrupt public trading in the Registrant's securities (the "Proceeding"). Pending a decision by the Administrative Law Judge, Lillian A. McEwen (the "ALJ"), the Registrant agreed to utilize its best efforts to prepare and file its Annual Report on Form 10-KSB for the two fiscal years ending December 31, 2003, on or before March 30, 2004.

However, and on March 4, 2004, Judge, published an Initial Decision in the Proceeding. In her Initial Decision, the ALJ found that the Registrant failed to make the required filings, as alleged, and therefore violated Exchange Act Section 13(a) and Rules 13a-1 and 13a-13. In assessing sanctions, the ALJ found that the Registrant's violations were not only recurrent but also egregious, lasting over three years and continuing to the present. The ALJ added that, although the Registrant represents that it intends to bring itself into full compliance with the periodic reporting requirements no later than March 31, 2004, this endeavor seems doomed. Because the ALJ was convinced that the

Registrant could not readily remedy its periodic reporting violations, she concluded that a suspension would not sufficiently protect the investing public. The ALJ, therefore, rendered a decision to revoke the Registrant's registration. On March 30, 2004, the Registrant filed a Form 10-KSB covering fiscal years ending on December 31, 2002 and 2003. On March 23, 2004, the Registrant filed a petition with the SEC for review of the ALJ 's decision. The Registrant's petition was granted on March 26, 2004. On March 30, 2004, the Division of Enforcement asked that the ALJ's decision be summarily affirmed pursuant to Rule of Practice 411(e). The Division also moved for leave, under Commission Rule of Practice 410(d), to file a brief in opposition to the Registrant's petition for review. By June 30, 2004, the Registrant had filed all Form 10-QSB Quarterly Reports required to be filed for the two years ended December 31, 2003. On May 17, 2004, the Registrant timely filed its Form 10-QSB Quarterly report for the three months ended March 31, 2004.

On July 16, 2004, the SEC published an order wherein the Division of Enforcement's motions for summary affirmance and for leave to file a brief in opposition to the Registrant's petition for review were denied. On August 16, 2004, the Registrant timely filed its Form 10-QSB Quarterly report for the three and six months ended June 30, 2004. On September 8, 2004, the Registrant filed an Annual Report on Form 10-KSB for the two years ended December 31, 2002.

On October 12, 2004, the SEC ordered the administrative proceeding brought against the Registrant remanded to the ALJ to afford her an opportunity to reassess her sanctioning determination in light of the circumstances of this case and the Registrant's subsequent filing of reporting record as outlined above.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits:

- 31.1 - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2003
- 32.2 - Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2003

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

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By: /s/ Mary A. Grace

Chief Financial Officer

Dated: November 15, 2004