

E-SMART TECHNOLOGIES INC
Form 10KSB
May 09, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT 1934:

For the Fiscal Year Ended December 31, 2004

Commission File Number: 0-30717

E-SMART TECHNOLOGIES, INC.

(Name of Small Business Issuer in its Charter)

Nevada
(State of Incorporation)

88-0409261
(I.R.S. Employer Identification No.)

222 Grace Church Street, Suite 300, Port Chester, NY 10573

(Address of Principal executive Office, including Zip Code)

(914) 939-5081

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(Issuer's Telephone Number)

Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK, \$.001 PAR VALUE

(Title of Class)

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Issuer's revenues for the two years ended December 31, 2004: **\$ -0-**

The aggregate market value of Common Stock held by non-affiliates at March 31, 2005 was **\$36,951,558**.

Shares of Common Stock, \$.001 par value per share, outstanding at March 31, 2005: **173,535,944 shares**

DOCUMENTS INCORPORATED BY REFERENCE:

No documents are incorporated by reference into this Annual Report.

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

PART I

ITEM 1. Description of Business ITEM 2. Description of Property ITEM 3. Legal Proceedings ITEM 4. Submission of Matters to a Vote of Security Holders **PART II** ITEM 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities ITEM 6. Management's Discussion and Analysis or Plan of Operations ITEM 7. Financial Statements ITEM 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure ITEM 8-A. Controls and Procedures **PART III** ITEM 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act ITEM 10. Executive Compensation ITEM 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters ITEM 12. Certain Relationships and Related Transactions ITEM 13. Exhibits and Reports on Form 8K ITEM 14. Principal Accountant Fees and Services SIGNATURES CERTIFICATIONS

Safe Harbor Statement

Certain statements contained herein constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We desire to avail ourselves of certain safe harbor provisions of the 1995 Reform Act and are therefore including this special note to enable us to do so. Forward-looking statements included in this Report on Form 10-KSB involve known and unknown risks, uncertainties, and other factors which could cause our actual results, performance (financial or operating) or achievements to differ from our best estimate of future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. These risks include, but are not limited to, risks related to recently consummated acquisitions as well as future acquisitions, our ability to increase our revenues and generate income from operations, effects of competition and technological changes, risks related to exposure to personal injury and workers compensation claims, risks that our insurers may not provide adequate coverage, risks associated with compliance with government regulations such as ERISA, state and local employment regulations and dependence upon key personnel.

We believe it is important to communicate our expectations to our investors. There may be events in the future, however, that we are not able to accurately predict or over which we have no control. The risk factors listed above, as well as any cautionary language in this report, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we described in our forward-looking statements. Before any investment is made in our securities, awareness that the occurrence of any of the events described in the risk factor section and elsewhere in this report, and other events that we have not predicted or assessed could have a material adverse effect on our ability to transition out of the development stage. In such case, the price of our securities could decline and any investor may lose all or part of the investor's investment.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

General

e-Smart Technologies, Inc., a Nevada corporation (the **Company** or the **Registrant**), was incorporated on July 15, 1997, under the name Boppers Holdings, Inc. (**Boppers**). On December 22, 2000, and by virtue of a Certificate of Amendment to our Articles of Incorporation, our name was changed to e-Smart Technologies, Inc. Prior to the change of name, and pursuant to an Acquisition Agreement and Plan of Merger dated as of August 16, 2000, between Boppers and Plainview Laboratories, Inc. (**PLI**), a Nevada corporation, all the outstanding shares of common stock of PLI were exchanged for 20,000 shares of Rule 144 restricted common stock of Boppers in a transaction in which Boppers was the successor corporation. At the time of the merger with Boppers, PLI was a publicly owned entity with a class of securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended (the **Exchange Act**).

We were organized under the laws of the State of Nevada on July 15, 1997, we have limited operations, and, in accordance with SFAS#7, we are considered a development stage company. Our administrative offices are located at 222 Grace Church Street, Suite 300, Port Chester, NY 10573 Our registered agent in the State of Nevada is The Corporation Service Company and our transfer agent is Holladay Stock Transfer Company of Scottsdale, Arizona. Our common stock trades in the over-the-counter market under the symbol ESMT. Our telephone number is (914) 939-5081.

The 2000 Merger

On October 20, 2000, Boppers, Boppers Acquisition Corp., a then newly-formed Nevada corporation and wholly owned subsidiary of Boppers (**BAC**), and e-Smart Systems, Inc., a Nevada corporation (**e-Smart Systems**) and wholly owned subsidiary of Intermarket Ventures, Inc., a Utah corporation (**IVI**), entered into an Agreement and Plan of Merger (the **Merger Agreement**). Pursuant to the terms of the Merger Agreement: (i) Boppers acquired all of the issued and outstanding shares of common stock of e-Smart Systems; (ii) BAC merged with and into e-Smart Systems such that e-Smart Systems was the survivor; (iii) e-Smart Systems became a wholly owned subsidiary of Boppers; and (iv) IVI, the sole shareholder of e-Smart Systems, acquired control of Boppers as described below.

Prior to the consummation of the transactions contemplated by the Merger Agreement, Boppers had 200,000,000 authorized shares of Common Stock, par value \$.001 per share (the **Boppers Common Stock**), 20,000,000 authorized shares of Preferred Stock, par value \$.001 per share and 3,501,000 issued and outstanding shares of Boppers Common Stock. Pursuant to the Merger Agreement, Boppers: (i) issued 58,600,000 shares of Boppers Common Stock to IVI in exchange for 58,600,000 shares of e-Smart System s common stock, par value \$.001 per share, owned of record by IVI; and (ii) converted warrants to purchase an aggregate of 2,900,000 shares of e- Smart

System's common stock at \$10.00 per share into warrants to purchase an aggregate of 2,900,000 shares Boppers' Common Stock at \$10.00 per share (the Warrants). The foregoing caused a change in the control of Boppers.

On November 27, 2000, Bopper's management resigned and the Registrant's present management took control. The Company's name was changed from Boppers Holdings, Inc. to e-Smart Technologies, Inc., effective as of December 22, 2000.

By virtue of a merger that was completed on December 22, 2000, and pursuant to subsequent grants of rights from IVI Smart (defined hereinafter), we directly own the exclusive license for certain technologies for the U.S.A. and Asia except China. In addition, and through our wholly owned subsidiary e-Smart Systems, Inc., a Nevada corporation, we own the exclusive license for China to the smart card technology and any and all other smart card related assets originally developed or otherwise owned by IVI, one of our major shareholders, and now owned by IVI Smart Technologies, Inc., a Delaware corporation and subsidiary of IVI (IVI Smart). IVI's and now IVI Smart's research and development lab was the creator of what we believe to be the market leader in multi-application smart card solutions. IVI dubbed this technology the Super Smart Card System. We have sublicensed the rights to market the technology to state and federal agencies to our forty-five (45%) percent owned affiliate, Homeland Defense, Inc., a Nevada corporation, which is majority owned (fifty-five (55%) percent) by our Chairman, Chief Executive Officer, President and Chief Financial Officer Mary Grace.

Recent Developments

During the first quarter of fiscal 2004, and through e-Smart Korea, Inc., our wholly owned Korean subsidiary, we entered into two material agreements that we believe will lay the groundwork for our transition to operating status. On February 25, 2004, we signed a Mutual Cooperation Agreement with Daewoo International (Daewoo), a multinational trading company, manufacturer and infrastructure builder-provider (the Daewoo Agreement). On February 27, 2004, we entered into a Master Teaming Agreement (the Samsung Agreement) with Samsung SDS (Samsung), a leading global IT solutions provider in Korea with annual revenue of in excess of US \$1.43 billion. In addition, the Company directly entered into another material agreement that is designed to pave the way towards re-commencing operations in China. In this regard, and on February 27, 2004, we entered into a Cooperation Agreement with a Chinese corporation principally owned by entities controlled by the People's Republic of China (the PRC) Ministry of Information Industry (the China Agreement). On April 4, 2004, we signed an agreement with the Ministry of Transportation and Communication and the Republic of Kyrgyzstan's Supervisory Institute for e-Government (the Kyrgyzstan Agreement). On August 13, 2004, and pursuant to the Daewoo Agreement, we signed an agreement in Uzbekistan with the Ministry of Economy of the Republic of Uzbekistan, Uzbekistan Uzbekprom Association and the Bank Association of the Republic of Uzbekistan (the Uzbekistan Agreement). On November 8, 2004, we signed an agreement in Indonesia with P.T. Primrose Gantari Indonesia (the Indonesia Agreement). On December 3, 2004, and pursuant to the Samsung Agreement, we entered into two project agreements, the Samsung Student Card Project Agreement with Samsung SDS Co., LTD., and Kobile Inc. (the Student Card Agreement), and the Samsung Mybi Agreement with Mybi Co, Ltd., the leading micro-payment card company.

in Korea, with approximately 20 million customers (the Mybi Agreement). The following is a brief summary of the foregoing agreements:

A. The Daewoo Agreement. In furtherance of our business plan, we have engaged and partnered with Daewoo with a view towards undertaking projects in Uzbekistan and in over 20 other countries. Pursuant to the terms of the Daewoo Agreement, the parties have agreed to work together to identify projects on an international basis within listed countries that capitalize both on the unique biometric and other systems developed by us and on Daewoo's strengths within those countries. Prior to the date of the Daewoo Agreement, Daewoo chose our Super Smart Card and BVS2 to gain an edge over competitors in the national ID market. Upon jointly agreeing to pursue a potential project, a project-specific agreement will be entered into on terms to be negotiated on a case by case basis.

B. The Samsung Agreement. Samsung is a leading contender in the domestic Korean market for the development and implementation of a National ID Card and other large scale public ID card systems. We believe that Samsung, like Daewoo, selected our biometric systems, because when configured for a privacy protected, multi-application, National ID Card, our systems provide a powerful tool for identity verification that is useful for security purposes, an exceptional ability to prevent ID theft crimes and a unique ability to protect the privacy and civil rights of each cardholder. Under the terms of the Samsung Agreement, the parties have agreed to work together to identify domestic Korean projects as well as certain international projects that capitalize on the unique features of our technologies and upon Samsung's status and implementation abilities. Upon jointly agreeing to pursue a potential project, a project-specific agreement will be entered into on terms to be negotiated on a case by case basis. To date, the parties have identified three potential projects and discussions are underway in connection therewith. Despite the clear need to protect the Korean public from identity theft and other ID related crimes, however, the notion of a national ID card with a biometric system has stirred controversy regarding privacy related issues amongst both legislators and privacy groups. These fears, coupled with the failure of other biometric systems tested in the Korean public arena, have prevented the current introduction of a biometric National ID Card in Korea.

C. The China Agreement. We signed a co-operation agreement and agreed to form a joint venture company in the PRC with two PRC companies. One, Guo Xin Well-tel Technology Co., Ltd., is primarily owned and controlled by an entity of the Ministry of Information Industry (the Ministry); and the other is primarily owned and controlled by PRC persons involved in media and public relations in the PRC. We will be a fifty (50%) percent shareholder of this joint venture (the maximum allowed by China law for this type of venture) and the two PRC companies will own thirty (30%) percent and twenty (20%), respectively. The Ministry was created March 1998 by merging the former Ministry of Post and Telecommunications, which oversaw network standards and access, and the Ministry of Electronics and Information, which oversaw computers and software (and by divesting the resulting ministry of responsibility for postal administration and the telecom trunk line network). The Ministry is now described as a super-agency overseeing telecommunications, multimedia, broadcasting, satellites, and the Internet. The parties to this Agreement have agreed to work together

and to cooperate in doing everything necessary to create the joint venture and to obtain a business license that will allow the joint venture to effectuate our business plan of mass distribution of the Super Smart Card and the operation of the BVS2 throughout the PRC. Commencing March 1, 2004, Guo Xin Well-tel Technology Co., Ltd. agreed to provide office space to the joint venture within their offices at the MII and to provide all required local liaison services necessary to obtain the required permit necessary to do business in the PRC. We agreed to pay a non-accountable expense allowance of US\$10,000 per month commencing March 1, 2004, in exchange for the above mentioned facilities and services. Upon its formation, the joint venture will repay all formation expenses to us. After formation, we are also responsible for providing twenty-five million (25,000,000) Chinese Yuan (approximately US\$3,000,000) capital to the joint venture company in various tranches over a period of two years commencing with a payment of fifteen (15%) percent of this total within three months after the date of formation of the joint venture with all required permits and licenses having been issued.

D. The Kyrgyzstan Agreement. We have signed an agreement with the Ministry of Transportation and Communication and the Republic of Kyrgyzstan's Supervisory Institute for Government. Pursuant to the agreement, and following our securing of the requisite funding against guarantees to be provided by the country, e-Smart shall provide a nationwide implementation of a turnkey BVS2 platform and required Super Smart Cards together with any other hardware and software necessary to implement the product. The agreement provides that we shall operate and control the payment gateway, implement a National ID system, provide an e-Passport/e-visa system, provide government employee ID cards, provide an AFC (automatic fare collection) system for public transportation, government among other projects, as well as to install and implement the nationwide infrastructure over which all of these projects will operate. The World Bank has agreed to partially fund certain aspects of this overall project.

Since signing this agreement political unrest has forced a change of government and clear new leadership is just being established. Public statements made during April 2005 by this new leadership have stressed that all agreements with the government and foreign obligations of all kinds were to be kept and honored without exception. There can be no assurance that this is the case. The Company is monitoring the situation as of the date this report is being made but no clear conclusions can yet be drawn.

E. The Uzbekistan Agreement. Together with Daewoo, we entered into an agreement with the Republic of Uzbekistan with the goal of introducing the BVS2 system and Super Smart Card into Uzbekistan. Pursuant to the agreement we agreed: (i) to secure the requisite funding in order to commence and complete the project against provision of satisfactory guarantees to be provided by the country; (ii) to expand and secure our servicing system within the Uzbekistan banking sector; and (iii) to improve the information exchange process between the Uzbekistan government and social institutions and commercial companies through the use of our multifunction BVS2 and Super Smart Card system. The Uzbekistan Agreement provides for the payment of transaction/usage fees to us and the division of recurring revenues among us, Daewoo International and the Republic of Uzbekistan.

F. The Indonesia Agreement. We have signed a co-operation agreement with P.T. Primrose Gantri Indonesia, a local company with an extensive network of business and banking relationships in Indonesia (Primrose). The management of Primrose is composed of top management from the now disbanded Indonesia Bank Restructuring Agency. This agency successfully restructured numerous Indonesian banks and sold assets for the Indonesian government with the effect of stabilizing and stimulating the Indonesian economy. The agreement provides that the parties will promote and market our BVS2 system and Super Smart Card Payment System to the top ten Indonesian banks and other large corporations in Indonesia. As a result of this agreement, the Company is in serious discussions with a premier bank in Indonesia.

G. The Student Card Agreement. This agreement, which requires us to secure the requisite funding against various project guarantees (e.g., deposits to be paid for the cards, security bonds for installed equipment, etc.) and sets forth certain binding obligations for the collaboration on a nationwide School and Educational Institution Management Project in the Republic of Korea. The purpose of the agreement is to deploy our BVS2 platform and requisite Super Smart Cards together with other related BVS2 based technologies and equipment necessary to digitize and provide certain biometric verification and payment services to all participating schools, educational institutions and their related facilities located in the Republic of Korea on a turn key basis. In anticipation of a roll out, contracts with 500 institutions have already been signed and an additional 500 institution agreements are in the process of being finalized. The contracts with participating institutions provide that and that transaction fees will be charged and that these fees together with recurring revenues shall be shared among the parties, with 60% being paid to us.

H. The Mybi Agreement. Mybi Co. Ltd., is the largest Korean based micro-payment processor and automatic fare collection company in the country. In order to grow, Mybi s management concluded that it was necessary to supplement its micro-payment business with a full-service payment offering. In order to prevent the fraud that plagues other systems, Mybi concluded that the technology offered by e-Smart was the best in the world for such purpose. The Company believes that working with Mybi gives the Company an immediate large active customer base. The purpose of the agreement, therefore, is to deploy a Mybi Card built on our Super Smart Card and to deploy our BVS2 platform and other technologies in conjunction with Mybi s existing infrastructure so as to create a hardened payment system with no down-time during the enhancement. The agreement further provides that transaction fees shall be charged for services and shared by the parties per the agreement. Samsung is also a partner in this Agreement and has arranged for multiple hospitals to use the system for payment and other consumer services. Finally, the agreement also provides that the Company shall arrange the requisite funding against the transaction fees to be earned based upon historical card usage patterns and other guarantees to be provided by Mybi and its shareholders.

Products

The Company, IVI Smart and our subsidiaries and affiliates are all principally engaged in the business of creating, marketing, manufacturing, installing, operating and

maintaining proprietary systems that are designed to positively authenticate each and every end user of any networked or local access system while protecting at all times all information residing on or transported by the system. These products are designed to provide assurance that the user is the person that he or she claims to be and whether or not he or she has the credential to access the premises or information being sought. As stated, our business is providing and operating systems. We intend to earn income primarily from transaction fees and/or other service based fees connected to the use of our systems once installed. We do not intend to either manufacture or install systems on our own, rather, we intend to outsource manufacturing of our Super Smart Card, Super Smart Readers and proprietary components under OEM agreements; and to outsource installation to select partners that are major systems integrators in each country of installation. Prior to the sale of a system, our business activities are strictly limited to marketing, research and development, and customer customization. After a sale is made, we supervise the manufacture and installation of the system and, once deployed, operate the system on behalf of the purchaser. By outsourcing all other activities, we hope to keep our cost of operations down and minimize the complexity of our business.

One of the key distinctions of our system from all other systems is our proprietary smart card, the Super Smart Card. We believe that we are the world's first and currently the only provider of a commercially available dual ISO 7816 (contact) and ISO 14443 B (wireless) compatible smart card featuring both a fingerprint sensor onboard, a biometric matching engine onboard and a multi-application microprocessor. To our knowledge, as of the date hereof, the Super Smart Card is the only dual-interface biometrically activated, microprocessor-based smart card product. Because our Super Smart Card contains a microprocessor, it can store and process information and run multiple applications. Because our Super Smart Cards have an on-board digital fingerprint sensor, hold a biometric fingerprint template, and have an onboard biometric matching engine, our Super Smart Cards are able to perform an ID verification without reference to any network (or any other) database. For this reason, we call the Super Smart Card biometrically activated or biometrically powered. Our cards are referred to as dual interface because they work either in conjunction with a reader that requires physical contact with the card to supply power and to transfer data or with a reader that does not require physical contact with a card reader, as power and data are transferred to each card through a magnetic field generated by a card reader. Our Super Smart Card combines the benefits of microprocessors, biometrics and dual interface cards in an ISO compatible system and form-factor.

All of our products are designed to operate on a common platform which we currently refer to as the Biometric Verification Security System or the BVS2 (the current and improved version of the Super Smart Card System). The BVS2 Platform is based on our licensor's pending patents and other proprietary technologies and consists of our Super Smart Card (our unique smart card with an on-board biometric multi-application micro-processor, a unique on-board biometric sensor (fingerprint) and a unique digital photo ID system among other items), readers, operational software, application development software and a communication technology that ensures that the transmission of data to and from the Super Smart Card and throughout the system is secure and reliable. The BVS2 can be customized to support a large number of applications in a multitude of markets. Some of the markets for which we have

customized the BVS2 platform include national security, immigration/border crossing, ID-fraud free credit/debit card pre-processing, welfare/food-stamp benefits and medical services. We believe that there is no existing practical limit to the number or types of applications we can customize our system to run.

Our products offer the following benefits:

The information stored on our card and transferred between the card and the reader is secured behind biometric activation and is protected by both physical and software encryption down to the physical layer (our PrestoChango protection system);

The biometric system being completely on the card with full independent operation capabilities allows for identity and credential verification even during emergency situations where denial of service attacks or other network outages prevent network database access and would cause many other systems to fail;

Our Super Smart Cards support multiple, independent applications secured even from each other on the same card, each protected by the biometric and each protected end-to-end throughout the system by our proprietary information protection system, PrestoChango ;

The system operator of the BVS2 platform (whether we or anyone else) has no access to user or customer information unless granted access by the application owner for some specific reason; and

Our cards are durable and easy to use, our technology can be placed in objects that take a variety of forms, such as key chains, wristwatches and necklaces/pendants.

The e-Smart Solution

We believe that our Super Smart Card has a technological advantage over any other existing smart cards that we have seen in the market. The Super Smart Card is a dual interface card working with existing contact and existing wireless type B readers. The Super Smart Card is a complete biometric system with its own sensor and matching system onboard every card. The Super Smart Card is an advanced microprocessor type smart card protected by a hardware based firewall enhanced by software that protects data down to the physical layer. We believe that our Super Smart Card is rendered useless if tampered with and that counterfeiting is not possible. In short, we believe that at this time the Super Smart Card is a one-of-a-kind piece of technology that gives us a competitive advantage over all other suppliers and that makes us a sole source supplier to anyone that needs a reliable, stand-alone, privacy protected, biometrically empowered system of identity verification for all purposes whether for public security or private commercial use.

Our technology not only enables a microprocessor-based smart card system to operate in both a contact and a contactless environment, but also enables our biometric fingerprint sensor and biometric engine to work in both a contact and a contactless

environment as well. We believe that this ability to operate the biometric system both with a contact reader and wirelessly is but one of the abilities unique to our Super Smart Card. As the Super Smart Card is an ISO compatible smart card, our technology is not only available for new systems, but can be integrated with existing contact and contactless (wireless) systems.

The Biometric Verification Security System (BVS2)

The BVS2 is an integrated platform designed from the ground up to provide a security blanket of networked services necessary to protect everything from a single system to a nation-wide system. We believe that the BVS2 is a complete platform that can accommodate virtually any existing peripheral deemed appropriate for whatever task is required. We also believe that the BVS2 architecture is totally modular and upgradeable, almost infinitely scalable, fault tolerant, redundant and highly trustworthy. Authorized access both physical and logical is provided via the BVS2 secure, standardized and irrefutable biometric credential as generated by the Super Smart Card (as described below).

All BVS2 transactions (financial, data or otherwise) are routed through, logged, indexed and sorted by the BVS2's Universal Gateway subsystem. This subsystem is empowered by a secure group of networked servers that can access an almost unlimited number of diverse and legacy database systems and protocols via the Universal Gateway's exceptional data translation system, the Automated Protocol Manager (APM). If the BVS2 is tasked to make an inquiry of the normally incompatible database systems of multiple domestic and foreign agencies; the BVS2 can complete the inquiry quickly and efficiently, without human intervention, automatically combining normally irreconcilable data into one single language report. The BVS2's instant data-field manager allows any authorized user to instantly change information requests. With the addition of an optional analysis module, the BVS2's proprietary algorithms can analyze data customized to user requirements. In short, the BVS2 is an easy to use, yet extremely powerful system built to provide security to entire nations. At the same time and without unnecessary hampering the work and needs of government officials, we believe that the BVS2 offers the maximum in privacy protection to individuals. Some Key Components and Subsystems Comprising the BVS2 are described below.

The Super Smart Card

The Super Smart Card is the tool required to unlock a BVS2 transaction. A BVS2 transaction can be many different things depending on the application in use. However, whether a money transaction or a data transaction or an access transaction or any other transaction, the Super Smart Card utilizing our complete on-board biometric fingerprint matching system and our Presto Chango application and information security system is the BVS2's ignition and the user's fingerprint is the key to start the BVS2 transaction.

The Super Smart Card is a unique interoperable smart card featuring a non-JAVA based, multi application micro-processor that can perform multiple independent and discrete functions all protected behind hardware firewalls enhanced by software within

the chip (the Presto Chango system). In addition, each Super Smart Card contains our own unique fingerprint sensor and biometric processing engine. No biometric data ever leaves the card in the privacy protected version of the Super Smart Card. Biometric data resides only on the Super Smart Card. All biometric processing is done on the card. Only the finger of the owner of each Super Smart Card placed on their own Super Smart Card fingerprint sensor will activate the card, thereby insuring the personal privacy of each holder. We believe that Identity theft is theoretically made impossible. Lost or stolen cards have no value to anyone. The Super Smart Card, which we believe to be both tamperproof and counterfeit-proof, supports multiple discrete applications including, among others: ID Card, Debit/Credit Card, Driver's License and Physical and/or Logical Access Card.

The standard Super Smart Card features an ISO contact operation interface (ISO 7816) and an ISO wireless operation interface (ISO 14443 B) and will operate on most ISO compatible contact 7816 readers or wireless 14443 B readers. The Super Smart Card is an integral part of the BVS2. Every Super Smart Card contains an on-card biometric fingerprint sensor and digital 3-D photo ID system. Any other biometric can be added to the card and to the system. The Super Smart Card is inherently secure due to our hardware-based architecture. Each application on a Super Smart Card is secured from access by any unauthorized party by virtue of our on-chip hardware firewall system and our high-level encryption system, Presto-Chango. Other card systems, such as those now used for the DOD CAC cards, rely on and run software, primarily JAVA based, to create pseudo multi-applications all with the inherent security problems of JAVA.

The following is a summary of certain of the salient features of the Super Smart Card:

Unique Sensor On-Card. Only the fingerprint of the registered user can activate the card. The sensor performs with equal reliability with wet, dry, hot or cold fingers. The system prevents unauthorized use of any card or card application by requiring the authorized cardholder's fingerprint to activate the micro-processor inside and to initiate any transaction or to access any information (see below for more information about our fingerprint sensor);

Fraud-proof, counterfeit-proof and hack-proof. We believe that the physical characteristics of each Super Smart Card causes tampering to permanently disable it and destroy any information contained therein. We also believe that counterfeit cards cannot work on the system, rendering any fake cards absolutely useless for all purposes;

Hardware Based, Software Enhanced, Multi-Application System. One card can contain multiple and independent and secure applications. For example, the technology will permit/deny access (physical and/or logical), identify precise location and/or movement of personnel and/or watch list parties while at the same time operating other secure applications, each completely and securely isolated one from the other;

Immediate identification Assurance & Privacy Protection. The system provides

immediate and we believe sure authentication for all users and their credentials once they are properly enrolled onto the system. All biometric details are stored only on the Super Smart Card and not in any database (except where required by law, e.g., for INS needs or as required by certain voluntary programs) and the user leaves his or her fingerprint only on his or her own card which never leaves their hand;

Stolen fingerprints of no use. Unlike other systems where a stolen fingerprint can mean a stolen identity, use of biometric information alone without one's own Super Smart Cards of no use with the BVS2. Each person's biometric information is inextricably entwined with certain other information unique to that user. Unless the biometric presented contains the additional unique information just mentioned (i.e., one's own Super Smart Card) not even the true owner of the biometric information will be granted access without the intervention of at least one, if not two high level, human, operations supervisors /officers' intervention, to establish the identity of the person concerned; and

One Card System Multiple Government Applications Total Security Saves Taxpayer Money. The Super Smart Card allows multiple secure applications to co-exist and operate on the same card. Because of the versatility of the BVS2 and Super Smart Card, one card and one system can be used by every federal agency, saving the cost of having a multitude of systems and infrastructure to support each. In addition, because of the many services that the Super Smart Card can securely perform, there are many opportunities to defray costs by using one multi-purpose card and one multi-purpose network system and charging separate application fees for each application. In addition, we believe that since there is broad compatibility with many of the readers already in use, our system will, upon installation, save time and money for certain uses.

More information Regarding Our Fingerprint Sensor. A key component of each Super Smart Card is the BioSensor Fingerprint Sensor. Each Super Smart Card contains one of these tiny (.33 mm thin), low power consumption sensors that is durable enough to be embedded in a smart card and yet not effected by static electricity, the elements or the condition (wet, dry, hot, cold) of the user's skin. Imaging is in 3D and based on micro-pressure variations across the sensor surface caused by the ridges and valleys existing in one's fingerprint. Users of the Super Smart Card with our built in sensor do not have to be concerned about leaving their fingerprint(s) on some reader that is fixed on a wall or sitting on a desk for someone to steal. The cardholder is always in control of his or her own fingerprint(s). The biometric fingerprint sensor incorporated in the Super Smart Card was developed by BioSensor LLC, a Hawaiian limited liability company (BioSensor) and wholly owned subsidiary of IVI Smart, utilizing base intellectual property developed by IVI Smart but productized by BioSensor.

Use of the sensor is made possible pursuant to a Confidential Technology Assignment and License Agreement dated as of May 1, 2003, with IVI Smart, a principal stockholder of our Company (the License Agreement). Pursuant to the License Agreement, IVI Smart granted to BioSensor the exclusive right to develop certain of our intellectual property at BioSensor's sole cost and expense with

respect to certain biometric fingerprint sensor technology created by IVI Smart and BioSensor granted to IVI Smart the exclusive rights to any sensor developed by BioSensor. In consideration for the use of IVI Smart's intellectual property, BioSensor issued 50,000,000 of its Common Units to IVI Smart. No other Common Units were issued by Biosensor. Accordingly, Biosensor became a wholly owned subsidiary of IVI Smart and an affiliate of the Registrant. In consideration for the exclusive rights to use the sensor technology developed by BioSensor, IVI Smart agrees to pay a one-time royalty to BioSensor equal to \$.35 for each Super Smart Card sold or distributed by IVI Smart or any affiliate or licensee.

The Zero/Zero System. Our Zero False Acceptance - Zero False Reject system is believed by us to be unique in the field of biometrics. In the normal course, when setting a biometric system, the closer to theoretical zero false acceptances you set your matching system for, the further you get from zero false rejections. In fact, a false rejection rate in the 30% to 40% range is not unheard of when many systems are set to the theoretical zero false acceptance rate. A false acceptance means the system confirms that you are someone else. A false rejection means the system will not confirm that you are who you really are. Based on our internal studies, our Zero/Zero System, using a patent pending technique that combines human factors with mechanical factors, is able to reduce the false reject rate to something less than 0.5% on the first use and to something less than 0.2% after the third to fifth use of the system by each new user. This reduction in the false rejection rate is extremely significant when dealing with high volumes of people in situations such as border crossings and airports. Each false rejection means that valuable time and manpower must be used to conduct a secondary inspection to check someone who is already cleared and increases the risk that an unauthorized individual will get through in the confusion. The Zero/Zero System is built in to of our Super Smart Cards.

Card Readers

The card reader is the tool that supplies power to our Super Smart CardsTM and the instrument through which each card communicates with the BVS2TM platform. We intend to offer a full complement of readers as part of our proposed BVS2 system offering. For clients that need readers, we intend to offer a family of multi-system readers ready to meet almost any need that the market may have. These include a handheld wireless internet appliance and card reader to a dedicated stand alone desktop reader to interface modules that allow the use of most standard, off the shelf PDA's, sub-notebooks and other similar devices. We intend to offer a browser-phone with a contact card reader already incorporated. Our latest reader is a mobile GPRS based internet appliance with constant wireless access to the commercial mobile internet. This reader features a large, full color LCD display, a keyboard and a printer all in a handheld battery operated unit. We believe that there will be a large demand for this reader. All of our readers will be manufactured under contract with established card reader manufacturers on an as ordered basis based on customer orders as received. We intend to distribute these readers on a fully burdened cost basis making little or no profit and generally retaining ownership and maintenance responsibilities. (For the avoidance of confusion, maintenance responsibilities are outsourced to our strategic partners.)

The Universal Gateway with Legacy Preserver Technology

The BVS2 features a special gateway, that is designed to both take in all types of information from multiple sources and applications and forward it to its correct destinations and to translate the Babel-Speak of over one hundred (100) different legacy systems and technical services (this prevents the need to replace entire systems in use). When any such legacy system is attached to a BVS2 empowered network using our Legacy Preserver hardware, virtually all information passing through the network enters the Universal Gateway and by default is translated by the Universal Gateway's Automated Protocol Management to a common language such that the information becomes available for use on all connected systems. Translation is in near real-time with the speed of any particular data's delivery basically controlled by the transmission speed of the legacy system that such data resides on. The Universal Gateway is a distributed system with redundant back up at all points. We believe that in the unlikely event that any node went down including the redundancy, that failure would not shut down the entire system.

Presto-Chango

Presto-Chango is designed to protect computer information down to the physical layer from unauthorized access. We believe that any attempt to move information from our storage place without proper authority causes that iteration of the information to morph into gibberish that cannot be deciphered by anyone or any system. Authorized access allows information to move, encrypted for transport, for any authorized and proper use which can be specified by user. Coupled with the BVS2 operating software, Presto-Chango is designed to enable sensitive information to transit the Internet or any public network without risk of information theft. Working together with the Super Smart Card, we believe that our system can provide superior logical protection where truly secure computer access and records are an absolute requirement.

Our Strategy

Our goal is to create a global network featuring the BVS2 platform that allows the full potential of each Super Smart Card to be used anywhere in the world and the maximum potential transaction fees for us. Key elements of our strategy include:

Enhance Technological Position. We intend to continue to invest in research and development in order to enhance our technological position, develop new technologies, extend the functionality of our products and services, and offer innovative products to our customers. For example, at the request of a potential government client, we have just completed the development of a fully wireless biometric passport that can match fingerprints on a stand alone basis or faces when coupled with our digital video reader or both. We intend to continue with this type of research and development that can lead to immediate potential sales.

Expand Domestic Market Presence. We are directly and through our Homeland Defense, Inc., affiliate actively engaged in marketing efforts to various agencies of the

U.S. federal government. We have especially targeted various agencies within the Department of Homeland Security, including but not limited to the Bureau of Immigration and Customs Enforcement and the Transportation Security Administration. We intend to step up our marketing efforts to these and other agencies both on a direct basis and on a partnering basis with major U.S. domestic systems integrators in line with these agencies' current policy of awarding virtually all major contracts to a handful of well known integrators, such as, Accenture, EDS, SAIC, Titan and the like.

Expand Global Market Presence. Currently, we market our products in Asia from our marketing subsidiary in Seoul, Korea and through strategic partnering agreements with two global IT companies and a Chinese state-owned company for domestic sales in the People's Republic of China. We intend to use these entities to strengthen our presence in existing markets, penetrate new markets, provide local customer service and technical support, and adapt our products to our local customers' specific needs.

Generate Recurring Revenues. We rejected a business model that called for one-time payments for our products and technologies. Other companies that have followed the one-time payment model in the smart card business, such as Gemplus and Oberthur, have not fared well financially through business cycles during the low end of business cycles. Instead, our business plan is to sell entire systems, including our Super Smart Cards, only on a turn key basis in a manner that permits us to operate the system and collect transaction fees and service fees for an extended period of time. Our business plan is also to focus on large scale governmental clients that will cause wide use of our Super Smart Card and BVS2 system and related technologies, in the event of a sale and in such circumstances would maximize our potential transaction fee base.

Leverage Existing Relationships and Seek New Ones. We have entered into a relationship with Daewoo International, among others, to help us cover the Asian national ID card market. We have entered into this relationship, and others, in order to facilitate and accelerate our penetration into new markets, and to assist us in defining and pursuing new applications for our products. We are continuously seeking additional relationships to complement our marketing strategy and promote our brand worldwide.

Leverage Presence in Existing Industries to Enter into New Industries. We intend to offer our customers the ability to add new applications to their smart cards, thereby expanding the number of industries in which our products are used and the number of transaction fees that we could potentially collect. For example, users of the national ID card will have the option to add a payment application to their card among many others. We plan to generate additional revenues through the sale and installation of the software required to add and operate these applications.

Marketing and Distribution

We intend to enhance our position in the design and development of Super Smart Card and BVS2 based products and related technologies by developing new applications for our technology. We also intend to enter new markets, either alone or through strategic relationships. In so doing, we aim to create additional potential sources of revenues from transaction fees and additional potential sources for revenue from customer support.

We intend to market our technologically advanced products directly, through our Homeland Defense, Inc. affiliate, and through e-Smart Korea, Inc., our Korean subsidiary, as well as indirectly through a global network of strategic relationships with major systems integrators and others. Our sales and marketing efforts will be directed from our offices in Seoul, Korea, Beijing, China, Las Vegas, Nevada, and San Jose, California.

Proprietary Technologies

We are the owner of three technology licenses. Each license has been granted pursuant to an Exclusive Use and Distribution Agreement (collectively the License Agreements), each of which grants us exclusivity to the technology covered in a particular territory. The three territories covered are the People's Republic of China, all of Asia except the People's Republic of China and the United States of America. IVI Smart, the current licensor, is one of our principal shareholders. The rights to technology granted to us includes all smart card and related assets of the licensor including the Super Smart Card, the BVS2 platform and all relevant components thereof. The License Agreements require that all inventions and improvements made by us be assigned to the licensor with a license to use granted back to us on the same terms and conditions as the technology was granted to us in the original license. We are jointly responsible to protect and defend the technology in the event of challenge, or disputes of any kind in a covered territory.

Our success and ability to compete depend in large part upon the protection of the proprietary technology that we license. We and the licensor rely on a combination of patent, trademark, copyright and trade secret law, as well as know-how, confidentiality agreements and other contractual relationships with employees, affiliates, distributors and others. In this regard, our licensor has a number of pending patent applications in various jurisdictions, globally.

Neither we nor the licensor can be certain that patents will be issued with respect to any of the pending or future patent applications. In addition, as with every other company that depends on patents, until the outcome of any future litigation is determined, we can not be certain that any patents if issued will be enforceable against alleged infringers or will be upheld if their validity is challenged.

Competition

Based on our own extensive research, we believe that, at least as of the date hereof, that there is no product that can directly compete with the Super Smart Card and the BVS2 platform. On the other hand, there are numerous products and competitors in the smart card and smart card operating system arena. We must, therefore, anticipate competition in sales of our products, systems and technologies from other providers of microprocessor-based smart card technologies. We expect competition to intensify as, and if, we become successful in our deployment plans and our competitors commit greater resources to the development of biometrically empowered contactless microprocessor-based smart cards. Some of the larger chip manufacturers that operate

in the smart card market, including Atmel, STM, Infineon and Philips Semiconductors, have announced that they are developing contactless microprocessor-based smart cards. However, we know of no card planned or otherwise that has the sophistication and features of the Super Smart Card.

We also compete with contactless ASIC-based technologies developed primarily by Philips Semiconductors, which comply with ISO 14443 and which are used by some of the largest manufacturers of smart cards, including Gemplus, Schlumberger and Giesecke & Devrient, and Sony's contactless ASIC based technology, that is not ISO compliant. Further, we also compete with contact-based products such as microprocessor-based contact cards, ASIC-based contact cards, memory chip cards and magnetic strip cards.

We believe that all of these cards offer inferior functionality compared to our dual interface, biometrically powered, contactless microprocessor-based smart cards. Nevertheless, some of our potential customers have in the past, and may in the future, consider these inferior alternatives sufficient for their needs.

Employees

As of December 31, 2004, we had approximately six employees in San Jose, California, a staff of ten in our main Asian marketing office in Seoul, Korea, four in Beijing, China, and two consultants, headquartered in Singapore. Our Chief Executive Officer, President and Chief Financial Officer, Mary A. Grace, lives in New York City but travels more than 95% of the time on our behalf, and our Chief Technical Officer, Tamio Saito, lives in San Jose, California. None of our employees is a party to a collective bargaining agreement.

Risk Factors

The following risks with respect to our proposed business and financial condition should be carefully considered. These risks and uncertainties are not the only ones facing us. Other risks and uncertainties that have not been predicted or assessed by us may also adversely affect us. Some of the information in this report contains forward-looking statements that involve substantial risks and uncertainties. These statements can be identified by forward-looking words such as may, will, expect, anticipate, believe, intend, estimate, and continue or other similar words. Statements that contain these words should be carefully read for the following reasons:

The statements may disclose our future expectations;

The statements may contain projections of our future earnings or our future financial condition; and

The statements may state other forward-looking information.

Risks Related to Our Business

Until recently, we were delinquent in filing reports with the SEC.

Although we are required to file annual, quarterly and special reports, and other information with the Securities and Exchange Commission (the SEC), until January 10, 2005, we were materially delinquent in our filing of these required reports. Accordingly, and during the period October 10, 2000 through January 10, 2005, there were periods during which there was limited public information on which to base an informed investment decision concerning our securities.

The SEC commenced an Administrative Proceeding against us.

On February 3, 2005, Administrative Law Judge, Lillian A. McEwen (the ALJ) published her Initial Decision on Remand (the Remand Decision) in an Administrative Proceeding originally commenced by the Securities and Exchange Commission (the SEC) against us on December 12, 2003 (the Proceeding). In the Remand Decision, the ALJ denied the SEC's Division of Enforcement's (the Division) request for the imposition of sanctions against us, and gave both sides 21 days to appeal her decision. The Division's time to appeal expired on February 24, 2005. Accordingly the Remand Decision became final. Details concerning the Proceeding are set forth herein under Item 3, Legal Proceedings.

We have no history of revenue from operations and we have only minimal assets.

As of the date of this report, we have yet to generate any revenue from operations. Our assets are comprised of the contracts we have signed and our licenses of the smart card intellectual property from IVI Smart. In all likelihood, we will continue to incur pre-operating expenses without corresponding revenues for some time in the foreseeable future. This may result in our continuing to incur a net operating loss which will increase continuously until we can generate cash flow from operations. There can be no assurance that we will be successful in developing our proposed operations or that we will ever become profitable.

We are undercapitalized and may be unable to continue our business unless we raise additional money.

We have limited working capital and until delivery on our first three contracts for our system and smart cards, we will continue to be dependent upon proceeds derived from private securities offerings for funds for the continuation of our proposed transaction business. We will need to obtain additional financing in order to implement all the material aspects of our business plan. There can be no assurance that additional financing will be available to us on acceptable terms, if at all. If we continue to raise funds by issuing additional equity securities, further dilution to existing equity holders will necessarily result. Accordingly, we are subject to all of the risks inherent in starting a new business enterprise including the potential loss of all monies invested and never realizing any revenue generating operations.

We may not be able to operate successfully if we are unable to hire qualified additional personnel.

Our success may largely be dependent on the personal efforts and abilities of our

management and our ability to attract and retain qualified key personnel in the future. Except for Tamio Saito, our Chief Technical Officer and member of our Board of Directors, none of our management team has ever operated a smart card business or has any experience with the manufacture and marketing of smart card products. In addition to performing their regular duties, our management must spend a significant amount of time devising strategies to execute our business model.

We are presently highly dependent upon four people.

Our ultimate success or failure will depend to a large extent on the services and efforts of our two executive and operating officers, Mary A. Grace and Tamio Saito, as well as the co-inventor of our BVS2 and Super Smart Card technology, Wayne Drizin, and the Managing Director of e-Smart Korea, Richard In Kun Kim. The loss of the services of any one or more of these key persons, especially during the period prior to the design, complete installation and successful operation of our first biometric card and BVS2 based products and related technologies system will have a material adverse effect on the continued economic viability of our company. Since we believe that Messrs. Saito and Drizin are the individuals best able to continue to refine, to present and to customize the use of our system and oversee its installation, and that Ms. Grace and Mr. Kim are essential managers, the untimely demise, unavailability or disability of one or more of these four persons, would leave us without the ability to pursue, procure and fulfill contracting opportunities or possibly even to continue our business.

We have no Key Man Insurance.

Presently, we do not maintain or carry any key man life insurance. We intend to purchase life insurance on the lives of our key personnel as soon as possible. Upon purchase of this insurance, we will pay the premiums and designate the Company as the sole beneficiary. The lack of key man coverage and the lack of other such insurance may have a material adverse effect upon our business in the event of the untimely loss of any of our key employees.

We may be deprived of the services of a co-inventor of our Super Smart Card technology.

In September of 2000, the U.S. Attorney's Office in Phoenix, Arizona, charged Wayne Drizin, a co-inventor of our Super Smart Card technology, with six counts of wire fraud in connection with certain share transactions involving a predecessor of IVI that allegedly took place during 1995 and 1996. In October 2003, and after a trial by jury, Mr. Drizin was found not guilty of four counts in the complaint but convicted on two counts of aiding and abetting wire fraud. A law firm has been retained to file a timely appeal in this matter. However, and in the event the conviction is not reversed, Mr. Drizin may be incarcerated for a period of time and in such case we would be deprived of his skills and advice which may have a material adverse effect upon our proposed business during any such period.

We have no director's and officer's liability insurance

The employment of other qualified officers and directors may be contingent upon our acquiring a policy of directors and officers liability insurance in an amount reasonably satisfactory to such nominees. Our failure to acquire such a policy may prevent us from attracting the services of other qualified officers and directors.

We have a history of losses and may not achieve profitability in the foreseeable future.

We have incurred losses in each year since our inception. Our losses resulted primarily from expenses we incurred in research and development, selling and marketing, as well as in general and administrative expenses. We have never had any revenue. We expect to continue to incur operating losses in future periods as we invest in the expansion of our global operations and continue to enhance our research and development capabilities and expand our relationship with contract manufacturers.

If the market for smart cards in general, and for biometric, multi-application-based smart cards in particular, does not grow as we expect, we may not succeed in selling our products.

The success of our products depends on commercial enterprises, governmental authorities and other potential card issuers adopting biometric multi-application based smart card technologies. Other card technologies, such as magnetic strips or bar codes, are widely used and could be viewed by potential customers as more cost effective alternatives to our products. Additionally, potential customers in developed countries such as the United States may already have installed systems that are based on technologies different than ours and may therefore be less willing to incur the capital expenditure required to install or upgrade to a biometric multi-application-based smart card system. As a result, we cannot provide any assurance that there will be significant market opportunities for smart card systems. If demand for biometric multi-application-based smart card products such as ours does not develop or develops more slowly than we anticipate, we may have fewer opportunities for growth than we expect.

If we fail to develop new products or adapt our existing products for use in new markets, our revenue growth may be impeded and we may incur significant losses.

To date, we have not delivered any products incorporating our advanced Super Smart Card and BVS2 System based products and technologies in any markets. We are currently developing and planning delivery our technology for use as maximum security ID and payment cards, for use by governmental authorities, banks and commercial enterprises. We have not yet received revenues from sales of these products. We are devoting significant resources to developing and marketing these and other products and adapting our existing products for use in new markets. If we fail to develop markets for our products we will not generate revenues and continue to incur significant losses.

Our inability to maintain our current, and establish new, strategic relationships could impair our revenue growth.

In accordance with our business model, we plan and have entered into strategic relationships in order to facilitate or accelerate our penetration into new markets. The termination of any of our strategic relationships or our failure to develop additional relationships in the future may limit our ability to expand the markets in which our products are deployed or to sell particular products, and thereby impair our revenue growth.

We face intense competition. If we are unable to compete successfully, our business prospects will be impaired.

We face intense competition from developers of contact and contactless microprocessor-based technologies and products, developers of contactless products that use other types of technologies that are not microprocessor-based, and non-smart card technologies. We compete on a range of competitive factors including price, compatibility with the products of other manufacturers, and the ability to support new industry standards and introduce new reliable technologies. Many of our competitors, such as Phillips Semiconductors, a division of Phillips Electronics N.V., and Infineon Technologies AG, have greater market recognition, larger customer bases, and substantially greater financial, technical, marketing, distribution, and other resources than we possess. As a result, they may be able to introduce new products, respond to customer requirements and adapt to evolving industry standards more quickly than we can.

While at the moment we believe we offer a unique product that is easy to differentiate from our competitors, in the future, we may not be able to differentiate our products sufficiently from those of our competitors. If we cannot compete successfully with our existing and future competitors, we could experience lower sales, price reductions, loss of revenues, reduced gross margins and reduced market share.

From time to time, we or one or more of our present or future competitors may announce new or enhanced products or technologies that have the potential to replace or shorten the life cycles of our existing products. The announcement of new or enhanced products may cause customers to delay or alter their purchasing decisions in anticipation of such products, and new products developed by our competitors may render our products obsolete or achieve greater market acceptance than our products.

If there is a sustained increase in demand for microprocessors, availability might be limited and prices might increase.

Our products require microprocessors and other silicon based chips. The microprocessor industry periodically experiences increased demand and limited availability due to production capacity constraints. For example, there has been a shortage in the availability of microprocessors since the middle of 1999. Increased demand for, or limited availability of, microprocessors could substantially increase the cost of producing our products. In addition, as a result of a shortage, we may be forced to delay shipments of our products, or devote additional resources to maintaining higher

levels of microprocessor inventory. Consequently, we may experience substantial period-to-period fluctuations in our cost of revenues and, therefore, in our future results of operations.

Our products have long development cycles and we may expend significant resources in relation to a specific project without realizing any revenues.

The development cycle for our products varies from project to project. Typically, the projects in which we are involved are complex and require that we customize our products to our customers' needs and specifications. We then conduct evaluation, testing, implementation and acceptance procedures of the customized products with the customer. Only after successful completion of these procedures will customers place orders for our products in commercial quantities, if any. We, therefore, cannot provide an assurance that contracts that we enter into will result in commercial sales. As a result, we may expend financial, management and other resources to develop customer relationships before we become capable of recognizing any revenues.

We are dependent on a small number of suppliers for critical components, delays or discontinuance of the supply of components may hamper our ability to produce our products on a timely basis and cause short-term adverse effects.

The components we use in our products, including microprocessors and cards, are supplied by third party suppliers and manufacturers. Many of these suppliers are our sole suppliers. Although we are now in the process of securing additional sources of supply, in the meantime, we may experience short-term adverse effects due to delayed shipments that will delay the supply of our products to our customers, and that may result in cancellation of orders for our products. In addition, we do not generally have long term supply contracts under which our suppliers are committed to supply us with components at a fixed price. Suppliers could increase component prices significantly without warning or could discontinue the manufacture or supply of components used in our products. We may not be able to develop alternative sources for product components if, and as, required in the future. Even if we are able to identify any alternative source of supply, we may need to modify our products to be compatible with other components, which may cause delays in product shipments, increase manufacturing costs and increase product prices.

Because some of our suppliers are located in Europe and the Far East, we may experience logistical problems in our supply chain, including long lead times for receipt of products or components and shipping delays.

If we fail to hire, train and retain qualified research and development personnel, our ability to enhance our existing products, develop new products and compete successfully may be materially and adversely affected.

Our success depends, in part, on our ability to hire, train and retain qualified research and development personnel. Individuals who have expertise in research and development in our industry are scarce. Competition for such personnel is intense in the electronics industry, particularly in the United States, and therefore hiring, training and retaining such personnel is both time consuming and expensive. If we fail to hire, train and retain employees with skills in research and development, we may not be able to enhance our existing products or develop new products.

Our ability to compete depends on our continuing right to use, and our ability to protect, our intellectual property rights.

Our technology is licensed from a major shareholder, IVI Smart (see *Proprietary Technologies*). Our success and ability to compete depend in large part on using our licensed intellectual property and proprietary rights to protect the technology we use and the products we make. We rely on a combination of patent, trademark, copyright and trade secret law, as well as confidentiality agreements and other contractual relationships with our employees, customers, affiliates, distributors and others.

Our licensor currently has patents pending in the United States, Europe, Japan and elsewhere that have not yet resulted in granted patents. We cannot be certain that patents will be issued with respect to any of these pending or future patent applications or that the scope of any future patents that are issued to our licensor, will provide us with adequate protection for our technology and products. Others may challenge these patents or registered trademarks. We do not know whether any of them will be upheld as valid or will be enforceable against alleged infringers and thus we do not know whether they will enable us to prevent or hinder the development of competing products or technologies. Moreover, patents provide legal protection only in the countries where they are registered and the extent of the protection granted by patents varies from country to country.

The measures we have taken to protect our technology and products may not be sufficient to prevent their misappropriation by third parties or independent development by others of similar technologies or products. Competitors may also develop competing technology by designing around our patents and will then be able to manufacture and sell products which compete directly with ours. In that case, our business and operating results would be harmed. While substantially all of our employees are subject to non-compete agreements, these agreements may be difficult to enforce or deemed unenforceable by a court of competent jurisdiction.

In order to protect our technology and products and enforce our patents and other proprietary rights, we may need to initiate litigation against third parties or defend opposition proceedings before the European Patent Office or prosecute interference proceedings before the U.S. Patent and Trademark Office. These legal and administrative proceedings could be expensive and occupy significant management time and resources.

Furthermore, a successful opposition to our patent in any jurisdiction could provide a basis for our competitors to claim that our patents in other jurisdictions covering this technology are invalid.

Our products may infringe the intellectual property rights of others.

It is not possible to know with certainty that the manufacture and sale of our products do not or will not infringe patents or other intellectual property rights owned by third

parties. There may, for example, be patent applications pending at the moment, which if granted, may cover products that we have just developed or are developing. In certain other jurisdictions there is no publication of the subject matter of patents until the patents are issued. Third parties may from time to time claim that our current or future products infringe their patent or other intellectual property rights. In addition, if third parties claim that our customers are violating their intellectual property rights, our customers may seek indemnification from us, which could be costly, or may terminate their relationships with us. Any intellectual property claim could involve time-consuming and disruptive litigation and, if determined adversely to us, could prevent us from making or selling our products, and subject us to substantial monetary damages or require us to seek licenses.

Intellectual property rights litigation is complex and costly, and we cannot be sure of the outcome of any such litigation. Even if we prevail, the cost of such litigation could harm our results of operations. In addition, such litigation is time consuming and could divert our management's attention and resources away from our business. If we do not prevail in any litigation, in addition to any damages we might have to pay, we might be required to discontinue the use of certain processes, cease the manufacture, use and sale of infringing products and solutions, expend significant resources to develop non-infringing technology or obtain licenses on unfavorable terms. Licenses may not be available to us on acceptable terms or at all. In addition, some licenses are non-exclusive and, therefore, our competitors may have access to the same technology licensed to us. If we fail to obtain a required license or cannot design around any third party patents or otherwise avoid infringements, we may be unable to sell some of our products.

We are susceptible to changes in international markets and difficulties with international operations could harm our business.

Our ability to penetrate any market whether domestic or international, is dependent, in part, on political and economic factors that we have no control over. In addition, there are certain inherent risks in international operations which include:

Changes in regulatory requirements and standards;

Required licenses, tariffs and other trade barriers;

Difficulties in enforcing intellectual property rights across, or having to litigate disputes in, various jurisdictions;

Difficulties in staffing and managing international operations;

Potentially adverse tax consequences; and

The burden of complying with a wide variety of complex laws and treaties in various jurisdictions.

General political instability

If we are unable to manage the risks associated with our focus on international sales, our business may be harmed.

We may have to adapt our products in order to integrate them into our customers' systems or if new government regulations or industry standards are adopted or current regulations or standards are changed.

Some of our products are subject to mandatory government regulation in the countries in which they are used. For example, card readers that are used in the United States require certification of compliance with regulations of the Federal Communications Commission and in Europe of compliance with regulations of the European Telecommunications Standards Institute regarding emission limits of radio frequency devices. In addition, governmental certification for the systems into which our products are integrated may be required. The International Standards Organization is in the process of approving industry standards regulating the transfer of data between contactless smart cards and readers. If there is a change to government regulations or industry standards, we may have to make significant modifications to our products and, as a result, could incur significant costs and may be unable to deploy our products in a timely manner.

In addition, prior to purchasing our products, some customers may require us to receive certification that our products can be integrated successfully into their systems or comply with applicable regulations. Receipt of these certifications may not occur in a timely manner or at all. In some cases, in order for our products, or for the system into which they are integrated, to be certified, we may have to make significant product modifications. Failure to become so certified could render us unable to deploy our products in a timely manner or at all.

Our products may contain defects that we find only after deployment, which could harm our reputation, result in loss of customers and revenues and subject us to product liability claims.

Our products are highly technical and deployed as part of large and complex projects. Any defects in our products could result in:

Harm to our reputation;

Loss of, or delay in, revenues;

Loss of customers and market share;

Failure to attract new customers or achieve market acceptance for our products; and

Unexpected expenses to remedy errors.

In addition, we could be exposed to potential product liability claims. Currently we maintain no product liability insurance. We intend to seek product liability insurance prior to the distribution of our products. However, we cannot provide any assurances that we can obtain this insurance in an amount that will be sufficient to cover any successful product liability claim or in any amount at all or for a premium we can accept.

If we self insure or if there is any product liability claim in excess of our insurance coverage, any related payments would have to be made out of our cash reserves, and this would harm our business. Furthermore, the assertion of product liability claims, regardless of the merits underlying the claim, could result in substantial costs to us, divert management's attention away from our operations and damage our reputation and business.

Nevada Law Permits the Limitation on Directors' Liability.

Pursuant to our Certificate of Incorporation and under Nevada law, our directors are not liable to us or our stockholders for monetary damages for breach of fiduciary duty, except for liability in connection with a breach of the duty of loyalty, for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, for dividend payments or stock repurchases illegal under Nevada law or any transaction in which a director has derived an improper personal benefit.

Risks Related To Our Common Shares

We are controlled by IVI Smart

At December 31, 2004, IVI Smart owned approximately 77% of our outstanding shares of Common Stock. Accordingly, this entity effectively has the ability to control the outcome of all matters requiring stockholder approval, including, but not limited to, the election and removal of directors, and any merger, consolidation or sale of all, or substantially all, of our assets, and to control our management and effectively have the ability to control our affairs.

Our share price has fluctuated in the past and may continue to fluctuate in the future.

The market price of our shares in the over-the-counter market has experienced significant fluctuations and may continue to fluctuate significantly. The market price of our shares may be significantly affected by factors such as the announcements of agreements, new products or product enhancements by us or our competitors and technological innovations by us or our competitors. In addition, while we cannot assure you that any securities analysts will initiate or maintain research coverage of our Company and our shares, any statements or changes in estimates by analysts initiating or covering our shares or relating to the smart card industry could result in an immediate and adverse effect on the market price of our shares. Further, we cannot predict the effect, if any, that market sales of shares or the availability of shares for sale will have on the market price of the shares prevailing from time to time. Sales of a substantial number of shares or the perception that such sales could occur following the filing of this report, could have a material adverse effect on the market price of our shares.

Trading in shares of companies, such as the registrant, listed on the Pink Sheets in general and trading in shares of technology companies in particular have been subject to extreme price and volume fluctuations that have been unrelated or disproportionate to operating or other performance. We have made arrangements for the filing of a Form 211 to initiate trading of our common stock on the OTC Bulletin Board. However, until this application is filed and approved, of which there can be no assurance, no market maker is presently publishing bid and asked quotations in our common stock.

If our shares continue to be considered a Penny Stock, any investment in our shares will continue to be considered a high-risk investment and continue to be subject to restrictions on marketability.

Since the bid price of our shares continues to be below \$5.00, our common shares are deemed to be penny stock for the purposes of the Exchange Act. Brokers effecting transactions in a penny stock are subject to additional customer disclosure and record keeping obligations. The additional obligations include disclosure of the risks associated with low price stocks, stock quote information and broker compensation. In addition, brokers making transactions in penny stocks are subject to additional sales practice requirements under the Exchange Act. These additional requirements include making inquiries into the suitability of penny stock investments for each customer or obtaining the prior written agreement of the customer for the penny stock purchase. Because of these additional obligations, some brokers will not effect transactions in our securities.

Our share price could be adversely affected by future sales of our shares.

As of December 31, 2004, we had 173,535,944 shares of common stock issued and outstanding, exclusive of shares issuable upon exercise of outstanding warrants and shares reserved for issuance upon the exercise of outstanding options granted to management and others. The market price of our shares could drop as a result of sales of substantial amounts of our shares in the public market following the exercise of either or both of the outstanding warrants or options. This factor could also make it more difficult to raise additional funds through future private offerings of our shares or other securities. Until we file the Certificate of Amendment to our Articles of Incorporation authorized by the consent of a majority of our stockholders on December 1, 2003, and increasing the number of authorized shares of our common stock from 200 million to 300 million, all but 17,535,944 of our issued and outstanding options are non-exercisable.

We do not anticipate paying cash dividends in the foreseeable future.

We have paid no dividends on our common stock since our inception and presently intend to continue to retain all earnings, if any, for use in our business. Investors who anticipate the need for either immediate or future income by way of cash dividends from their investment should refrain from investing in our securities.

Our shareholders could experience dilution of their ownership interest if we issue more shares that are purchased by third parties.

Under Nevada law, shareholders in public companies such as the registrant do not have preemptive rights. This means that our shareholders do not have the legal right to purchase shares in a new issue before they are offered to third parties. In addition, our board of directors may approve the issuance of shares in many instances without shareholder approval. As a result, our shareholders could experience dilution of their ownership interest if we decide to raise additional funds by issuing more shares and these shares are purchased by third parties.

Conclusion

While to date there has not been a strong demand for smart cards domestically in the

USA, this trend is changing. The federal government has numerous initiatives that require deployment of smart cards, with the Department of Defense Common Access Card being a prime example. There is a challenge for suppliers in that there is more than one standard and more than one type of smart card. In addition, there is a massive installed base of infrastructure utilizing other technologies (bar codes, magnetic stripe, etc.) that is difficult to overcome. Today's post 9/11 world, however, demands ID verification that is fast, simple, sure and secure. From terrorism to identity theft (one of the world's fastest growing crimes), society requires accurate identification of each person. We believe that at this time there is no other viable system than the Super Smart Card operating on the BVS2 platform that can make this ID verification while still protecting privacy and civil rights.

Available Information

We have filed, and we intend to continue to file Annual Reports on Form 10-KSB on a timely basis for all subsequent years. In addition, we file Quarterly Reports on Form 10Q-SB, Current Reports on Form 8-K, amendments to these reports, and other information with the SEC. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1800-SEC-0330. The SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

ITEM 2. DESCRIPTION OF PROPERTY

We currently maintain our executive offices at 222 Grace Church Street, Suite 300, Port Chester, NY 10573. We utilize approximately 500 square feet of space, have access to a copy and fax machine and telephone service and pay a monthly fee of \$1,000. Our office facilities in New York are adequate for the purposes for which they are intended and provide sufficient capacity to accommodate our short-term needs.

We sublease approximately 7,000 square feet of research and development industrial/warehouse space at 1810 Old Oakland Road, #F, San Jose, California 95131 from Big Bang Technology, Inc., a California corporation controlled by and under common control of Tamio Saito, our Chief Technology Officer and a principal stockholder (BBT). We pay \$3,000 per month and have the use of a conference room, office equipment, paved parking spaces, telephone and computer equipment. We sublease this space on a month to month basis without the benefit of a written sublease. We believe that our rental expense is equal or better than we could have negotiated for at arms length with a non-affiliated landlord for similarly situated space. Our space is adequate for our current needs and being utilized to approximately 80% of its capacity.

ITEM 3. LEGAL PROCEEDINGS

A. On February 3, 2005, Administrative Law Judge, Lillian A. McEwen (the ALJ) published her Initial Decision on Remand (the Remand Decision) in an Administrative Proceeding originally commenced by the Securities and Exchange Commission (the SEC) against us on December 12, 2003 (the Proceeding). In the Remand Decision,

the ALJ denied the SEC's Division of Enforcement's (the Division) request for the imposition of sanctions against us, and gave both sides 21 days to appeal her decision. The Division's time to appeal expired on February 24, 2005. Accordingly the Remand Decision became final.

In the Proceeding, the SEC sought, *inter alia*, to interrupt public trading in our securities as a result of our failure to file periodic reports and filings required by the Securities and Exchange Act of 1934, as amended (the Exchange Act). On March 4, 2004, the ALJ published an Initial Decision in the Proceeding (the Initial decision). In her Initial Decision, the ALJ found that we failed to make the required filings, violated Section 13(a) and Rules 13a-1 and 13a-13 of the Exchange Act and revoked our registration.

On March 23, 2004, we filed a petition with the SEC for review of the ALJ's Initial Decision. The SEC granted our petition on March 26, 2004. On March 30, 2004, the Division asked that the ALJ's Initial Decision be summarily affirmed pursuant to SEC Rule of Practice 411(e). The Division also moved for leave, under the SEC's Rule of Practice 410(d), to file a brief in opposition to our petition for review. On July 16, 2004, the SEC published an order wherein the Division's motions for summary affirmance and for leave to file a brief in opposition to our petition for review were denied.

Between the date of the Initial Decision and the Remand Decision, we filed all of its delinquent periodic filings required under the Exchange Act.

B. On February 27, 2003, we filed the first of an expected series of both state and federal lawsuits

The initial complaint as filed by e-Smart is against named and unnamed individuals for Conspiracy to Interfere with Prospective Economic Advantage, Conspiracy to Slander and Defame, Conspiracy to Breach Fiduciary Duties and for Punitive Damages. The Complaint seeks compensatory damages of one billion dollars in addition to unspecified punitive damages against those that lied to the U.S. Attorney's Office in an effort to discredit our products and personnel.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS

Neither during the fourth quarter of the fiscal year ended December 31, 2004, nor at any time since the December 18, 2000, Special Meeting of Stockholders did the Registrant conduct a meeting of its stockholders pursuant to definitive proxy materials under Regulation 14A under the Exchange Act.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Since late 1997, our common stock, our only class of trading equity securities, has been traded in the over-the-counter market on the Pink Sheets under the symbol ESMT. The following table sets forth the range of high and low bid price information for the common stock for each fiscal quarter for the past two fiscal years as reported by the Pink Sheets LLC. High and low bid quotations represent prices between dealers without adjustment for retail mark-ups, markdowns or commissions, and may not necessarily represent actual transactions.

	HIGH BID	LOW BID
	_____	_____
Year Ended December 31, 2004:		
Fourth Quarter	1.03	.51
Third Quarter	1.15	.60
Second Quarter	1.75	.97
First Quarter	2.06	.90
Year Ended December 31, 2003:		
Fourth Quarter	1.75	1.00
Third Quarter	2.30	0.30
Second Quarter	0.35	0.10
First Quarter	0.25	0.10

Since our shares began trading in the over-the-counter market in the Pink Sheets, the prices for our shares have fluctuated widely. There may be many factors that explain these variations. We believe that such factors include (a) the demand for our common stock, (b) the number of shares of our common stock available for sale, (c) developments in the smart card industry, and (d) changes in the performance of the stock market in general, among others.

In recent years, the stock market has experienced extreme price and volume fluctuations that have had a substantial effect on the market prices for many small and emerging growth companies such as the registrant, which may be unrelated to the operating performances of the specific companies. Some companies that have experienced volatility in the market price of their stock have been the targets of securities class action litigation. If we became the target of securities class action litigation, it could result in substantial costs and a diversion of management's attention and resources and have an adverse effect on our ability to implement our business plan. In addition, holders of shares of our common stock could suffer substantial losses as a result of fluctuations and declines in the market price of our common stock.

The trading of shares of our common stock is subject to limitations set forth in Rule 15c-9 of the Exchange Act. This rule imposes sales practice requirements on broker-dealers who sell so-called "penny stocks" to persons other than established customers,

accredited investors or institutional investors. For any transaction involving a penny stock, unless exempt, the rules require that a broker or dealer: (a) approve a person's account for transactions in penny stocks; and (b) receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased. In order to approve a person's account for transactions in penny stocks, the broker or dealer must: (i) obtain financial information and investment experience and objectives of the person; and (ii) make a reasonable determination that the transactions in penny stocks are suitable for that the person and that person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks. The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule relating to the penny stock market, which, in highlight form, (x) sets forth the basis on which the broker or dealer made the suitability determination; and (y) explains that the broker or dealer received a signed, written agreement from the investor prior to the transaction. Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading, and about commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Holders

As of December 31, 2004, the approximate number of holders of record of shares of our common stock, \$.001 par value per share, our only class of trading securities, was believed by management to be as follows:

<u>Title of Class</u>	<u>Number of Record Holders</u>
Common Stock, \$.001 par value	198

We believe there are numerous shareholders whose securities are held in street name with various brokerage houses. The exact number of shareholders is unknown to us.

Dividends

To the best of management's knowledge and belief, we have never paid a dividend; and no dividends are expected to be paid at least until we achieve a full year of profitable operations. Until then, earnings, if any, will be retained and used to finance the development and expansion of our business.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Over the next 12 months we expect to continue our marketing and research and

development efforts, and plan to install and implement our first systems in operation and proving the viability of our Super Smart Card and BVS2 based products and related technologies. While there can be no assurance, we are looking forward to the sale and deployment of two systems during this period encompassing an expected aggregate of approximately 15 million Super Smart Cards.

Additionally, based on our recently executed Cooperation Agreement with Guo Xin Well-tel Technology Co., Ltd., and another entity in the PRC, we have agreed to form a joint venture company in the PRC. While there can be no assurance, our Chinese partners have applied for a business license allowing our joint venture company to effectuate mass distribution of the Super Smart Card and the operation of the BVS2 throughout the PRC.

Since present management assumed control in 2000, our source of funds has been private placements of our equity securities to accredited investors, and we expect this dependence to continue until the delivery and implementation of our first system/s and to such time as we generate sufficient income to cover operating costs. As of the date of this Report, we expect that this dependence to perhaps continue until the fourth quarter of 2005; and based upon our current and planned 2005 rate of operating commitments, that we will require approximately \$2,500,000 in additional subscriptions during this period.

Our ability to maintain what we believe to be the state-of-the-art quality of our Super Smart Card and BVS2 system and based products and related technologies is dependent upon our on going research and development 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 an integral part of our operating commitments for 2005 and as such, is dependent upon funds from subscribers. Accordingly, it is 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 2005 budget is approximately \$1,000,000 for such acquisitions, but could change depending on a number of factors, including upon our rate of accomplishment. In connection with the anticipated sale of one or more systems, we will need to lease additional space for an operations and testing center for certain customers, we will need to lease a liaison office near their offices as a condition of contract.

Commencing January 1, 2004, we began the integration of the San Jose research and development center and its staff and operations into our Company. As a result, we plan to hire between six and ten new employees. In addition, and commencing upon the first sale of one of our systems, we anticipate that: (i) we will be required to retain an additional six to ten employees to perform administrative, logistics and quality control functions; and (ii) we will need to open a local liaison office with an administrative and clerical staff of two or three persons.

Off-Balance Sheet Arrangements

The Company has 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.

Forward Looking Statements:

This discussion includes Forward-Looking Statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as expects or does not expect, is expected, anticipates or does not anticipate, plans, estimates or intends, or stating that certain actions, events or results may, could, would, might, or should be taken, occur or be achieved) are not statements of historical fact and may be considered forward looking statements. Such statements are included, among other places in this Form 10-KSB, in the sections entitled Management's Discussion and Analysis, and Description of Business. Forward-looking statements are based on expectations, estimates and projections at the time the statements are made that involve a number of risks and uncertainties which could cause actual results or events to differ materially from those presently anticipated. Although the Registrant believes that the expectations reflected in such forward-looking statements are reasonable, the Registrant can give no assurance that such expectations will prove to have been correct.

ITEM 7. FINANCIAL STATEMENTS

e-Smart Technologies, Inc. and Subsidiary

(A Development Stage Company)

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December 31, 2004 and 2003

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Report of Independent Registered Accounting Firm

To the Board of Directors and Shareholders of

e-Smart Technologies, Inc. and Subsidiary

(A Development Stage Company)

We have audited the consolidated balance sheets of e-Smart Technologies, Inc. and Subsidiary (A Development Stage Company) as of December 31, 2004 and 2003 and the related consolidated statements of operations, shareholders' equity and cash flows for the years ended December 31, 2004 and 2003, and for the period from July 15, 1997 (date of inception) to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards established by the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts of disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of e-Smart Technologies, Inc. and Subsidiary (A Development Stage Company) as of December 31, 2004 and 2003, and the results of its operations, and cash flows for the two years ended December 31, 2004 and 2003 and for the Period from July 15, 1997 (date of inception) through December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in the notes to the financial statements, the Company's significant working capital deficits and operating losses raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Rosenberg Rich Baker Berman & Company

Bridgewater, New Jersey

March 31, 2005

e-Smart Technologies, Inc. and Subsidiary

(A Development Stage Company)

Balance Sheets

	December 31,	
	2004	2003
Assets		
Current Assets		
Cash	\$ 42,857	\$ 14,096
Due from Associated Business Group, a related party		31,334
Prepaid expenses	42,361	
Total Current Assets	85,218	45,430
Equipment, net	42,518	
License of Smart Card Technology, net of amortization	105,720	109,310
Due from Biosensor, LLC, a related party	324,500	
Deposits - e-Smart Korea Group		151,000
Lease deposit	58,139	
Total Assets	616,095	305,740
Liabilities and Shareholders Equity (Deficiency)		
Current Liabilities		
Accounts payable	372,260	397,081
Note payable - InterMarket Ventures, a related party	314,000	
Notes payable - other	117,500	80,000
Due to Associated Business Group, a related party	12,427	
Accrued officer's compensation	212,758	
Accrued expenses	72,015	38,853
Total Current Liabilities	1,100,960	515,934
Note payable - InterMarket Ventures, a related party	930,400	
Total Liabilities	2,031,360	515,934
Shareholder's Equity (Deficiency)		
Common Stock, \$0.001 par value, 200 million shares authorized, 173,535,944 and 170,707,012 shares issued and outstanding in 2004 and 2003, respectively	173,536	170,707
Additional paid in capital	61,053,801	59,497,446
Deficit accumulated during the development stage	(62,642,602)	(59,878,347)
Total Shareholders' Equity (Deficiency)	(1,415,265)	(210,194)
Total Liabilities and Shareholders' Equity (Deficiency)	\$ 616,095	\$ 305,740

See notes to the financial statements.

e-Smart Technologies, Inc. and Subsidiary

(A Development Stage Company)

Statements of Operations

	Year Ended December 31,		For the Period
	2004	2003	from July 15, 1997 (Date of Inception) to December 31, 2004
Revenue	\$	\$	\$
Operating Expenses			
Research and development	634,474	730,750	1,675,224
Selling, general and administrative	2,106,119	1,841,635	5,253,893
Issuance of stock options for services		34,170,000	55,646,000
Interest expense	22,662	28,972	63,735
Total Operating Expenses	2,763,255	36,771,357	62,638,852
Loss before provision for income taxes	(2,763,255)	(36,771,357)	(62,638,852)
Provision for Income Taxes	1,000	250	3,750
Net Loss	\$ (2,764,255)	\$ (36,771,607)	\$ (62,642,602)

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