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CERISTAR INC
Form 10QSB
August 23, 2004

SECURITIES EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

OR

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

COMMISSION FILE NUMBER 001-16381

CERISTAR, INC.

(Exact name of the registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation or organization)

87-0642448
(IRS employer identification number)

50 WEST BROADWAY, SUITE 1100
SALT LAKE CITY, UTAH 84101
(Address of principal executive officers)

801-350-2017
(Registrant's telephone number, including area code)

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

State the number of shares outstanding of each of the issuer classes of common equity as of August 18, 2004.

Common Stock, par value \$.001
(Title of each class)

23,048,064
(Number of shares)

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Investors are cautioned that certain statements in the Form 10-QSB are forward looking statements that involve risks and uncertainties. Words, such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and "views" are intended to identify forward-looking statements. Such statements are based on current expectations and projections about our business and assumptions made by the management and are no guarantee of future performance. Therefore, actual events and results may differ materially from those expressed or forecasted in the forward looking statements due to risk factors identified in the Management's Discussion and Analysis of Financial Condition and Results of Operations.

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CERISTAR, INC. CONDENSED CONSOLIDATED UNAUDITED BALANCE SHEET June 30, 2004

| | June 30, 2004 |
|---|---------------|
| | ----- |
| Assets | |
| ----- | |
| Current assets: | |
| Cash | \$ 2,806 |
| Accounts receivable, net of allowance for doubtful accounts of \$142,242 | 69,216 |
| Prepaid expenses | 24,531 |
| Deposits | 24,880 |
| | ----- |

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| | | |
|---|----|--------------|
| Total current assets | | 121,433 |
| Property and equipment, net | | 561,943 |
| | | ----- |
| Total assets | \$ | 683,376 |
| | | ----- |
| ----- | | |
| Liabilities and Stockholders' Deficit | | |
| ----- | | |
| Current liabilities: | | |
| Accounts payable | \$ | 341,538 |
| Accrued payroll and other liabilities | | 566,799 |
| Deferred revenue | | 289,891 |
| Notes payable including related parties | | 2,132,878 |
| | | ----- |
| Total current liabilities | | 3,331,106 |
| Commitments and contingencies | | |
| Stockholders' deficit: | | |
| Preferred stock, \$.001 par value; 1,000,000 shares authorized, no shares issued and outstanding | | - |
| Common stock, \$.001 par value, voting, 25,000,000 shares authorized, 8,090,472 shares issued and outstanding | | 8,090 |
| Additional paid-in capital | | 10,783,468 |
| Deferred compensation | | (55,481) |
| Subscriptions receivable | | (28,430) |
| Accumulated deficit | | (13,355,377) |
| | | ----- |
| Total stockholders' deficit: | | (2,647,730) |
| | | ----- |
| Total liabilities and stockholders' deficit | \$ | 683,376 |
| | | ----- |

See accompanying notes to condensed consolidated financial statements

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CERISTAR, INC.
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF OPERATIONS

| | Three months ended June 30, | | Six mon |
|--|-----------------------------|-----------|---------|
| | 2004 | 2003 | 2004 |
| | ----- | ----- | ----- |
| Service revenue | \$ 44,221 | \$ 82,973 | \$ 11 |
| Cost of sales | 94,296 | 126,475 | 19 |
| Selling, general, and administrative expense | 502,263 | 865,266 | 98 |
| Settlement expense | 135,000 | - | 13 |
| | ----- | ----- | ----- |

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| | | | |
|---|----------------|--------------|----------------|
| Loss from operations | (687,338) | (908,768) | (1,200,000) |
| Other income (expense) | - | 373 | |
| Interest expense | (333,081) | (41,796) | (67,000) |
| | ----- | ----- | ----- |
| Loss before benefit for income taxes | (1,020,419) | (950,191) | (1,870,000) |
| Benefit for income taxes | - | - | |
| | ----- | ----- | ----- |
| Net loss | \$ (1,020,419) | \$ (950,191) | \$ (1,870,000) |
| | ----- | ----- | ----- |
| Loss per common share - basic and diluted | \$ (0.13) | \$ (0.14) | \$ (0.15) |
| | ----- | ----- | ----- |
| Weighted average shares - basic and diluted | 8,054,000 | 6,614,000 | 7,980,000 |
| | ----- | ----- | ----- |

See accompanying notes to condensed consolidated financial statements

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CERISTAR, INC.
CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF CASH FLOWS
For The Six Months Ended June 30,

| | 2004 | 2003 |
|---|----------------|----------------|
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net loss | \$ (1,879,279) | \$ (2,074,046) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 77,308 | 40,349 |
| Stock issued for services | 49,726 | 34,988 |
| Stock warrants issued for financing costs | - | 76,000 |
| Amortization of deferred compensation | 41,362 | 153,334 |
| Amortization of deferred revenue | (23,227) | - |
| Stock subscription satisfied with services | - | 1,131,150 |
| Amortization of discount on long-term debt | 416,792 | 3,227 |
| Bad debt expense | 20,000 | (8,200) |
| Decrease (increase) in: | | |
| Accounts receivable | (20,646) | (19,549) |
| Deposits | (16,500) | - |
| Increase (decrease) in: | | |
| Accounts payable | (115,564) | (17,676) |
| Accrued liabilities | 262,928 | 125,601 |
| Deferred revenue | 76,609 | 41,727 |
| | ----- | ----- |
| Net cash used in operating activities | (1,110,491) | (513,095) |
| | ----- | ----- |

Cash flows used in investing activities-

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| | | |
|--|-----------|----------|
| purchase of property and equipment | (90,333) | (5,265) |
| ----- | | |
| Cash flows from financing activities: | | |
| Cash overdraft | - | 2,332 |
| Proceeds from issuance of common stock | - | 379,887 |
| Proceeds from related party note | 3,000 | 103,000 |
| Proceeds from note payable | - | 27,916 |
| Proceeds from convertible short-term debt | 1,061,500 | - |
| Payments on note payable | (10,788) | (17,050) |
| Payments on related party notes payable | (7,465) | - |
| Payments on convertible long-term debt | (6,800) | (5,935) |
| ----- | | |
| Net cash provided by financing activities | 1,039,447 | 490,150 |
| ----- | | |
| Net decrease in cash and cash equivalents | (161,377) | (28,210) |
| Cash and cash equivalents at beginning of period | 164,183 | 28,210 |
| ----- | | |
| Cash and cash equivalents at end of period | \$ 2,806 | \$ - |
| ----- | | |

See accompanying notes to condensed consolidated financial statements

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CERISTAR, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2004

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation-- The accompanying condensed consolidated financial statements are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. CeriStar Inc., (the "Company") believes that the following disclosures are adequate to make the information presented not misleading.

These condensed financial statements reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of management, are necessary to present fairly the financial position and results of operations for the periods presented.

Interim results are not necessarily indicative of the operating results to be expected for the full year. These financial statements should be read in conjunction with the CeriStar's financial statements and notes thereto for the year ended December 31, 2003 included in the Company's annual report on Form 10-KSB.

Net Loss Per Common Share-- Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per

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share is computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding stock options using the "treasury stock" method.

The components of basic and diluted earnings per share were as follows:

EARNINGS PER SHARE

| | Three Months Ended June 30, 2004 | 2003 | Si |
|--|-------------------------------------|-------------|-----|
| Net loss (A) | (\$1,020,419) | (\$950,191) | (\$ |
| Weighted average outstanding common shares (B) | 8,054,000 | 6,614,000 | |
| Dilutive effect of outstanding warrants | -0- | -0- | |
| Common stock and common stock equivalents (C) | 8,054,000 | 6,614,000 | |
| Earnings per share: | | | |
| Basic (A/B) | (\$0.13) | (\$0.14) | |
| Diluted (A/C) | (\$0.13) | (\$0.14) | |

At June 30, 2004, and 2003 there were outstanding options and warrants to purchase 3,835,226 and 565,201 shares of common stock and debt conversion features to purchase 12,927,167 and -0- shares of common stock that were not included in the computation of diluted net loss per common share as their effect would have been anti-dilutive, thereby decreasing the net loss per common share.

Revenue Recognition- Revenue is recognized when a valid contract or purchase order has been executed or received, services have been performed or product has been delivered, the selling price is fixed or determinable, and collectibility is reasonably assured. Sales related to long-term service contracts, which do not meet this criteria, are deferred and recognized ratably over the period of the contract and are recorded as unearned revenue.

Stock-Based Compensation- The Company accounts for stock options granted to employees under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, and has adopted the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation expense is recognized in the financial statements when options granted under those plans have an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. The Company granted no options during the periods ending June 30, 2004 and 2003 to employees.

NOTE 2--GOING CONCERN

The Company has a working capital deficit, a stockholders' deficit, and recurring net losses. These factors create substantial doubt about the Company's

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ability to continue as a going concern. The financial statements do not include any adjustment that might be necessary if the Company is unable to continue as a going concern.

The ability of the Company to continue as a going concern is dependent on the Company generating cash from the sale of its common stock or obtaining debt financing and attaining future profitable operations. Management's plans include selling its equity securities and obtaining debt financing to fund its capital requirements and ongoing operations; however, there can be no assurance the Company will be successful in these efforts.

NOTE 3 - SHORT-TERM NOTES PAYABLE

Notes payable and convertible notes payable issued during the six months ended June 30, 2004 consisted of the following:

Convertible notes payable purchased by a funding group totaled \$1,061,500 for the six months ended June 30, 2004, for total debt to the group of \$1,925,500. The notes are due on demand after 121 days past issuance and bear interest at 18% per year. The notes are convertible into the Company's common stock under a beneficial conversion rate that resulted in the notes being initially discounted in 2004 by \$256,875 of which \$65,146 is unamortized at June 30, 2004. The total discount amortized during the six months ended June 30, 2004 was \$369,733.

NOTE 4-- COMMON STOCK TRANSACTIONS

The Company issued 231,162 shares of common stock for services valued at \$49,726 during the six months ended June 30, 2004.

NOTE 5-- CASH FLOW INFORMATION

Actual amounts paid for interest for the six months ended June 30, 2004 and 2003, were \$15,068 and \$4,619 respectively. No income taxes were paid for the respective periods.

During the six months ended June 30, 2004, the Company purchased \$90,333 of equipment to service our customer base.

During the six months ended June 30, 2004, the Company issued \$1,061,500 of convertible short-term debt with a beneficial conversion feature discussed in Note 3.

During the six months ended June 30, 2003, the Company received a commission, which reduced its deferred purchase obligation and was recorded as an increase of \$9,000 to deferred revenue.

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During the six months ended June 30, 2003, the Company reacquired 96,000 shares of its common stock for a reduction in deferred compensation of \$149,333 and subscriptions receivable of \$9,317. During the six months ended June 30, 2004, the Company amortized \$41,362 of deferred compensation into selling, general and administrative expense.

During the six months ended June 30, 2003, the Company disposed of equipment in exchange for extinguishments of an accrued liability of \$12,540.

During August 2003, the Company obtained a note payable to a funding group for \$182,000 bearing interest at 15% per annum. The note is payable in monthly installments of \$5,500 beginning February 1, 2004 through August 1, 2004 at which time the remaining unpaid principal and interest balance is due. The note

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includes 100,000 warrants. The total discount related to these warrants is \$63,000, of which \$5,250 is unamortized at June 30, 2004. A total of \$40,259 of the discount was amortized to interest expense during the six months ended June 30, 2004. The note is guaranteed by the former Chairman of the Board of Directors and is secured by equipment of the Company.

NOTE 6 - SETTLEMENT EXPENSE

On July 1, 2004, the Company settled the lawsuit with Wired, LC. Pursuant to the terms of the settlement, the Company will pay Wired \$90,000 through October 2004, and return certain equipment to Wired. The Company estimates that it may have to replace approximately \$45,000 of equipment. The Company has recorded and accrued a settlement expense \$135,000 as of June 30, 2004.

NOTE 7 - SUBSEQUENT EVENTS

On August 9, 2004, 14,957,592 shares of common stock were issued in satisfaction of approximately \$326,000 of convertible debt.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results for Operations

Critical Accounting Policies

In Note 1 to the financial statements for the fiscal year ended December 31, 2003 included in our 10-KSB discuss those accounting policies that are considered to be significant in determining the results of operations and our financial position. We believe that the accounting principles utilized by us conform to generally accepted accounting principles in the United States of America.

The preparation of consolidated financial statements requires management to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. By their nature, these judgments are subject to an inherent degree of uncertainty. On an on-going basis, we evaluate our estimates, including those related to bad debts, inventories, intangible assets, warranty obligations, product liability, revenue, and income taxes. We base our estimates on historical experience and other facts and circumstances that are believed to be reasonable, and the results form the basis for making judgments about the carrying value of assets and liabilities. The actual result may differ from these estimates under different assumptions or conditions.

With respect to revenue recognition, stock based compensation, and allowance for doubtful accounts we apply the following critical accounting policies in the preparation of our financial statements:

Revenue Recognition

We derive revenue primarily from the sale of communications services and sales of related communication equipment. Revenue is recognized when a valid contract or purchase order has been executed or received, services have been performed or product has been delivered, the selling price is fixed or determinable, and collectibility is reasonably assured. Sales related to long-term service contracts, which do not meet this criteria, are deferred and recognized ratably over the period of the contract and are recorded as unearned revenue.

Accounting for Stock-based Compensation

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We account for stock-based compensation issued to employees and directors under Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under APB No. 25, compensation related to stock options, if any, is recorded if an option's exercise price on the measurement date is below the fair value of the company's common stock and amortized to expense over the vesting period. Compensation expense for stock awards or purchases, if any, is recognized if the award or purchase price on the measurement date is below the fair value of the common stock and is recognized on the date of award or purchase. Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock Based Compensation," requires pro forma information regarding net loss and net loss per common share as if the company had accounted for its stock options granted under the fair value method.

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We account for stock-based compensation issued to persons other than employees using the fair value method in accordance with SFAS No. 123 and related interpretations. Under SFAS No. 123, stock-based compensation is determined as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The measurement date for these issuances is the earlier of either the date at which a commitment for performance by the recipient to earn the equity instruments is reached or the date at which the recipient's performance is complete.

Allowance for Doubtful Accounts

We must make estimates of the collectibility of accounts receivables. In doing so, we analyze accounts receivable and historical bad debts, customer credit-worthiness, current economic trends and changes in customer payment patterns when evaluating the adequacy of the allowance for doubtful accounts.

Forward-Looking Statements

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes included in Item 1 of this Form 10-QSB. This discussion contains forward-looking statements. These statements are based on our current expectations, assumptions, estimates and projections about our business and our industry, and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's results, levels of activity, performance or achievement to be materially different from any future results, levels of activity, performance or achievements expressed or implied in or contemplated by the forward-looking statements. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of selected factors identified in the Item 2 and Form 10-QSB.

CeriStar, Inc. undertakes no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this Form 10-QSB.

Company and Industry Overview

CeriStar, Incorporated in December of 1999 in Delaware, provides integrated broadband services, including voice, video and data services, to residential, commercial and municipal concerns through reliable, fast and intelligent IP (Internet Protocol) based networks. The Company's current principal offering is to provide residential subscribers with integrated voice, video and data communications services over Fiber-to-the-Premise (FTTP) infrastructure. These communications services include a robust IP telephony package (VoIP), high-speed Internet connectivity, broadcast and IP entertainment services such as video-on-demand, , as well as security services. CeriStar also manages the

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quality of service (QoS) and provides customer service and billing, as well as integration, engineering and management support for its customer base and for its network.

On September 10, 2002, CeriStar merged with a wholly owned subsidiary of Planet Resources Inc., a non-operating publicly held company, together referred to as Planet, in which all of the issued and outstanding stock of CeriStar, including Convertible Preferred Series A shares and the Convertible Preferred Series B shares, were exchanged for shares of Planet Common Stock. Series A and B preferred shares of CeriStar were exchanged at a rate of .757 shares for every common share of Planet and the common stock of CeriStar were exchanged into .322 shares of Common Stock of Planet. Just prior to the merger, Planet authorized a 1 for 5.23 reverse stock split. The merger was accounted for as a reverse merger with CeriStar being the accounting acquirer. On October 15, 2002, Planet Resources Inc. was renamed CeriStar, Inc. Since Planet had no operations for the two years prior to the merger, only CeriStar's financial condition and results or operations will be discussed.

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Until we achieve substantial revenues or profitability over several quarters, we must be considered as a start-up entity. Until that time, we remain dependent on financing resources for cash flows to meet certain operating expenses and offer no assurance of our financial success or economic survival.

Results of Operations

FOR THE COMPARATIVE SIX MONTHS ENDED JUNE 30, 2004 AND 2003

Total revenue declined in the first half of fiscal 2004 to \$111,000 from \$189,000 in the first half of fiscal 2003. The overall decrease is primarily due to the Company's transition to residential services and the loss of two significant commercial customers from which revenues of \$90,000 were recognized in the first half of 2003. For the six months ended June 30, 2004 revenue was primarily generated from sale of communications services with existing equipment owned by the Company.

CeriStar had a net loss in the first six months of 2004 of \$1,879,279 compared with a net loss in the first six months of 2003 of \$2,074,046.

Cost of revenue was \$194,000 in the first half of 2004, compared to \$251,000 in the first half of 2003. This decrease in cost of sales in 2004 is primarily due to decreased sales related labor costs as we move away from engineering labor and design sales to residential service sales.

Gross margins to date 2004 were a negative \$83,000 compared to a negative \$61,000 in 2003. Thus far, CeriStar has not generated a large enough customer base to cover its fixed bandwidth and service costs. As CeriStar began the transition to an operating company, additional labor, engineering and bandwidth costs have been necessary to meet the needs of customers in a variety of locations. As CeriStar acquires new customers in those areas where the company's existing facilities are located, it can do so with lower cost of acquisition and can spread fixed costs associated with operating the network and facility over a larger base of subscribers, thus increasing the overall profitability of the company's operations.

Selling, general and administrative expenses decreased by \$984,000 to \$985,000 in the first half of 2004 compared to \$1,969,000 in 2003 primarily due to the decrease in fees paid to consultants incurred in 2003.

Interest expense increased to \$677,000 in the first half of 2004 from \$44,000 in

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2003 as a significant amount of debt was added in late 2003 and 2004. A majority of the increase in 2004, \$417,000, was the amortization of debt discount during 2004.

FOR THE COMPARATIVE THREE MONTHS ENDED JUNE 30, 2004 AND 2003

CeriStar had a net loss in the second quarter of 2004 of \$1,020,419, the loss in the second quarter of 2003 was \$950,191. Revenues were \$44,000 in the second quarter of 2004 compared to \$83,000 in the second quarter of 2003. The decline in revenues was primarily due to reduced commercial revenues of \$34,000.

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Gross margins in the second quarter of 2004 were a negative \$50,000 compared to a negative \$44,000 in 2003. As CeriStar's residential customer base expands in our current facility locations, excess bandwidth capacity is expected to be able to service significantly larger customer base with little or no significant increase in fixed bandwidth costs.

Selling and administrative expense decreased by \$363,000 as consulting and other professional fees declined by \$466,000 due to decreased dependence on consultants employed to assist in developing business plans, partnering opportunities and product positioning. Travel and insurance cost increased by \$75,000.

Interest expense increased by \$291,000 as additional debt was incurred to fund operations and equipment purchases.

Liquidity and Capital Resources

CeriStar's revenues are not capable of supporting its current operations. CeriStar will be dependent on the capital markets for funding its current operations. At June 30, 2004 the Company has a working capital deficit of \$3,210,000. To meet its continuing funding needs, CeriStar actively seeks funding through issuance of debt securities. No assurance can be made that the Company will be successful in raising sufficient capital.

CeriStar believes that as the company proves its technology through its current customer base, it will be able to effectively and profitably deliver a technically advanced communications product to a broader range of residential, commercial, educational and governmental customers within target markets. In the past, CeriStar has been focused on development and testing of its technology, whereas now the focus is on marketing and supporting this technology. Expansion into new market areas will be limited by the amount of investment capital and equipment financing that can be acquired, as well as by the geographical reach of its network operating facilities. CeriStar's current expansion plan will require additional equity and debt capital to fund current and expanded operations. A majority of this funding is likely to be raised in the equity markets. It is anticipated that debt or lease financing of equipment will become increasingly available as the Company's service offerings gain acceptance and our markets expand, thus leveraging our investment capital. In the short term, CeriStar will remain dependent on new equity capital. No assurance can be made that the Company will be successful in raising sufficient capital.

The Company's long-term liquidity and capital requirements will depend upon numerous factors, including the Company's ability to achieve a level of demand for its services that supports its business model and its cost structure, securing significant long-term funding for expansion efforts, and the Company's ability to find suitable funding sources to improve its capital structure. The Company may require additional financing or seek to raise additional funds through bank facilities, debt or equity offerings, or other sources of capital

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to meet liquidity and capital requirements. Additional funds may not be available when needed or on terms acceptable to the Company, which could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows. These are factors that indicate that the Company may be unable to continue operations.

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Risks Related to Our Business

Certain statements contained in this Form 10-QSB, and other written and oral statements made from time to time by us, do not relate strictly to historical facts. These statements are considered "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "may," "plan," "possible," "project," and "should," or similar words or expressions, are intended to identify forward looking statements. This forward looking information involves important risks and uncertainties that could materially alter results in the future from those expressed in any forward looking statements made by, or on behalf of, us. We caution you that such forward-looking statements are only predictions and actual events or results may differ materially. In evaluating such statements, you should specifically consider the various factors that could cause actual events or results to differ materially, including those factors described below. It is not possible to foresee or identify all factors affecting our forward-looking statements and you should not consider any list of such factors to be exhaustive. We are under no duty to update any forward-looking statements.

We have substantial losses and negative cash flow.

Since our inception in 1999, we have had substantial and recurring losses and negative cash flow. We are at risk of continued losses until our revenues increase. There is no assurance that we can increase our revenue sources and it is unlikely that we can lower our expenses in our present mode of operations. We may never earn profits. If we continue to lose money over a period of time, we may be forced to discontinue our operations.

We required substantial capital to grow our business and sustain current operations.

Since our inception, we have required substantial capital to fund our business operations. Our future capital requirements will depend upon many factors, including the adoption of integrated broadband services, requirements to maintain adequate telecommunications capabilities, expansion of our marketing and sales efforts, and the status of competitive products and services in the marketplace.

Our business operates at a loss and we require additional capital to fund current operations.

Historically, our revenues have been less than our expenses and we have financed our operations primarily through sales of equity and debt securities. We expect to enter into additional financial transactions, which could result in significant dilution or substantial indebtedness.

Our access to capital is uncertain.

We currently have no commitments, agreements or understandings regarding additional financing and we may be unable to obtain additional financing on satisfactory terms or at all. We expect to pursue additional financing through

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the private placement of debt or equity. If additional funds are raised or acquisitions made by issuing equity securities, dilution to the existing stockholders will result. We may also incur or assume substantial indebtedness. These arrangements may require us to relinquish rights to certain of our existing or potential products or other assets. Accordingly, the inability to obtain such financing could have a material adverse affect on our business, financial condition and results of operations. Our future revenue and operating results depend on a number of factors.

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We are in a rapidly changing industry, which affects our ability to forecast growth and revenues.

Our short operating history and the rapidly changing nature of the markets in which we compete make it difficult to accurately forecast our revenues and operating results. Our quarterly operating results are unpredictable and we expect them to fluctuate in the future due to a number of factors. These factors may include, among others things:

- o The amount and timing of operating costs and capital expenditures relating to the growth of our business;
- o The costs to develop and introduce new products and services in response to changing market conditions and customer preferences;
- o The announcement or introduction of new or enhanced products or services by our competitors; and
- o The entrance of a large, better capitalized competitor into our markets.

In view of such fluctuations, we believe that quarterly comparisons of our financial results are not necessarily meaningful and should not be relied upon as a measure of future performance.

We may not be able to attract customers for our services.

There is no assurance that we will be able to obtain adequate distribution of our services to a large number of subscribers. We believe that our ability to achieve revenues in the future will depend in significant part upon our ability to build upon existing relationships with, and provide support to, large, residential developers. As a result, any cancellation, reduction or delay may materially adversely affect our business, financial condition and results of operations.

If we make any acquisitions, we will incur a variety of costs and may never realize the anticipated benefits.

We may attempt to acquire businesses, technologies or products that we believe are a strategic fit with our business. If we undertake any transaction of this sort, the process of integrating a business, technology or product may result in operating difficulties and expenditures, which may absorb significant management attention that would otherwise be available for ongoing development of our business. Moreover, we may never realize the anticipated benefits of any acquisition. Future acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt, contingent liabilities and/or amortization expenses related to goodwill and other intangibles and the incurrence of large immediate write-offs.

Our ability to attract and retain key management, employees and consultants is

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uncertain.

We are dependent on our management staff. The loss of services of any of these personnel could impede the achievement of our corporate goals and development objectives. There can be no assurance that we will be able to attract and retain personnel on acceptable terms given the competition among telecommunications companies for experienced personnel. In addition, we do not maintain "key-man" life insurance policies on any member of our management staff and do not expect to obtain such policies in the near future.

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ITEM 3. Controls and Procedures

As of June 30, 2004 (the "Evaluation Date"), our current Chief Executive Officer evaluated our disclosure controls and procedures. Based on that evaluation, he has concluded that as of the Evaluation Date, our disclosure controls and procedures were effective in timely alerting them to material information relating to our company required to be included in our reports filed or submitted by us under the Exchange Act.

There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On July 1, 2004, the Company settled the lawsuit with Wired, LC, disclosed in the Company's 10-KSB for the year ended December 31, 2003. Pursuant to the terms of the settlement, the Company will pay Wired \$90,000 through October 2004, and return certain equipment to Wired. The Company estimates that it may have to replace approximately \$45,000 of equipment. The Company has recorded and accrued a settlement expense \$135,000 as of June 30, 2004.

Item 6. Exhibits and Reports on Form 8-K

Exhibits

The following exhibits are included as part of this report:

EXHIBITS AND REPORTS ON FORM 8-K

A) Exhibits:

31 Certification of Chief Executive and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of Chief Executive and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

B) Reports on Form 8-K

1. The Company filed a Current Report on Form 8-K, dated January 13, 2004 announcing the resignation of David L. Bailey as Chairman of the Board and member of our Board of Directors for personal reasons.
2. The Company filed a Current Report on Form 8-K, dated January 21, 2004 announcing the resignation of Dane Goodfellow as a member of our Board of Directors to pursue other endeavors.

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3. The Company filed a Current Report on Form 8-K, dated March 5, 2004 as a shareholder update on progress in 2003 and Strategic Plans.
4. The Company filed a Current Report on Form 8-K, dated June 28, 2004 announcing the filing of a breach of contract lawsuit against Parkway Crossing, LLC, Basin Digital Media, LLC and Summit Development and Management, LLC.
5. The Company filed a Current Report on Form 8-K, dated August 2, 2004 announcing the resignations of Fred Weismiller as Chief Executive Officer, Robert Lester as Chief Financial Officer and Michael Miller as Chief Operations Officer and the appointment of Paul D. Hamm as interim Chief Executive Officer and Mark Hewitt as Chief Technology and Operations Officer. Jerry Dunlap was named to the Board of Directors to fill the remaining term of Mr. Lester.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CERISTAR, INC.

Dated: August 23, 2004

/s/ Paul D. Hamm

Paul D. Hamm
Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: August 23, 2004

/s/ Paul D. Hamm

Paul D. Hamm
Chief Executive Officer and President

Dated: August 23, 2004

/s/ Mark S. Hewitt

Mark S. Hewitt
Chief Operations Officer and Chief
Technology Officer

Dated: August 23, 2004

/s/ Mark S. Hewitt

Mark S. Hewitt
Director

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