

Edgar Filing: Joystar Inc - Form 10KSB

Joystar Inc
Form 10KSB
April 15, 2005

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

FORM 10-KSB

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number: 000-25973

JOYSTAR, INC.

(Name of Small Business Issuer in its Charter)

California

68-0406331

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification No.)

95 Argonaut St. First Floor, Aliso Viejo, CA 92656

(Address of Principle Executive Offices)

(949) 837-8101

(Issuer's Telephone Number, Including Area Code)

Securities Registered Pursuant to Section 12(b) of the Exchange Act:

None

Securities Registered Pursuant to Section 12(g) of the Exchange Act:

Common Stock, \$0.001 Par Value

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that 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 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.

The registrant's revenues for its most recent fiscal year were \$62,087.

Edgar Filing: Joystar Inc - Form 10KSB

The aggregate market value of the voting stock held by non-affiliates of the registrant as of April 7, 2005 was \$2,332,768 based upon the market price of the registrant's Common Stock of \$0.42 as of April 7, 2005.

The number of the Company's shares of Common Stock outstanding as of April 7, 2004 was 23,957,633. The registrant has no outstanding non-voting common equity.

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

1

JOYSTAR, INC.
FORM 10-KSB ANNUAL REPORT
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004
TABLE OF CONTENTS

Forward-Looking Statements

PART 1

Item 1.	Description of Business	4
Item 2.	Description of Property	18
Item 3.	Legal Proceedings	18
Item 4.	Submission of Matters to a Vote of Security Holders	18

PART II

Item 5.	Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities	19
Item 6.	Management's Discussion and Analysis or Plan of Operation	21
Item 7.	Financial Statements	23
Item 8.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	24
Item 8A.	Controls and Procedures	24
Item 8B.	Other Information	24

PART III

Item 9.	Directors and Executive Officers of the Registrant	25
Item 10.	Executive Compensation	16
Item 11.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	28
Item 12.	Certain Relationships and Related Transactions	28
Item 13.	Exhibits	29

Edgar Filing: Joystar Inc - Form 10KSB

Item 14. Principal Accountant Fees and Services

29

Signatures

2

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-KSB contains forward-looking statements about the business, financial condition and prospects of the Company that reflect assumptions made by management and management's beliefs based on information currently available to it. We can give no assurance that the expectations indicated by such forward-looking statements will be realized. If any of management's assumptions should prove incorrect, or if any of the risks and uncertainties underlying such expectations should materialize, the Company's actual results may differ materially from those indicated by the forward-looking statements.

The key factors that are not within the Company's control and that may have a direct bearing on operating results include, but are not limited to, the acceptance by customers of the Company's products and services, the Company's ability to develop new products and services cost-effectively, the ability of the Company to raise capital in the future, the development by competitors of products or services using improved or alternative technology, the retention of key employees and general economic conditions.

There may be other risks and circumstances that management is unable to predict. When used in this Form 10-KSB, words such as, "believes," "expects," "intends," "plans," "anticipates" "estimates" and similar expressions are intended to identify forward-looking statements, although there may be certain forward-looking statements not accompanied by such expressions. All forward-looking statements are intended to be covered by the safe harbor created by Section 21E of the Securities Exchange Act of 1934.

3

PART I

Item 1. DESCRIPTION OF BUSINESS

Overview

Joystar, Inc., a California corporation ("Joystar", "Company" or "we") is one of the fastest growing travel agency networks. The Company specializes in selling complex travel products including cruises, vacation packages and group travel through its national sales force of over 1,300 of independent travel agents. Joystar's comprehensive business solutions combine innovative technology, marketing opportunities and expert support services to independent and home-based travel agents giving them more time to sell travel. With Joystar, professional travel agents can concentrate on promoting travel and servicing their clients without the administrative and financial burden of owning/operating a traditional storefront travel agency.

The Company maintains its corporate offices at 95 Argonaut St. First Floor, Aliso Viejo, CA 92656. The Company's telephone number is (949) 837-8101.

Edgar Filing: Joystar Inc - Form 10KSB

Business of the Company

Joystar specializes in selling complex travel products including cruises, vacation packages and group travel through its national sales force of over 1,300 of independent travel agents. As of April 14, 2005 the Company's membership was 1,385 agents. Joystar's main revenue models are:

TRAVEL AGENCY MODEL

Under the travel agency model, the Company acts as either an intermediary, or a merchant. When we transact travel bookings acting as an intermediary in the transaction, we pass a customer's reservation to the travel supplier (airline, hotel, cruise line, car rental, etc.). The Company receives a commission from the travel supplier after the travel is completed. In the agency transaction, the supplier sets the retail price paid by the customer, and is the merchant of record for the transaction. In a merchant transaction, Joystar receives access to consolidator fares (wholesale airline seats and hotel rooms) from suppliers at deeply discounted negotiated rates. Joystar determines the "mark-up" and processes the transactions as the merchant of record. Acting as a merchant enables Joystar to achieve a higher level of gross profit than in the agency model and generally provides better prices to customers than an agency transaction. Integrating merchant inventory with the online booking technology platform enables the Company to create a significant benefit to the Company's agents, customers and preferred suppliers.

HOST AGENCY MODEL

The Company provides syndicated technology, hosting, and support services to a growing network of professional home-based travel agents. Joystar provides its agents with all of the training, tools and back office support for them to operate a successful and rewarding business. In addition to the commissions earned, Joystar's national sales force of independent agents are granted stock options in the Company. Additional benefits to Joystar agents include access to Solo 401K retirement plans and 529 college saving plans for the agents' children and grandchildren.

PROFESSIONAL HOME-BASED TRAVEL AGENTS

Experienced travel agents and travel agency owners are closing their "storefronts" en masse in an effort to control costs. The Company has developed three programs to address the unique needs of its travel agents.

Agent Advantage Pro and Pro-100 Programs for Agents

PRO-100 offers independent and home-based travel agents all of the benefits of the Company's popular, AGENT ADVANTAGE PRO, including a consumer website and "Agents Only" extranet and live toll free support. The difference between the two programs: Agent Advantage is free and agents receive 90% of the commissions they generate and the monthly fee for Pro-100 is \$199/month and receive 100% of the commissions they generate. Pro-100 was developed for our agents who generate more than \$24,000 in gross commissions annually. Pro-100 further enhances an agent's opportunity by passing 100% of the commissions back to them. Joystar benefits as well from the fixed membership fees and the value of the member's total bookings and allows the Company to negotiate better commissions and overrides with the supplier company.

HAP*E is the Company's private-labeled, enterprise solution designed for host

Edgar Filing: Joystar Inc - Form 10KSB

travel agencies. Enterprise Hap*E program was created for the thousands of agency owners, managers, and enterprising travel agents. Joystar enables these agents to operate their own "micro" host agencies. The fees for Hap*E members begin at \$299 per month. Included is the master host agency website as well as the ability to manage up to ten sub-agents all with their own personalized websites. Every agent receives access to all Joystar's tools, booking engines, and marketing programs. The monthly fees go up in \$100 per month increments with each new level offering the ability to manage ten additional agents.

NEW TRAVEL AGENTS

According to the Department of Labor statistics over 13 million people operate a home-based business. And over 1,500 new home-based businesses are opened every day. The technology advances within the industry have made it very easy for people without any traditional travel agency experience to succeed as home-based travel agents. The benefits of "owning a travel agency" for less than \$500, appeals to a large diverse group of people. From small business owners, to home-based and internet entrepreneurs - stay at home moms to affluent travelers - Web masters and super-affiliates to every church, little league, and other non-profit in the world. The potential market for this model is in the hundreds of thousands of home-based travel agents and affiliates. In order to ensure the success of new agents and improve the income of Joystar's experienced agents, the Company is developing a "mentor" program. Each new agent will be assigned to a qualifying experienced agent that will provide guidance during their training period. The commission generated during this mentorship will be shared between the trainee and the mentor.

Revenues from transaction fees and commissions, generated by the agents from booking travel with their clients, are shared between Joystar and the agent. Joystar aims to develop a membership base of 150,000 part-time, home-based agents, and online affiliates over the next 5 years. The majority of the members' annual renewal fees in this segment will be \$149. We believe that with the tools, marketing resources and support we provide to their agents, they will produce an average of \$10,000 per year in leisure bookings. Revenue on complex leisure travel is expected to be approximately 15%.

STRATEGY

When airlines stopped paying travel agency commissions and consumers began migrating to online agencies for flights, hotels, and cars, many predicted the demise of the travel agent community. Indeed, thousands of travel agencies did close their doors, but after three years of consolidation, the travel agent industry is experiencing an upturn, especially in the complex leisure products which include cruises, vacation packages, and group travel. As professional travel agents are adapting and re-branding, a new business model is emerging - home-based travel agent hosting and IT outsourcing. There are roughly 25,000 small and mid-sized agencies in America with sales between \$1 million and \$5 million dollars. Of the estimated 100,000 travel agents here in the U.S., it is estimated that between 15,000-20,000 have already moved to home-based operations (Credit Suisse Report).

Independent agents and agency owners are looking for ways to increase revenues, reduce costs, and streamline operations. They are becoming more and more reliant on both technology and the Internet. Joystar relieves travel agents of their non-revenue producing tasks freeing them to do what they do best - sell travel. Members have access to the industry's most advanced booking engines empowering them to book flights, Web fares, car rentals, hotel reservations, cruises, vacations, insurance, and other travel related products. Joystar is proving to be the hands-down choice for serious professionals that want to flourish in this changing and exciting time in the industry. Since the launch of its hosting program in August of 2004, Joystar has signed up over 1,100 agents making it the largest and fastest growing agency in the industry.

Edgar Filing: Joystar Inc - Form 10KSB

The Company's short-term goal is to be hosting 2,000 professional home based travel agents by the end of June of 2005 and 3,500-4,000 by year end. To reach that goal, the Company has implemented an aggressive marketing campaign targeting both home-based agents and traditional agents contemplating the move home.

5

We believe that the hosting models for professional home-based agents will complement our program for the over 13,000,000 Americans who are operating home-based businesses. In this model, the Company aims to enroll 50,000 members by the end of 2006 and 150,000 by 2010. To ensure the success of both experienced and inexperienced agents, the Company intends to assign part-time and novice agents to an experienced home-based agent. Revenues from corporate-assigned sub-agents will be split equally between the new agent, the booking agent, and Joystar. Joystar's strategy for reaching this massive group of home-based Entrepreneur covers multiple channels including marketing website, search engine optimization, Email Marketing and the Company's recently completed Infomercial.

TARGET MARKET

Consumers planning and purchasing a trip generally engage in a predictable process that begins with considering destinations, dates and budgets, and progresses to a series of purchase decisions involving transportation, accommodations and destination activities. Historically, this planning and purchasing process has been inefficient because consumers have to spend a significant amount of time piecing together the information from a variety of sources. Consumers frequently consulted many different media and people, such as guidebooks, magazines, travel agents, friends, co-workers and individual travel suppliers. The supply side of the travel industry can be equally inefficient. The supplier community includes hundreds of airlines, thousands of hotels, dozens of car rental companies, numerous vacation packagers and cruise lines and hundreds of thousands of destination services merchants such as restaurants, attractions, and local transportation and tour providers. These suppliers spend substantial amounts of money to reach and attract potential purchasers. The fragmental nature of the global consumer travel market makes it difficult and inefficient for suppliers to effectively target those consumers who are currently engaged in the travel planning process.

Consumers and suppliers rely on travel agents as intermediaries to provide information on their travel choices and help them purchase their trips. Joystar travel agents have access to comprehensive information on the availability and pricing of airline seats through global distribution systems. The Company makes it possible for our travel agents to provide consumers reliable, comprehensive travel information.

The Company has been able to combat the inefficiency and fragmentation of the industry with technology. Joystar uses technology to make the process of planning and purchasing travel easier for their agents and customers.

GEOGRAPHIC AREA OF SERVICES. The Company plans to offer travel planning services in the United States, the United Kingdom, Canada, and the Puerto Rico. Joystar products are planned to include direct-to-consumer travel planning services sold via the Internet and call centers, our co-branded private label business.

RECENT DEVELOPMENTS

On March 1, 2005, Joystar announced that the Company's membership had surpassed

Edgar Filing: Joystar Inc - Form 10KSB

1,000 professional, home-based agents. This milestone makes the Company not only one of the fastest growing, but also one of the largest host agency in the industry in terms of professional agent members. Joystar launched AGENT ADVANTAGE PRO, its hosting program for professional home-based agents in August of last year with an initial goal of reaching 500 members by July, 2005. In November the Company announced hitting the 500 agent mark and by year end membership had grown to over 700 agents.

A recent report by Credit Suisse/First Boston on the emerging home-based travel agency model estimates there are between 15,000-20,000 professional home-based travel agents in America. This number is expected to grow to over 30,000 by 2007 and near 50,000 by 2010. These professional agents, who have left their traditional storefront travel agencies to operate a home-based agency, represent an estimated \$7.6 billion in travel sales.

On February 28, 2005 Joystar announced a new program for professional home-based travel agents. PRO-100 offers independent and home-based travel agents all of the benefits of the Company's popular AGENT ADVANTAGE PRO, including a consumer website, "Agents Only" extranet and live toll free support.

When implemented later this month, Joystar will offer two booking solutions, a consumer view and an "Agents Only" booking tool. This combination blends real-time access to cruise line inventory to deliver the best response times and closing ratios. The features included are:

6

Co-branded Private Label Cruise Web-Site - An easy, no maintenance solution providing cruise content, technology, and fulfillment with no up-front costs. Private Label Cruise Web-Site - Content, technology, and fulfillment services are housed in a customized user interface. Maintains look and feel as well as branding integrity of the partner's Web site. Connectivity as well as access to robust cruise content, including cruise descriptions, cabin categories, deck plans, amenities, and more.

In 2005, over 10 million passengers spent approximately \$15 billion on cruises. According to a recent Credit Suisse/First Boston report on "The Emerging Home-based Travel Agency Model", it is estimated that the current 90/10 channel mix between travel agents and non-traditional sources (supplier direct and online agencies) will shift to roughly 75/25 by 2008. Joystar's online cruise booking solution will allow our agents to stay ahead of the curve.

The Cruise Booking Engine allows consumers and agents to book and manage cruise reservations online. The integration of the cruise booking engine will provide both consumers and travel agents with:

- Access to over 30 cruise lines and real-time connectivity to 7 major cruise lines including - Carnival, Royal Caribbean, Celebrity, Norwegian Cruise Lines, Princess, Holland America and Windstar.
- A comparative search engine that allows consumers and agents to search and compare up to four cruises side-by-side.

Joystar's home-based travel agents and pure online travel sellers that sell cruises now have a technology that will increase sales and enhance profit margins. The engine also benefits our cruise line partners by reducing sales and distribution expenses.

On March 15, 2005 Joystar announced the opening of The Joystar Miami Cruise Center and enhanced commission opportunities for the Company's travel agent

Edgar Filing: Joystar Inc - Form 10KSB

network. The Florida based Cruise Center will assist our agents in growing their cruise business. The Joystar Miami Cruise Center adds another important support component to the largest segment of our business - cruises. Our agent members benefit from having access to our California support staff, along with a cruise support staff in Florida. The cruise center staff have years of experience in selling group and individual cruises.

The Miami Cruise Center has been recognized as a Carnival Top Account; a Radisson Seven Seas Cruises Top account; a Cunard Inner Circle Agency; a Holland America Centurion Agency; a Norwegian Cruise Lines Capitan's Club Agency; a Princess I-Excel Agency and has held Key Account status with Celebrity and Royal Caribbean Cruise Lines. These preferred supplier relationships give Joystar agents access to top account commission levels and special promotions. This, combined with our new online cruise booking engine, empowers Joystar members to compete head to head, with the likes of Expedia, Travelocity and other large cruise only agencies.

BUSINESS DEVELOPMENT

The Company is developing a global travel marketplace in which travel suppliers can reach, in a highly efficient manner, a large audience of consumers who are actively planning and purchasing complex travel products including cruises and vacation packages. As of April 4, 2005, the Company has a network of over 1,200 professional home-based agents.

In our quest to offer the best hosting services to professional travel agents, Joystar will begin development on iamatravelagent.com. The Web sites will target service-oriented consumers who are looking for an experienced travel professional to help them with their vacation planning. The site is intended to create consumer leads for qualifying travel agents. To receive consumer leads, travel agents must hold a professional designation from either The Travel Institute or, CLIA (Cruise Lines International Association), or IATAN. This qualification will be the primary value proposition for the consumers. They will know that they are dealing with "The Best of the Best" the travel industry has to offer. It will also promote further education and professional standards within the agent community. Agents that want to benefit from the leads generated on iamatravelagent.com.

7

INDUSTRY

According to a recent report by Credit Suisse/First Boston, there are approximately 20,000 professional travel agents working from their homes. That number is expected to grow to nearly 50,000 by 2010. This emerging group represents an estimated \$7.6 billion annually in travel sales. While online travel continues to grow, travel agents are the dominant force in travel distribution, especially in the complex, high-grossing products including vacations, cruises, and group travel. A recent study conducted by the Cruise Line Industry, concluded that 90% of the 10 million people who went on a cruise last year, booked through a travel agent. THOUSANDS UPON THOUSANDS OF TRADITIONAL TRAVEL AGENCIES ARE CLOSING THEIR "STOREFRONT" OPERATIONS IN AN EFFORT TO REDUCE COSTS FUELING THE GROWTH OF THE HOME-BASED SEGMENT. JOYSTAR IS CAPITALIZING ON THIS RAPIDLY EMERGING MARKET BY PROVIDING THEM EVERYTHING THEY NEED TO SUCCEED.

Typical of traditional travel agencies in America, the competitive landscape in the Host Travel Agency space is highly fragmented. The American Society of Travel Agents reported recently that there are more than 25,000 "Mom & Pop" travel agencies, each hosting between one and five home-based agents. And while

Edgar Filing: Joystar Inc - Form 10KSB

there are several "mid-tier" host agencies with sales ranging from \$50 million to \$100 million, no dominant player exists. Joystar aims to be that dominant player in that industry.

COMPANY'S BACKGROUND

Joystar, Inc. was incorporated in the State of California on February 5, 1998 under the name Advanced Refrigeration Technologies, Inc. Its original business operations consisted of designing, manufacturing and marketing an energy efficiency evaporator fan motor controller for walk-in refrigerators and freezers. The Company was unsuccessful in that business and was unable to continue its operations. Since August, 2002, the Company has been actively engaged in finding a potential investor to acquire the Company and bring in a new business.

The Acquisition of Joystar, Inc.

As of June 11, 2003, the Company consummated a transaction, whereby the Company acquired all of the issued and outstanding shares of Joystar, Inc., a Nevada corporation ("Joystar - Nevada") in exchange for the issuance by the Company of a total of 13,880,599 newly issued restricted shares of common voting stock to the Joystar-Nevada shareholders pursuant to the Agreement and Plan of Reorganization, dated as of June 10, 2003, by and between the Company and Joystar (the "Closing"). The Company issued a total of 13,880,599 shares of common stock of Company to Joystar-Nevada shareholders in the transaction. The Company paid \$60,000 at the Closing of the transaction for some of the debts of Advanced Refrigeration Technologies, Inc., and assumed additional liabilities of Company in the approximate amount of \$55,000. Upon the Closing, the all present officers of the Company resigned and William M. Alverson was appointed as the Company's President, Chief Financial Officer and Secretary. Upon the Closing, William M. Alverson was appointed to the Board of Directors of the Company. An additional director was appointed as of June 18, 2003. Immediately prior to the share exchange, there were approximately 3,322,840 shares of the Company's common stock issued and outstanding. As a result of the acquisition, there were approximately 17,203,439 shares of common stock issued and outstanding.

The Asset Sale and Purchase Contract which was entered by and between Advanced Refrigeration Technologies, Inc. and Advanced Refrigeration Controls, Inc, a newly formed corporation by the former shareholders of the Company, included the total assets consisting of inventories, fixed assets and patents for a total value of \$85,063 and the assumption of liabilities including primarily former shareholders loans, for a total amount of \$105,217. The Company had a gain of \$20,154 on the disposition of assets and liabilities.

Merger of Joystar, Inc.

As of June 4, 2004 Joystar, Inc., a Nevada corporation and a wholly-owned subsidiary of the Company, was officially merged with and into Joystar, Inc., a California corporation (formerly Advanced Refrigeration Technologies, Inc.) pursuant to Section 1110(a) of the California Corporations Code and Section 92A.200 of Nevada Revised Statutes. In connection with the merger the Company provided for the name change from Advanced Refrigeration Technologies, Inc. to Joystar, Inc., pursuant to Section 1110(d) of the California Corporations Code. The merger and the name change was approved by the Company's Board of Directors pursuant to Section 1110(a). The shareholders approval of the Company was not required under the California law to effect the merger and the name change and was not obtained for this action.

Edgar Filing: Joystar Inc - Form 10KSB

GOVERNMENT REGULATION

TRAVEL INDUSTRY REGULATION

Joystar must comply with laws and regulations relating to the travel industry and the sale of travel services. These include registering with various states and countries as a seller of travel, complying with certain disclosure requirements and participating in state restitution funds. Both the Federal Trade Commission and the Department of Transportation take the position that their regulations prohibiting unfair and deceptive advertising practices apply to our business.

REGULATIONS OF THE INTERNET

Currently, few laws and regulations apply directly to the Internet and commercial online services and, to the extent such laws exist or apply to us, we believe we are in compliance with all of them. The following summary does not purport to be complete discussion of all enacted or pending regulations and policies that may affect our business. This summary focuses primarily on the enacted federal, state and international legislation specific to businesses that operate as we do. For further information concerning the nature and extent of federal, state and international regulation of online businesses, you should review public notices and rulings of the U.S. Congress, state and local legislature and international bodies.

Due to the growth of the Internet and online commerce, coupled with publicity regarding Internet fraud, new laws and regulations are continually being considered (at the federal, state and international levels) regarding property ownership, sales and other taxes, pricing and content, advertising, intellectual property rights, libel, user privacy, and information security. New laws or different applications of existing laws would likely impose additional burdens on companies conducting business online and may decrease the growth of the Internet or commercial online services. In turn, this could decrease the demand for our products and services or increase our cost of doing business. We cannot predict whether any of the proposed privacy legislation currently pending will be enacted and what effect, if any, it would have on our company.

TAXES. Federal regulation imposing limitations on the ability of states to impose taxes on Internet-based sales was enacted in 1998 and extended in 2001. The Internet Tax Non-Disclosure Act, as this legislation is known, exempts certain types of sales transactions conducted over the Internet from multiple or discriminatory state and local taxation through November 1, 2003. It is possible this legislation will not be renewed when it terminates. Failure to renew this legislation could allow state and local governments to impose taxes on Internet-based sales, and these taxes could decrease the demand for our products or services or increase our cost of operations.

PRIVACY. As an online business, customers provide us with personally identifiable information (PII) that has been specifically and voluntarily given. PII includes information that can identify a customer as a specific individual, such as name, phone number, or e-mail address. This information is used only for the purpose of responding to and fulfilling customer requests for our travel products and services. We will only share customer PII with our authorized travel service providers, and only as necessary in order to complete a transaction that customers specifically request. We do not sell or rent PII to anyone. We provide customers with choice and control over the collection and use of their PII, as well as a means of updating, correcting, or removing any PII stored in their customer profile. Customers are provided the opportunity to specifically choose the promotional marketing communications they wish to receive from our company. If they choose to opt-out any of the promotional

Edgar Filing: Joystar Inc - Form 10KSB

e-mail services that we provide, then we will only send e-mail that relates to a specific travel purchase they have made through us.

CURRENT US FEDERAL PRIVACY REGULATION. Increasing concern over consumer privacy, including regulations related to the use of the Internet for conducting transactions and electronic commerce, has led to the introduction of proposed legislation at the federal level. The most far-reaching of these current laws are focused on financial institutions, health care providers, and companies that voluntarily solicit information from children. For businesses that operate online such as Joystar, the Unsolicited Electronic Mail Act of 1999 has been enacted to protect individuals, families, and internet service providers from unsolicited and unwanted electronic mail, commonly referred to as spamming. Additionally, the Federal Trade Commission has a role in consumer privacy protection and is involved with related enforcement activities.

9

CURRENT STATE PRIVACY REGULATION. Most states have enacted legislation to regulate the protection of consumer's information on the Internet. Much of this legislation is focused on financial institutions and health care providers. The legislation that has become state law is a small percentage of the number still pending, and is similar to what has been enacted at the federal level. The Company cannot predict whether any of the proposed state privacy legislation currently pending review will be enacted and what effect, if any, it would have on our Company.

SPECIAL RISK FACTORS

Prospective investors should carefully consider the risks of an investment in any speculative start-up business and the risks and the speculative factors inherent to and affecting the Company's business described below.

Factors that may cause Joystar to fail are the following:

- The Company's prospects must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stages of development.
- Our inability to obtain new customers at reasonable cost, retain existing customers or encourage repeat purchases.
- Decreases in the number of visitors to our websites or our inability to convert visitors to our websites into customers.
- Our inability to adequately maintain, upgrade and develop our websites, the systems that we use to process customers' orders and payments or our computer network.
- Our inability to retain existing airlines, hotels, rental car companies and other suppliers of travel services ("travel suppliers") or to obtain new travel suppliers .
- Our inability to obtain travel products on satisfactory terms from our travel suppliers.
- The ability of our competitors to offer new or enhanced websites, services or products.
- Fluctuating gross margins due to a changing mix of revenues.

Edgar Filing: Joystar Inc - Form 10KSB

- The termination of existing relationships with key service providers or failure to develop new ones.
- The amount and timing of operating costs relating to expansion of our operations.
- Economic conditions specific to the Internet, online commerce and the travel industry
- Attract additional travel suppliers and consumers to our service.
- Maintain and enhance our brand.
- Expand our service offerings.
- Operate, expand and develop our operations and systems efficiently.
- Maintain adequate control of our expense
- Respond to technological changes.
- Respond to competitive market conditions
- We may not be successful in accomplishing these objectives and our failure to do so may have a material adverse effect on our business, operating results and financial condition.
- We depend on our relationships with travel suppliers, licensees and computer reservation systems; our business could be harmed by adverse changes in these relationships.

10

- Our business model relies on relationships with travel suppliers, and it would be negatively affected by adverse changes in these relationships. We depend on travel suppliers to enable us to offer our customers comprehensive access to travel services and products. Consistent with industry practices, we currently have few agreements with our travel suppliers obligating them to sell services or products through our websites. It is possible that travel suppliers may choose not to make their inventory of services and products available through online distribution. Travel suppliers could elect to sell exclusively through other sales and distribution channels or to restrict our access to their inventory, either of which could significantly decrease the amount or breadth of our inventory of available travel offerings. We will also depend on travel suppliers for advertising revenues.
- In addition to our relationships with travel suppliers, our business model relies on our relationships with licensees and computer reservations systems. Our license revenues are generated through new and existing travel agents.
- Adverse changes in any of these relationships could have a material adverse effect on our business, operating results and financial condition.
- A decline in commission rates or the elimination of commissions could hurt our business.

Edgar Filing: Joystar Inc - Form 10KSB

- A substantial majority of our online revenues depends on the commissions paid by travel suppliers for bookings made through our online travel service. Generally, we do not have written commission agreements with our suppliers. As is standard practice in the travel industry, we rely on informal arrangements for the payment of commissions. Travel suppliers are not obligated to pay any specified commission rate for bookings made through our websites. We cannot assure you that airlines, hotel chains or other travel suppliers will not reduce current industry commission rates or eliminate commissions entirely, either of which could have a material adverse effect on our business, operating results and financial condition.

For example, in 1995, most of the major airlines placed a cap on per-ticket commissions payable to all travel agencies for domestic airline travel. In September 1997, the major United States airlines reduced the commission rate payable to traditional travel agencies from 10% to 8%. In 1997, the major United States airlines reduced the commission rate payable for online reservations from 8% to 5%. In addition, since 1998, many airlines have implemented a zero commission for domestic round trip ticket sales.

- Consumers, travel suppliers and advertisers may not accept our website as a valuable commercial tool which would harm our business.
- For us to achieve significant growth, travel agents, consumers, travel suppliers, and advertisers must accept our website as a valuable commercial tool. Consumers who have historically purchased travel products using traditional commercial channels, such as local travel agents and calling airlines directly must instead purchase these products through our website.
- Similarly, travel suppliers and advertisers will also need to accept or expand their use of our website. Travel suppliers will need to view our websites as an efficient and profitable channel of distribution for their travel products. Advertisers will need to view our website as effective ways to reach their potential customers.
- In order to achieve the acceptance of consumers, travel suppliers and advertisers contemplated by our business plan, we will need to continue to make substantial investments in our technology and brand. We cannot at this time determine how much of an investment it will take nor, be assured that we will be able to secure the funds required. We do not have specific plans or budget at this time. Our failure to make progress in these areas may harm our business.
- Intense competition could reduce our market share and harm our financial performance.
- The markets for the products and services offered by us are intensely competitive. We compete with other online travel reservation services, traditional travel agencies, and travel suppliers offering their services. We also compete with many of the same parties and others in the licensing of technology to home based travel agents and corporate travel agencies.

- We compete with a variety of companies with respect to each product or service we offer. These competitors include: Internet travel agencies such as Expedia, Orbitz, and Travelocity; local, regional, and national and international traditional travel agencies; consolidators and wholesalers of airline tickets and other travel products, including online consolidators such as Cheaptickets.com, Hotwire and Priceline.com.; individual airlines, hotels, rental car companies, cruise operators and other travel service

Edgar Filing: Joystar Inc - Form 10KSB

providers, some of which are suppliers to our websites; operators of travel industry reservation databases.

In addition to the traditional travel agency channel, many travel suppliers, including many suppliers with which we will do business, also offer their travel services as well as third-party travel services directly through their own websites. Suppliers also sell their own services directly to consumers, predominantly by telephone. As the market for online travel services grows, we believe that the companies involved in the travel services industry, including travel suppliers, traditional travel agencies and travel industry information providers, will increase their efforts to develop services that compete with our services by selling inventory from a wide variety of suppliers. We cannot assure you that our online operations will compete successfully with any current or future competitors.

Many of our competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than we have and may enter into strategic or commercial relationships with larger, more established and better-financed companies. Some of our competitors may be able to secure services and products from travel suppliers on more favorable terms, devote greater resources to marketing and promotional campaigns and commit more resources to website and systems development than we are able to devote. In addition, the introduction of new technologies and the expansion of existing technologies may increase competitive pressures. Increased competition may result in reduced operating margins, as well as loss of market share and brand recognition. We cannot assure you that we will be able to compete successfully against current and future competitors. Competitive pressures faced by us could have a material adverse effect on our business, operating results and financial condition.

We believe that establishing, maintaining and enhancing the Joystar brand will be a critical aspect of our efforts to attract and expand our online traffic. The number of Internet sites that offer competing services, many of which already have well-established brands in online services or the travel industry generally, increases the importance of establishing and maintaining brand recognition. Promotion of the Joystar brand will depend largely on our success in providing a high-quality online experience supported by a high level of customer service. In addition, to attract and retain online users and to respond to competitive pressures, we intend to increase our spending substantially on marketing and advertising with the intention of expanding our brand recognition. However, we cannot assure you that these expenditures will be effective to promote our brand or that our marketing efforts generally will achieve our goals.

If we are unable to provide high-quality online services or customer support, if we fail to promote and maintain our brand or if we incur excessive expenses in these efforts, our business, operating results and financial condition would be materially adversely affected. If we are unable to introduce and sell new products and services, our business may be harmed.

We need to broaden the range of travel products and services and increase the availability of products and services that we offer in order to enhance our service. We will incur substantial expenses and use significant resources trying to expand the range of products and services that we offer. However, we may not be able to attract sufficient travel suppliers and other participants to provide desired products and services to our consumers. In addition, consumers may find that delivery through our service is less attractive than other alternatives. If we launch new products and services and they are not favorably received by consumers, our reputation and the value of the Joystar brand could be damaged.

Our relationships with consumers and travel suppliers are mutually dependent since consumers will not use a service that does not offer a broad range of

Edgar Filing: Joystar Inc - Form 10KSB

travel services. Similarly, travel suppliers will not use a service unless consumers actively make travel purchases through it. We cannot predict whether we will be successful in expanding the range of products and services that we offer. If we are unable to expand successfully, our business, operating results and financial condition may be materially adversely affected. We may be unable to plan and manage our operations and growth effectively.

12

- Growth and our anticipated future operations will continue to place, a significant strain on our management, systems and resources. We will continue to increase the scope of our operations and the size of our workforce. In addition to needing to train and manage our workforce, we will need to continue to improve and develop our financial and managerial controls and our reporting systems and procedures. A failure to plan, implement and integrate these systems successfully could adversely affect our business.
- Our growth may increase our expense levels and the difficulties we face in managing our operations.
- Declines or disruptions in the travel industry, such as those caused by terrorism or general economic downturns, could reduce our revenues.
- We rely on the health and growth of the travel industry. Travel is highly sensitive to travel safety concerns, and thus declines may occur after acts of terrorism that affect the safety of travelers. The terrorist attacks of September 11, 2001 on the World Trade Center in New York City and the Pentagon in northern Virginia using hijacked commercial airliners resulted in bookings industry wide. The long-term effects of these events could include, among other things, a protracted decrease in demand for air travel due to fears regarding additional acts of terrorism, military responses to acts of terrorism and increased costs and reduced operations by airlines due, in part, to new security directives adopted by the Federal Aviation Administration. These effects, depending on their scope and duration which we cannot predict at this time together with any future terrorist attacks, could significantly impact our long-term results of operations or financial condition.
- In addition, travel is sensitive to business and personal discretionary spending levels and tends to decline during general economic downturns, which could also reduce our revenues. Other adverse trends or events that tend to reduce travel are likely to hurt our business. These may include:
 - o Price escalation in the airline industry or other travel-related industries.
 - o Increased occurrence of travel-related accidents.
 - o Airline or other travel-related strikes.
 - o Political instability.
 - o Regional hostilities and terrorism.
 - o Bad weather
 - o Interruptions in service from third parties could hurt our business.
- We rely on third-party computer systems and third-party service providers,

Edgar Filing: Joystar Inc - Form 10KSB

including the computerized central reservation systems of the airline, hotel and car rental industries to make airline ticket, hotel room and car rental reservations and credit card verifications and confirmations. Any interruption in these third-party services or deterioration in their performance could hurt our business. If our arrangement with any of these third parties is terminated, we may not find an alternate source of systems support on a timely basis or on commercially reasonable terms.

- Our success depends on maintaining the integrity of our systems and infrastructure.
- As our operations grow in both size and scope, domestically and later internationally, we will need to improve and upgrade our systems and infrastructure to offer an increasing number of travel agents, customers and travel suppliers enhanced products, services, features and functionality. The expansion of our systems and infrastructure will require us to commit substantial financial, operational and technical resources before the volume of business increases, with no assurance that the volume of business will increase. Travel agents, consumers and suppliers will not tolerate a service hampered by slow delivery times, unreliable service levels or insufficient capacity, any of which could have a material adverse effect on our business, operating results and financial condition.

13

- In this regard, our operations face the risk of systems failures. Our systems and operations are vulnerable to damage or interruption from fire, flood, power loss, telecommunications failure, break-ins, earthquake and similar events. Business interruption insurance may not adequately compensate us for losses that may occur. The occurrence of a natural disaster or unanticipated problems at our leased facilities could cause interruptions or delays in our business, loss of data or render us unable to process reservations. In addition, the failure of our computer and communications systems to provide the data communications capacity required by us, as a result of human error, natural disaster or other operational disruption could result in interruption of our service. The occurrence of any or all of these events could adversely affect our reputation, brand and business.
- Rapid technological changes may render our technology obsolete or decrease the competitiveness of our services.
- To remain competitive, we must continue to enhance and improve the functionality and features of our website. The Internet and the online commerce industry are rapidly changing. If competitors introduce new services embodying new technologies, or if new industry standards and practices emerge, our existing website and proprietary technology and systems may become obsolete. Our future success will depend on our ability to do the following:
 - o Enhance our existing services.
 - o Develop and license new services and technologies that address the increasingly sophisticated and varied needs of our prospective customers and suppliers.
 - o Respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis

Edgar Filing: Joystar Inc - Form 10KSB

Developing our website and other proprietary technology entails significant technical and business risks. We may use new technologies ineffectively or we may fail to adapt our websites, transaction-processing systems and network infrastructure to customer requirements or emerging industry standards. If we face material delays in introducing new services, products and enhancements, our customers and suppliers may forego the use of our services and use those of our competitors.

The success of our business will depend on continued growth of online commerce and the Internet.

Our future revenues and profits depend upon the widespread acceptance and use of the Internet and online services as a medium for commerce. Rapid growth in the use of the Internet and online services is a recent phenomenon. This growth may not continue. A sufficiently broad base of consumers may not accept, or continue to use, the Internet as a medium of commerce. Demand for and market acceptance of recently introduced products and services over the Internet are subject to a high level of uncertainty.

The Internet has experienced, and is expected to continue to experience, significant growth in the number of users and amount of traffic. Our success will depend upon the development and maintenance of the Internet's infrastructure to cope with this increased traffic. This will require a reliable network backbone with the necessary speed, data capacity and security and the timely development of complementary products for providing reliable Internet access and services. Major online service providers and the Internet itself have experienced outages and other delays as a result of software and hardware failures and could face such outages and delays in the future. Outages and delays are likely to affect the level of Internet usage and the processing of transactions on our websites. In addition, the Internet could lose its viability because of delays in the development or adoption of new standards to handle increased levels of activity or of increased government regulation. The adoption of new standards or government regulation may require us to incur substantial compliance costs.

- Our business is exposed to risks associated with online commerce security and credit card fraud.

14

Consumer concerns over the security of transactions conducted on the Internet or the privacy of users may inhibit the growth of the Internet and online commerce. To transmit confidential information such as customer credit card numbers securely, we rely on encryption and authentication technology. Unanticipated events or developments could result in a compromise or breach of the systems we use to protect customer transaction data. Furthermore, our servers may also be vulnerable to viruses transmitted via the Internet. While we proactively check for intrusions into our infrastructure, a new and undetected virus could cause a service disruption.

Under current credit card practices, we may be held liable for fraudulent credit card transactions and other payment disputes with customers. A failure to control fraudulent credit card transactions adequately would adversely affect our business.

- Our planned international operations will involve risks.

At some time in the future, we plan to operate in the United Kingdom, Germany, Canada, France, the Netherlands and Italy and may expand our operations to other countries. In order to achieve widespread acceptance in each country we enter,

Edgar Filing: Joystar Inc - Form 10KSB

we believe that we must tailor our services to the unique customs and cultures of that country. Learning the customs and cultures of various countries, particularly with respect to travel patterns and practices, is a difficult task and our failure to do so could slow our growth in those countries. We will be subject to the normal risks of doing business internationally, as well as risks specific to Internet-based companies in foreign markets. These risks include:

- o Delays in the development of the Internet as a broadcast, advertising and commerce medium in international markets.
 - o Difficulties in managing operations due to distance, language and cultural differences, including issues associated with establishing management systems infrastructures in individual foreign markets.
 - o Unexpected changes in regulatory requirements.
 - o Export and import restrictions.
 - o Tariffs and trade barriers and limitations on fund transfers.
 - o Difficulties in staffing and managing foreign operations.
 - o Potential adverse tax consequences.
 - o Exchange rate fluctuations.
- Increased risk of piracy and limits on our ability to enforce our intellectual property rights.

Any of these factors could harm our business. We may not elect to hedge our foreign currency exposures.

We may be found to have infringed on intellectual property rights of others which could expose us to substantial damages and restrict our operations.

We could be subject to claims that we have infringed the patents, copyrights or other intellectual property rights of others. In addition, we may be required to indemnify travel suppliers for claims made against them. Any claims against us could require us to spend significant time and money in litigation, delay the release of new products or services, pay damages, develop new intellectual property or acquire licenses to intellectual property that is the subject of the infringement claims. These licenses, if required, may not be available on acceptable terms or at all. As a result, intellectual property claims against us could have a material adverse effect on our business, operating results and financial condition.

- Because our market is seasonal, our quarterly results will fluctuate.

15

- Our limited operating history and anticipated rapid growth will make it difficult for us to assess the impact of seasonal factors on our business. Nevertheless, we expect our business to be subject to seasonal fluctuations, reflecting seasonal trends for the products and services offered by our websites. For example, demand for travel bookings may increase in anticipation of summer vacations and holiday periods, but online travel bookings may decline with reduced Internet usage during the summer months. These factors could cause our revenues to fluctuate from quarter to quarter. Our results may also be affected by seasonal fluctuations in the inventory made available to our service by travel

Edgar Filing: Joystar Inc - Form 10KSB

suppliers. Airlines, for example, typically enjoy high demand for tickets through traditional distribution channels for travel during holiday periods. As a result, during these periods, airlines may either have fewer inventories to offer through our service or available tickets may be less competitively priced. These same factors are expected to affect rental cars, hotels and other travel products and services.

- Our success depends in large part on the continuing efforts of a few individuals and our ability to continue to attract, retain and motivate highly skilled employees.
- We will depend substantially on the continued services and performance of our senior management, particularly William M. Alverson, our Chief Executive Officer and President. The loss of the services of any executive officers or other key employees could hurt our business.
- Our website will rely on intellectual property, and we cannot be sure that this intellectual property will be protected from copy or use by others, including potential competitors.
- We regard some of our content and technology as proprietary and will try to protect our proprietary technology by relying on trademarks, copyrights, trade secret laws and confidentiality agreements with consultants. In connection with our license agreements with third parties, we seek to control access to and distribution of our technology, documentation and other proprietary information. Even with all of these precautions, it is possible for someone else to copy or otherwise obtain and use our proprietary technology without our authorization or to develop similar technology independently. Effective trademark, copyright and trade secret protection may not be available in every country in which our services are made available through the Internet, and policing unauthorized use of our proprietary information is difficult and expensive. We cannot be sure that the steps we will take will prevent misappropriation of our proprietary information. This misappropriation could have a material adverse effect on our business. In the future, we may need to go to court to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. This litigation might result in substantial costs and diversion of resources and management attention.
- We plan to license from third parties, certain technologies incorporated into our website. As we introduce new services that incorporate new technologies, we may be required to license additional technology from third parties. We cannot be sure that these third-party technology licenses will continue to be available on commercially reasonable terms, if at all.
- Critical Accounting Policies and Estimates

a) Revenue Recognition

We recognize agency revenues on hotel, cruise and car rental reservations at the earlier of notification of the amount of the commission from a commission clearinghouse or a supplier or on receipt of the commissions from an individual supplier. Override commissions are recognized each period based upon our projected and actual attainment of predetermined target sales levels. Where historical financial data is not available to project the target sales levels, we record the override commission upon receipt of the commission from the supplier.

Our merchant revenues are derived from transactions where we are the merchant of record and determine the price. We have agreements with suppliers for blocks of inventory that we sell and these sales generate the majority of our total

Edgar Filing: Joystar Inc - Form 10KSB

merchant revenues. We do not have purchase obligations for unsold inventory. Recognition of merchant revenue occurs on the date the traveler uses the inventory, such as the date of airline departure or hotel stay.

16

b) Reserves

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events.

We are potentially subject to a concentration of credit risk from our accounts receivable. Also, we record a reserve against the use of fraudulent credit cards on our Web sites and customer service related chargebacks.

- We are subject to other risks and uncertainties common to growing technology-based companies, including rapid technological change, growth and commercial acceptance of the Internet, dependence on third-party technology, challenges to patents, new service introductions and other activities of competitors, dependence on key personnel, international expansion, and limited operating history. In addition, we are subject to uncertainty caused by economic, political and transportation climates and events, such as the September 11, 2001 terrorist activities, which may impact future demand for the products and services that we sell.

Regulatory and legal uncertainties could harm our business.

The laws and regulations applicable to the travel industry affect us and our travel suppliers. We are subject to laws and regulations relating to the sale of travel services, including those prohibiting unfair and deceptive practices and those requiring us to register as a seller of travel, comply with disclosure requirements and participate in state restitution funds. In addition, many of our travel suppliers and computer reservation systems providers are heavily regulated by the United States and other governments. Our services are indirectly affected by regulatory and legal uncertainties affecting the businesses of our travel suppliers and computer reservation systems providers.

We are also subject to laws and regulations applicable to businesses generally and online commerce. Currently, few laws and regulations directly apply to the Internet and commercial online services. Moreover, there is currently great uncertainty about whether or how existing laws governing issues such as property ownership, sales and other taxes, libel and personal privacy apply to the Internet and commercial online services. It is possible that laws and regulations may be adopted to address these and other issues. Further, the growth and development of the market for online commerce may prompt calls for more stringent consumer protection laws. New laws or different applications of existing laws would likely impose additional burdens on companies conducting business online and may decrease the growth of the Internet or commercial online services. In turn, this could decrease the demand for our products and services increase our cost of operations or otherwise hurt our business.

The market price for our common stock is likely to be highly volatile and subject to wide fluctuations in response to factors including the following:

- o Actual or anticipated variations in our quarterly operating results.
- o Announcements of technological innovations or new services by us or our competitors.

Edgar Filing: Joystar Inc - Form 10KSB

- o Changes in financial estimates by securities analysts.
- o Conditions or trends in the Internet or online commerce industries.
- o Changes in the economic performance or market valuations of other Internet, online commerce or travel companies.
- o Announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments.
- o Additions or departures of key personnel.
- o Release of lock-up or other transfer restrictions on our outstanding shares of common stock or sales of additional shares of common stock.
- o Potential litigation

17

The market prices of the securities of Internet-related and online commerce companies have been especially volatile. Broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. In the past, following periods of volatility in the market price of their stock, many companies have been the subject of securities class action litigation. If we were sued in a securities class action, it could result in substantial costs and a diversion of management's attention and resources and would adversely affect our stock price.

Future sales of substantial amounts of common stock in the public market could adversely affect prevailing market prices. Sales of substantial amounts of our common stock in the public market after the restrictions lapse could adversely affect the prevailing market price and impair our ability to raise equity capital in the future.

We will need to raise additional capital in order to remain competitive in the online travel services industry. This capital may not be available on acceptable terms, if at all.

We will not be able to fund our growth if we lack adequate resources. If we raise additional funds by issuing equity or convertible debt securities, the percentage ownership of our stockholders will be diluted. Any securities could have rights, preferences and privileges senior to those of the common stock.

Item 2. DESCRIPTION OF PROPERTY

The Company maintains its corporate offices in Aliso Viejo, California. The Company leased office space under an operating lease, which expired in April of 2005. The Company was advised that the building was being sold and the Company would be required to vacate. The Company acquired new office space and moved in February 2005, subsequent to the year ended December 31, 2004. The Company occupies approximately 6,135 square feet pursuant to the lease agreement entered on February 15, 2005. The Company pays \$1.80 per square foot for the first 0-12 months, full service gross; \$1.85 per square foot, full service gross for the next 13-24 months, and \$1.90 per square, full service gross for the next 25-36 months. The lease agreement is for a term of 36 months with an option to extend

Edgar Filing: Joystar Inc - Form 10KSB

for a period of three years.

Rental expense was \$70,860 and \$47,000 for the years ended December 31, 2004 and 2003, respectively.

We believe that our existing facilities are adequate to meet our current needs and that suitable additional or alternative space will be available in the future on commercially reasonable terms, although we have no assurance that future terms would be as favorable as our current terms.

The Company has not invested in any real property at this time nor does the Company intend to do so. The Company has no formal policy with respect to investments in real estate or investments with persons primarily engaged in real estate activities.

Item 3. LEGAL PROCEEDINGS

In March, 2004 a former employee of the Company who was terminated prior to the acquisition of Joystar, filed a lawsuit in Orange County Superior Court for breach of contract and specific performance relating to the exercise of options, among other causes of action. A proposed settlement has been submitted to the Company in which the Company will issue an additional 300,000 shares and a cash payment of \$12,700 for cost. As of the date of this report, this agreement has not yet been finalized. The Company's financial statements do not reflect any adjustment to record the possible settlement.

An independent third party stockbroker has filed a lawsuit against the Company for refusal to register certain shares to them. A proposed settlement has been submitted by the Company in which the Company will register an additional 138,600 shares. As of the date of this report, this agreement has not yet been finalized. The Company's financial statements do not reflect any adjustment to record the possible settlement.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year ended December 31, 2004.

18

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder

Matters

PUBLIC MARKET

Joystar's common stock trades under the symbol JYSR on the NASD Over The Counter Bulletin Board (OTCBB). There were 115 shareholders of record as of April 7, 2005. The price of the Company's common stock as of April 7, 2005 WAS \$0.46 (OPEN) AND \$0.42 (CLOSE).

The company's high and low closing bid and close information for the fiscal

Edgar Filing: Joystar Inc - Form 10KSB

years ended December 31, 2004 and 2003 is listed below as provided by the NASD OTC Bulletin Board. Quotations reflect inter-dealer prices, without retail mark-up, markdown, or commission and may not represent actual transactions.

DATE	OPEN	HIGH	LOW	CLOSE*
JAN-04	2.20	3.20	1.90	2.79
FEB-04	2.65	3.00	2.05	2.25
MAR-04	2.25	3.00	0.84	1.95
APR-04	1.65	2.17	1.18	1.40
MAY-04	1.35	2.10	1.05	2.00
JUN-04	1.85	2.15	0.44	1.12
JUL-04	1.30	1.30	0.51	0.95
AUG-04	0.93	1.09	0.45	0.68
SEP-04	0.67	1.98	0.67	1.40
OCT-04	1.30	1.80	1.03	1.03
NOV-04	1.03	1.59	0.90	0.96
DEC-04	1.01	1.05	0.57	0.75
JAN-03	0.01	0.01	0.01	0.01
FEB-03	0.01	0.01	0.01	0.01
MAR-03	0.01	0.07	0.01	0.02
APR-03	0.02	0.04	0.01	0.04
MAY-03	0.03	0.03	0.03	0.03
JUN-03	0.03	1.00	0.03	0.68
JUL-03	0.68	0.68	0.40	0.55
AUG-03	0.55	2.35	0.55	2.10
SEP-03	2.08	2.40	1.05	1.80
OCT-03	1.80	2.05	1.60	1.90
NOV-03	1.90	2.00	1.55	2.00
DEC-03	2.00	2.25	1.35	2.20

* Historical data provided by Commodity Systems, Inc.

Edgar Filing: Joystar Inc - Form 10KSB

DIVIDENDS

The Company does not expect to pay any dividends at this time. The payment of dividends, if any, will be contingent upon the Company's revenues and earnings, if any, capital requirements, and general financial condition. The payment of any dividends will be within the discretion of the Company's Board of Directors and may be subject to restrictions under the terms of any debt or other financing arrangements that the Company may enter into in the future. The Company presently intends to retain all earnings, if any, for use in the Company's business operations and accordingly, the Board does not anticipate declaring any dividends in the foreseeable future.

RECENT SALES OF UNREGISTERED SECURITIES

The Company acquired all of the issued and outstanding common stock of Joystar, Inc., a Nevada corporation ("Joystar") in exchange for the issuance by the Company of a total of 13,880,599 newly issued restricted shares of common voting stock dated as of June 10, 2003.

The Company issued 215,000 shares of common stock in payment of invoices for professional services of \$15,000 in June, 2003.

The Company issued the 400,000 shares as of November 14, 2003 and recorded compensation expense of \$63,000 for the year ended December 31, 2004 and \$25,750 for period ended December 31, 2003.

Pursuant to an employment agreement for a Vice President of Business Development, the Company issued the 2,000,000 shares on November 14, 2003 and recorded compensation expense of \$210,000 for the year ended December 31, 2004 and \$87,500 for period ended December 31, 2003.

On November 11, 2003 the Company issued 28,571 common shares of restricted stock for services valued at the market price of the Company's stock on that date of \$1.80, \$51,428.

During the quarter ended September 30, 2003, the Company sold in its private placement a total of 316,267 shares of its common stock at a purchase price of \$1.50 per share, for the total purchase price of \$474,400. During the quarter ended June 30, 2003, the Company sold 60,000 shares of its common stock at a purchase price of \$1.50 in its private placement.

The shares of the Company's common stock were issued and sold in reliance upon the exemption provided by Section 4(2) and Section 506 of Regulation D of the Securities Act of 1933. The offers and sales in the Company's private placement were made to accredited investors only.

During the year ended December 31, 2004, the Company issued 642,223 shares of common stock in a private placement for a total sales price of \$692,185 an average sales price of \$1.08 per share. During 2003 and 2004 the Company has received subscriptions to purchase 537,333 shares of common stock for \$704,800 and authorized 150,000 shares subscribed for additional officers compensation \$90,000 at December 31, 2004. Such 150,000 shares have not been issued yet.

During the year ended December 31, 2004 the Company issued 1,475,133 shares of common stock for services valued at the fair market value price of the Company's stock on the dates issued \$1,507,942 an average of \$1.02 a share.

The shares issued in the private placements set forth above were issued in

Edgar Filing: Joystar Inc - Form 10KSB

reliance upon the exemption from registration set forth in Section 4(2) of the Securities Act and Regulation D (Rules 505 and/or 506) promulgated under the Securities Act. The shares were offered and sold to investors who were "accredited investors" as defined in the Securities Act.

Loans payable to shareholder at December 31, 2003, \$83,295 were converted to 60,000 shares of common stock during the year ended December 31, 2004.

20

As of November 8, 2004, the Company commenced its private placement offering of up to \$1,000,000 of units consisting of four shares of common stock and one warrant to purchase a share of common stock at an exercise price of \$1.25 per share. Each unit is being sold at \$2.00 purchase price. The units are offered by the Company to accredited investors only in reliance on Section 505/506 of the Regulation D of the Securities Act of 1933. The Company issued 100,000 units (400,000 shares, \$200,000) that were subscribed as of December 31, 2004 in February and March 2005.

The shares issued in the private placements set forth above were issued in reliance upon the exemption from registration set forth in Section 4(2) of the Securities Act and Regulation D (Rules 505 and/or 506) promulgated under the Securities Act. The shares were offered and sold to investors who were "accredited investors" as defined in the Securities Act.

The Company has issued 320,000 shares of common stock for services rendered in February and March 2005 valued at \$200,000.

Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF PLAN OF OPERATION

The information contained in this section has been derived from our consolidated financial statements and should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those expressed or implied in these forward-looking statements as a result of various factors, including those set forth at the end of this section under "Factors That May Impact Our Results of Operations".

Overview

Joystar specializes in selling complex travel products including cruises, vacation packages and group travel through its national sales force of over 1,300 of independent travel agents. As of April 14, 2005 the Company's membership was 1,385 agents. The Company's goal is to expand the size of our agency including offering superior value and making our services available to all. The effect of having such a massive and growing network of independent and home-based travel retailers all booking under the Joystar Agency umbrella is intended to significantly increase our sales and revenue, and building a strong brand recognition.

The thousands of travel agents who have migrated home or plan to make the move to a home-based operation are creating a virtual "land grab" in the host travel agency model. In the 3rd quarter of 2004, while still in the development stage of programs for professional agents and a program for developing new travel

Edgar Filing: Joystar Inc - Form 10KSB

retailers, the Company made a strategic move to focus solely on experienced travel professionals. Our decision was based on the following factors:

- Weak value proposition to professional agents from competition
- Highly fragmented competition
- No dominant player existed

At the same time, because Joystar was an entrant to the travel industry, it had not yet advanced through the productivity and commission levels that the supplier community sets. By focusing on catering solely to professional agents, Joystar believes it could accomplish an absolutely vital goal maximizing the Company's commission levels. To accomplish this Joystar developed the most lucrative and highly rewarding in the Company's opinion, compensation plan in the industry. Over and above the cash compensation, we offer all our agents a stock option in the Company to tie them to our success.

Unlike our competitors who charge fees ranging from \$150-\$7,995 for similar programs, Joystar introduced a zero fee program, Agent Advantage Pro. Benefits included a free consumer Web site, and free access to "Agents Only" site. Our obvious strategy here was to build market share by signing on new home-based professional agents and to attract existing professional, home based agents away from our competing host agencies.

21

Because of our value proposition, we have been very successful in signing up new agents and eroding our competitors' market share. In just nine months, Joystar signed up over 1300 travel agents making it one of the fastest growing and largest agencies in the industry. However, in the first quarter of 2005, the Company still had one major goal to accomplish after the travel agents signed up, and that was to get 100% of them actively booking with Joystar's agency ID. (IATAN #or telephone number depending on the supplier.) For the last quarter of 2004, bookings were nacent because Joystar's commission levels were still lower than that of our more mature competitors (10%-12% compared to 14-16%).

Although our agents were booking some trips through us, we recognized that we would have to wait until our commission levels reached that of our competitors before we began to see the massive volumes of bookings that thousands of professional agents can generate.

In the first quarter of 2005, Joystar's commission levels with our preferred suppliers increased substantially. With the opening of the Miami Cruise Center in March, 2005, the enhanced commission levels that Joystar can now offer Independent travel agents are some of the most competitive in the industry in the Company's opinion.

Bookings in 2005 are rapidly escalating. Since opening the Miami Cruise Center in March, 2005, we have been able to offer our agents much higher commission levels. In the first two months of 2005 we booked approximately one million dollars in sales. In March, 2005, we booked approximately one million dollars in sales and we are on track to book sales over \$1,500,000 in April, 2005. Based on this rate of increase, we expect to be booking approximately \$5,000,000 per month in gross travel sales by the end of the second quarter. Each month we are adding 200-300 agents who we believe will book approximately \$150,000 each in complex travel annually. Furthermore, based on our rapidly increasing size in terms of agents and their corresponding bookings, we will likely be at the same or higher levels of commissions than our competitors by the end of the second quarter of 2005. There are no assurances that the Company will be successful in

Edgar Filing: Joystar Inc - Form 10KSB

its endeavors and expectations.

Once these levels are met, Joystar will be able to concentrate on reinforcing its dominant position in the industry. We are on target to hit 2,000 professional agent members by the end of the second quarter and believe that the economies of scale and resulting critical mass will allow for a substantial leap in both booking volume and number of new travel agents. We believe we will have 3,500-4,000 agents by the end of the year and be at over 100 million dollars in annualized sales going into 2006.

According to a recent report issued by Credit Suisse/ First Boston, there are currently 15,000 to 20,000 professional, home based agents. This number is expected to grow to approximately 50,000 agents by 2010. In the management's opinion, Joystar is on track to have an approximate twenty percent market share by year end and aims to increase that to thirty percent market share by the end of 2007.

In order to fund the Company's growth, we have engaged an NASD member firm to provide investment banking services. The Company intends to raise approximately 5 million dollars in 2005 and apply for a listing on the American Stock Exchange in the fourth quarter. There are no assurances that such steps will be taken.

Our business is dependent on the health and growth of the travel industry. Travel is highly sensitive to traveler safety concerns, and thus declines after acts of terrorism that affect the safety of travelers. The terrorist attacks of September 11, 2001, resulted in a decrease in new travel bookings worldwide and may reduce our revenues in future quarters. The long-term effects of these events could include, among other things, a protracted decrease in demand for air travel due to fears regarding additional acts of terrorism, military responses to acts of terrorism and increased costs and reduced operations by airlines due, in part, to new security directives adopted by the Federal Aviation Administration. These effects, depending on their scope and directives, which we cannot predict at this time, together with any future terrorist attacks, could significantly impact our long-term results of operations or financial condition.

22

RESULTS OF OPERATIONS

For the Fiscal Year Ended December 31, 2004 Compared to the Fiscal Year Ended

December 31, 2003

The Company has been in the development stage since its inception.

Revenues for the year ended December 31, 2004 increased to \$69,000 from \$43,000 for the year ended December 31, 2003. The increase of \$26,000 (60%), although in dollars is not significant, is a step forward and our accelerated signing up of additional travel agents as of the last quarter of 2004 and first quarter of 2005 should produce substantial increases in revenues for 2005.

Marketing and sales expenses for the year ended December 31, 2004 increased to \$1,453,000 from \$401,000 for the year ended December 31, 2003. The increase of \$1,052,000, (263%) is due to the production of an infomercial and stock issued for marketing services.

General and Administrative expenses for the year ended December 31, 2004

Edgar Filing: Joystar Inc - Form 10KSB

increased to \$1,967,000 from \$655,000 for the year ended December 31, 2003. The increase of \$1,312,000 (200%) is due primarily to the increased salaries and wages of \$488,000, increase in use of independent contractors - \$349,000, increased legal and accounting expenses related to SEC filings and lawsuit - \$136,000, increased rent of \$24,000, increased utilities of \$20,000, increased insurance expense of \$16,000, increased travel of \$63,000 and an increase in all other general and administrative expenses of \$229,000.

Interest expense for the year ended December 31, 2004 decreased to \$0 as compared to \$5,644 in the year ended December 31, 2003.

Net loss for the year ended December 31, 2004 increased to \$3,371,000 from \$1,018,000 for the year ended December 31, 2003. The increase in loss \$2,353,000 (231%) was primarily due to the increased expenses detailed.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a cash balance of \$283,869 at December 31, 2004 as compared to \$136,319 at December 31, 2003.

The Company had negative working capital at December 31, 2004. The Company has been able to raise sufficient capital to continue operations by its securities. In 2002 the Company raised \$105,000, in 2003 - \$673,800 and in 2004, \$692,185. The Company has funded certain expenses by issuing shares for compensation and services. During the year ended December 31, 2003 the Company issued 3,453,571 shares valued at \$1,098,728, of which \$204,478 were for 2003 expenses, \$273,000 were for 2004 and \$621,250 were deferred to future year expenses. In the year ended December 31, 2004 the Company issued 1,475,133 shares valued at \$1,507,942 for services.

The Company expects to finance the capital needed with additional issuances of its securities. In order to fund the Company's growth, the Company has engaged an NASD member firm to provide investment banking services. The Company intends to raise approximately 5 million dollars in 2005. There is no assurance that the Company will be able to secure such financing.

Item 7. FINANCIAL STATEMENTS

The consolidated financial statements of the Company required to be included in Item 7 are listed in this index, and follow this page:

Report of Independent Certified Public Accountant	F-1
Financial Statements	
Consolidated Balance Sheets	F-2
Consolidated Statements of Operations	F-3
Consolidated Statement of Shareholders' Equity	F-4
Consolidated Statements of Cash Flows	F-5
Notes to Consolidated Financial Statements	F-6

REPORT OF INDEPENDENT REGISTERED ACCOUNTING FIRM

Board of Directors and Stockholders
Joystar, Inc.

Edgar Filing: Joystar Inc - Form 10KSB

We have audited the accompanying balance sheets of Joystar, Inc. (a development stage enterprise) (the Company) as of December 31, 2004 and 2003, and the related statements of operations, stockholders' equity (deficit) and cash flows for the years then ended and for the period from inception (May 23, 2001) through 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 and 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 Joystar, Inc. as of December 31, 2004 and 2003, and the results of its operations and cash flows for the years then ended and for the period from inception (May 23, 2001) through December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed further in Note 3, the Company has been in the development stage since its inception (May 23, 2001) and continues to incur significant losses. The Company's viability is dependent upon its ability to obtain future financing and the success of its future operations. These factors raise substantial doubt as to the Company's ability to continue as a going concern. Management's plan in regard to these matters is also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Mendoza Berger & Company, LLP

Irvine, California
March 24, 2005

F-1

JOYSTAR, INC.
(A DEVELOPMENT STAGE COMPANY)
BALANCE SHEETS

	December 31, 2004	December 31, 2003
	-----	-----
ASSETS		
Current assets:		
Cash	\$ 283,869	\$ 136,319
Other receivables	100	2,000

Edgar Filing: Joystar Inc - Form 10KSB

Prepaid expenses	16,265	8,042
	-----	-----
Total current assets	300,234	146,361
Property and equipment, net	37,327	22,690
	-----	-----
Total assets	\$ 337,561	\$ 169,051
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 144,416	\$ 132,198
Accrued salaries	172,038	150,235
Accrued payroll taxes	203,970	48,239
Accrued rent	35,000	35,000
Loans from officers	259,834	83,795
	-----	-----
Total current liabilities	815,258	449,467
Commitments and contingency	--	--
Stockholders' equity (deficit):		
Preferred stock, no par value, 10,000,000 shares authorized; none issued	--	--
Common stock, no par value, 50,000,000 shares authorized; 23,228,633 and 21,051,277 shares issued and outstanding at December 31, 2004 and 2003, respectively	4,178,663	1,895,241
Stock issued for deferred compensation	(621,250)	(894,250)
Stock subscribed not issued, 887,333 shares and 118,667 shares at December 31, 2004 and 2003, respectively	794,800	176,800
Deficit accumulated during development stage	(4,829,910)	(1,458,207)
	-----	-----
Total stockholders' equity (deficit)	(477,697)	(280,416)
	-----	-----
Total liabilities and stockholders' equity (deficit)	\$ 337,561	\$ 169,051
	=====	=====

The accompanying notes are an integral part of these financial statements

F-2

JOYSTAR, INC.
STATEMENTS OF OPERATIONS

		Cumulative
		amounts from
For the year	For the year	inception (May

Edgar Filing: Joystar Inc - Form 10KSB

	ended December December 31, 2004	ended December December 31, 2003	23, 2001) to December 31, 2004
	-----	-----	-----
Income:			
Travel agent programs and commissions	\$ 68,995	\$ 43,170	\$ 118,428
	-----	-----	-----
Operating expenses:			
General and administrative	1,987,475	655,535	2,850,243
Marketing and sales	1,453,223	400,868	1,976,509
	-----	-----	-----
Total operating expenses	3,440,698	1,056,403	4,826,752
	-----	-----	-----
Loss from operations before interest and taxes	(3,371,703)	(1,013,233)	(4,708,324)
Interest expense	--	5,644	5,644
Provision for taxes - State	--	--	--
	-----	-----	-----
Net loss	\$ (3,371,703)	\$ (1,018,877)	\$ (4,713,968)
	=====	=====	=====
Loss per share	\$ (0.15)	\$ (0.06)	
	=====	=====	
Weighted average number of common shares outstanding	21,863,227	18,106,979	
	=====	=====	

The accompanying notes are an integral part of these financial statements

F-3

JOYSTAR, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
FROM INCEPTION (MAY 23, 2001) TO DECEMBER 31, 2004

	COMMON STOCK		Stock issued for Deferred Compensation	Stock Subscrib not Issued
	Number of Shares	Amount		
	-----	-----	-----	-----
Balance at inception - May 23, 2001	--	\$ --	\$ --	\$ --

Edgar Filing: Joystar Inc - Form 10KSB

Stock issued for services	16,715,000	16,715	--	
Net loss	--	--	--	
Balance at December 31, 2001	16,715,000	16,715	--	
Stock issued various dates for cash at \$1.50 per share	70,667	105,998	--	
Net loss	--	--	--	
Balance at December 31, 2002	16,785,667	122,713	--	
Shares canceled by majority shareholder	(3,000,000)	--	--	
Stock issued various dates for cash at \$1.50 per share	94,932	142,300	--	
Balance June 11, 2003 date of acquisition of Joystar, Inc. shares in a reverse merger	13,880,599	265,013	--	
Cancel Joystar shares	(13,880,599)	--	--	
Advanced Refrigeration shares outstanding at June 11, 2003	3,322,840	--	--	
Issue Advanced Refrigeration Technologies, Inc. shares	13,880,599	--	--	
Stock issued pursuant to the stock option plan June 11, 2003 at market value of stock \$0.03 per share	810,000	24,300	--	
Stock issued for services	215,000	15,000	--	
Stock issued for past and future compensation	2,400,000	1,008,000	--	
Future compensation deferred until earned	--	--	(894,250)	
Stock issued various dates for cash at between \$0.50 and \$1.50 per share	394,267	531,500	--	
Stock issued for services	28,571	51,428	--	
Stock subscribed not issued 118,667 shares	--	--	--	176,8
Net loss	--	--	--	
Balance at December 31, 2003	21,051,277	1,895,241	(894,250)	176,8
Stock issued for services	1,475,133	1,507,942	--	
Stock issued for cash	642,223	692,185	--	
Stock issued for note payable	60,000	83,295	--	
Deferred compensation earned	--	--	273,000	
Stock subscribed not issued 768,666 shares	--	--	--	618,0
Net loss	--	--	--	
Balance December 31, 2004	23,228,633	\$ 4,178,663	\$ (621,250)	\$ 794,8

The accompanying notes are an integral part of these financial statements.

F-4

JOYSTAR, INC.
STATEMENTS OF CASH FLOWS

Edgar Filing: Joystar Inc - Form 10KSB

	For the year ended December 31, 2004	For the year ended December 31, 2003	Cumulative amounts from inception (May 23, 2001) to December 31, 2004
	-----	-----	-----
Cash flows from operating activities:			
Net loss	\$(3,371,703)	\$(1,018,877)	\$(4,713,968)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	8,765	2,608	11,373
Stock issued for services	1,780,942	204,478	2,002,135
Changes in assets and liabilities:			
Increase in prepaid expenses	(8,223)	(8,042)	(16,265)
Increase in other receivables	1,900	(2,000)	(100)
Increase in accounts payable	12,218	122,480	144,416
Increase in accrued salaries and payroll taxes	177,534	116,663	376,008
Increase in accrued rent	--	(19,000)	35,000
	-----	-----	-----
Net cash used by operations	(1,398,567)	(601,690)	(2,161,401)
	-----	-----	-----
Cash flows from investing activities:			
Acquisition of property and equipment	(23,402)	(22,892)	(48,700)
	-----	-----	-----
Net cash used by investing activities	(23,402)	(22,892)	(48,700)
	-----	-----	-----
Cash flows from financing activities:			
Loans from officers	259,334	21,218	259,334
Issuance of common stock	692,185	673,800	1,555,778
Stock subscribed not issued	618,000	176,800	794,800
Payment of debt in reverse acquisition	--	(115,942)	(115,942)
	-----	-----	-----
Net cash provided by financing activities	1,569,519	755,876	2,493,970
	-----	-----	-----
Increase in cash	147,550	131,294	283,869
Cash at the beginning of the year	136,319	5,025	--
	-----	-----	-----
Cash at the end of year	\$ 283,869	\$ 136,319	\$ 283,869
	=====	=====	=====
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Issuance of stock and stock subscribed (\$22,500) for services	\$ 1,802,692	\$ 204,478	\$ 2,023,885
Income taxes paid	\$ 2,585	\$ --	\$ 2,585
Shares issued for shareholder loan	\$ 83,295	\$ --	\$ 83,295
Interest paid	\$ --	\$ 5,644	\$ 5,644

Edgar Filing: Joystar Inc - Form 10KSB

The accompanying notes are an integral part of these financial statements

F-5

JOYSTAR, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
AND CUMULATIVE FROM INCEPTION (MAY 23, 2001) TO DECEMBER 31, 2004

1. BASIS OF PRESENTATION

On June 11, 2003, Joystar, Inc. (formerly Advanced Refrigeration Technologies, Inc. a California corporation) (" the Company") acquired all of the issued and outstanding common stock of Joystar, Inc., a Nevada corporation ("Joystar") in exchange for the issuance by the Company of a total of 13,880,599 newly issued restricted shares of common voting stock to the Joystar shareholders pursuant to the Agreement and Plan of Reorganization dated as of June 10, 2003. Prior to the issuance of the shares, the Company had 3,322,840 shares of common stock issued and outstanding. Subsequent to the exchange there were 17,203,439 shares issued and outstanding. The shareholders of Joystar own 81% of the common stock outstanding of the Company after the issuance of the 13,880,599 shares.

The acquisition of Joystar by the Company on June 11, 2003 has been accounted for as a purchase and treated as a reverse acquisition since the former owners of Joystar controlled 81% of the total shares of Common Stock of the Company outstanding immediately following the acquisition.

On this basis, the historical financial statements prior to June 11, 2003 have been restated to be those of the accounting acquirer Joystar. The historical stockholders' equity prior to the reverse acquisition has been retroactively restated (a recapitalization) for the equivalent number of shares received in the acquisition after giving effect to any difference in par value of the issuer's and acquirer's stock. The original 3,322,840 shares of common stock outstanding prior to the exchange reorganization have been reflected as an addition in the stockholders' equity account of the Company on June 11, 2003.

As of June 4, 2004 Joystar, Inc., a Nevada corporation and wholly owned subsidiary of the Company), was officially merged with and into Joystar, Inc., a California Corporation (formerly Advanced Refrigeration Technologies, Inc.). In connection with the merger the Company provided for the name change from Advanced Refrigeration Technologies, Inc. to Joystar, Inc. The merger and the name change was approved by the Company's Board of Directors. The Company no longer files consolidated financial statements. This merger had no effect on income for this or any prior period reported.

The Company has been in the development stage since its inception May 23, 2001.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the

Edgar Filing: Joystar Inc - Form 10KSB

Company, and its wholly owned subsidiary Joystar, Inc.. All material inter-company balances and transactions have been eliminated in consolidation.

REVENUE RECOGNITION

The Company recognizes revenue when the earnings process is complete. The Company records revenues from travel related sales transactions where the Company both purchases from the supplier and sells to the customer the requested travel service. This is reflected in the Consolidated Statement of Operations at the net amount, which reflects the gross amount charged to the customer less the cost paid to the supplier. The Company also receives commissions from travel suppliers for processing reservations. (To date all revenues have been derived from such transactions.)

F-6

Revenues derived in the future from annual memberships or other activities where a time factor is involved will be deferred over the appropriate period and recognized as earned.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost and depreciated using the straight-line method over the estimated useful life of the assets, which is seven years for furniture and equipment and three years for computer equipment.

USE OF ESTIMATES

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

INCOME TAXES

Deferred income taxes are reported using the liability method. Deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

NET LOSS PER SHARE

In February 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 128 "Earnings Per Share" which requires the Company to

Edgar Filing: Joystar Inc - Form 10KSB

present basic and diluted earnings per share, for all periods presented. The computation of loss per common share (basic and diluted) is based on the weighted average number of shares actually outstanding during the period. The Company has no common stock equivalents, which would dilute earnings per share.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments consist principally of cash and various current liabilities. The estimated fair value of these instruments approximates their carrying value.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2004 the FASB issued revised SFAS No. 123R, "Share-Based Payment". SFAS No. 123R sets accounting requirements for "share-based" compensation to employees and requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation. SFAS No. 123R is effective in interim or annual periods beginning after June 15, 2005. The Company will be required to adopt SFAS No. 123R in its third quarter of fiscal 2005 and currently discloses the effect on net (loss) income and (loss) earnings per share of the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation". The Company is currently evaluating the impact of the adoption of SFAS 123R on its financial position and results of operations, including the valuation methods and support for the assumptions that underlie the valuation of the awards.

F-7

3. GOING CONCERN

The accompanying financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America, contemplates the continuation of the Company as a going concern. However, the Company has been in the development stage since its inception (May 23, 2001), sustained significant losses and has used capital raised through the issuance of stock and debt to fund activities. Continuation of the Company as a going concern is contingent upon establishing and achieving profitable operations. Such operations will require management to secure additional financing for the Company in the form of debt or equity.

Management believes that actions currently being taken to revise the Company's funding requirements will allow the Company to continue its development stage operations. However, there is no assurance that the necessary funds will be realized by securing debt or through stock offerings.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

DECEMBER 31, 2004	DECEMBER 31, 2003
-------------------	-------------------

Edgar Filing: Joystar Inc - Form 10KSB

Office furniture	\$	24,511	\$	11,900
Computers		24,189		13,398
		-----		-----
		48,700		25,298
Less: accumulated depreciation		11,373		2,608
		-----		-----
	\$	37,327	\$	22,690
		=====		=====

5. CAPITAL STOCK

COMMON STOCK

On November 2, 2001, the Company issued 16,715,000 restricted shares of common stock at \$0.001 per share totaling \$16,715 for services rendered in connection with the start up of the Company.

At various dates in 2002, the Company issued for cash of \$105,998, 70,667 shares of common stock at \$1.50 per share through a private placement, pursuant to provisions of Section 4(2) of the Securities Act of 1933 and Rule 506 of Regulation D.

At various dates in 2003, the Company issued for cash of \$673,800, 489,199 shares of common stock at \$0.50 to \$1.50 per share through a private placement, pursuant to provisions of Section 4(2) of the Securities Act of 1933 and Rule 506 of Regulation D.

COMMON STOCK SPLIT

On November 1, 2001, the Board of Directors of the Company approved a stock split of the Company's common stock at a ratio of 1,000 for 1. All references in the accompanying financial statements to the number of common stock and per share amounts reflect the stock split.

F-8

STOCK CANCELED

A majority shareholder canceled 3,000,000 shares of stock in anticipation of the acquisition of Advanced Refrigeration Technologies, Inc. on June 11, 2003.

STOCK ISSUED IN REVERSE MERGER JUNE 11, 2003

The Company acquired all of the issued and outstanding common stock of Joystar, Inc., a Nevada corporation ("Joystar") in exchange for the issuance by the Company of a total of 13,880,599 newly issued restricted shares of common voting stock dated as of June 10, 2003.

STOCK ISSUED UNDER STOCK OPTION PLAN AND FOR PAYMENT OF SERVICES

The Company issued 810,000 shares of common stock pursuant to the Company's Stock Option Plans on June 11, 2003 valued at the market price of the stock on that date \$0.03.

Edgar Filing: Joystar Inc - Form 10KSB

The Company issued 215,000 shares of common stock in payment of invoices for professional services of \$15,000 in June, 2003.

On July 30, 2003 the Company entered into a two and three year employment Agreements with two employees. The agreement provided for 100,000 and 300,000 Shares of restricted common stock to be issued. The value of the compensation was based on the stock price on the agreement date of \$0.42, a total \$168,000. The Company issued the 400,000 shares November 14, 2003 and recorded compensation expense of of \$63,000 for the year ended December 31, 2004 and \$25,750 for period ended December 31, 2003. The deferred compensation was \$78,750 at December 31, 2004.

On July 30, 2003 the Company entered into a four-year employment agreement for a Vice President of Business Development. The agreement provides for 2,000,000 shares of restricted Common stock to be issued. The value of the compensation was based on the stock price on the agreement date of \$0.42, a total of \$840,000. The Company issued the 2,000,000 shares November 14, 2003 and recorded compensation expense of \$210,000 for the year ended December 31, 2004 and \$87,500 for period ended December 31, 2003. The deferred compensation was \$542,500 at December 31, 2004.

On November 11, 2003 the Company issued 28,571 common shares of restricted stock for services valued at the market price of the Company's stock on that date \$1.80, \$51,428.

During the year ended December 31, 2004, the Company issued 642,223 shares of common stock in a private placement for a total sales price of \$692,185 an average sales price of \$1.08 per share. During 2003 and 2004 the Company has received subscriptions to purchase 537,333 shares of common stock for \$704,800 and authorized 150,000 shares subscribed for additional officers compensation \$90,000 at December 31, 2004.

During the year ended December 31, 2004 the Company issued 1,475,133 shares of common stock for services valued at the fair market value price of the Company's stock on the dates issued \$1,507,942 an average of \$1.02 a share.

Loans payable to shareholder at December 31, 2003, \$83,295 were converted to 60,000 shares of common stock during the year ended December 31, 2004.

On August 27, 2004 the Company agreed to grant options to purchase 150,000 share of common stock under the Company's 2003 Equity Compensation Plan at \$0.66 per share, 110% of the market price on that date. The options had not been issued at December 31, 2004

F-9

As of November 8, 2004, the Company commenced its private placement offering of up to \$1,000,000 of units consisting of four shares of common stock and one warrant to purchase a share of common stock at an exercise price of \$1.25 per share. Each unit is being sold at \$2.00 purchase price. The units are offered by the Company to accredited investors only in reliance on Section 505 of the Regulation D of the Securities Act of 1933. 100,000 units have been subscribed as of December 31, 2004.

Edgar Filing: Joystar Inc - Form 10KSB

6. LEGAL PROCEEDINGS

In March, 2004 a former employee of the Company who was terminated prior to the acquisition of Joystar, filed a lawsuit in Orange County Superior Court for breach of contract and specific performance relating to the exercise of options, among other causes of action. A proposed settlement has been submitted to the Company in which the Company will issue an additional 300,000 shares and a cash payment of \$12,700 for cost. As of the date of this report, this agreement has not yet been finalized. The Company's financial statements do not reflect any adjustment to record the possible settlement.

An independent third party stockbroker has filed a lawsuit against the Company for refusal to register certain shares to them. A proposed settlement has been submitted by the Company in which the Company will register an additional 138,600 shares. As of the date of this report, this agreement has not yet been finalized. The Company's financial statements do not reflect any adjustment to record the possible settlement.

7. STOCK OPTIONS

The Board of Directors has approved in April, 2003 a Company stock option plan, which was amended by the Company in July, 2003. All the shares (480,000 shares) under 2002 Equity and Stock Option Plan were issued in June, 2003. In July, 2003, the Company approved 2003 Equity Compensation Plan which provides for the grant to directors, officers, employees and consultants of the Company of stock based awards and options to purchase up to an aggregate of 2,500,000 shares of Common Stock. No grants have been made yet under 2003 Equity Compensation Plan.

F-10

On June 11, 2003 the Company granted and issued a total of 810,000 shares under the 2000 and 2002 stock compensation plans for services to the Company. The valuation of the shares issued were at the market price on the Grant date \$0.03, \$24,300.

8. INCOME TAXES

The components of the deferred tax asset is as follows:

	DECEMBER 31, 2004	DECEMBER 31, 2003
	-----	-----
Deferred tax assets:		
Net operating loss carry-forward	\$ 1,665,000	\$ 530,000
Less: valuation allowance	(1,665,000)	(530,000)
	-----	-----
Net deferred tax assets	\$ --	\$ --
	=====	=====

The Company's operations are headquartered in the State of California

Edgar Filing: Joystar Inc - Form 10KSB

and are subject to California state income taxes. The Company had available approximately 4,170,000 and \$1,328,000 of unused Federal and State net operating loss carry-forwards at December 31, 2004 and December 31, 2003, respectively that may be applied against future taxable income. These net operating loss carry-forwards expire through 2023 for Federal purposes. There is no assurance that the Company will realize the benefit of the net operating loss carry-forwards.

SFAS No. 109 requires a valuation allowance to be recorded when it is more likely that some or all of the deferred tax assets will not be realized. At December 31, 2004 and 2003, valuations for the full amount of the net deferred tax asset were established due to the uncertainties as to the amount of the taxable income that would be generated in future years.

Reconciliation of the differences between the statutory tax rate and the effective income tax rate is as follows:

	DECEMBER 31, 2004	DECEMBER 31, 2003
Statutory federal tax (benefit) rate	(34.00)%	(34.00)%
Statutory state tax (benefit) rate	(5.83)%	(5.83)%
	-----	-----
Effective tax rate	(39.83)%	(39.83)%
Valuation allowance	39.83%	39.83%
	-----	-----
Effective income tax rate	0.00%	0.00%

F-11

9. COMMITMENTS

OPERATING LEASE

The Company leased office space under an operating lease, which expired in April of 2005. The Company was advised that the building was being sold and the Company would be required to vacate. The Company acquired new office space and moved in February 2005, subsequent to the year ended December 31, 2004. The new lease is for 36 months with an option to renew for 36 months.

Future payments on the operating lease are as follows:

2005	\$	110,430
2006	\$	135,584
2007	\$	139,265
2008	\$	23,313

Edgar Filing: Joystar Inc - Form 10KSB

Rental expense was \$70,860 and \$47,000 for the years ended December 31, 2004 and 2003, respectively.

10. OFFICERS LOAN PAYABLE

The Company has an unsecured loan dated December 15, 2004, payable to officers \$259,834 due on December 15, 2005 with interest at 6%.

11. SUBSEQUENT EVENT

As of November 8, 2004, the Company commenced its private placement offering of up to \$1,000,000 of units consisting of four shares of common stock and one warrant to purchase a share of common stock at an exercise price of \$1.25 per share. Each unit is being sold at \$2.00 purchase price. The units are offered by the Company to accredited investors only in reliance on Section 505 of the Regulation D of the Securities Act of 1933. The Company issued 100,000 units (400,000 shares, \$200,000) that were subscribed as of December 31, 2004 in February and March 2005.

The Company has issued 320,000 shares of common stock for services rendered in February and March 2005 valued at \$200,000.

F-12

Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL MATTERS

There have been no change in auditors nor disagreements on accounting and financial matters with the auditors and accountants.

Item 8-A. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of December 31, 2004, that the design and operation of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) are effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is accumulated, recorded, processed, summarized and reported to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding whether or not disclosure is required.

During the quarter ended December 31, 2004, there were no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Item 8B. OTHER INFORMATION

The Company has an unsecured loan dated December 15, 2004, payable to

Edgar Filing: Joystar Inc - Form 10KSB

William M. Alverson, its Chief Executive Officer in the amount of \$259,834, due on demand with interest at 6%.

24

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons;

Compliance with Section 16(a) of the Exchange Act

The Directors and Executive Officers of the Company, and their ages, are as follows:

Name	Age	Position
----	---	-----
William Alverson	40	Director, Chief Executive Officer and Chief Financial Officer
Katherine West	35	Director and Executive Vice President
William Fawcett	50	Director

William M. Alverson, Chief Executive Officer, Chief Financial Officer and Director. Mr. Alverson has been an officer and director of the Company since its inception. Mr. Alverson has spent the last fifteen years working in the financial and travel services industries. He began his career as a financial advisor at American Express. He also served as Chairman and Chief Executive Officer at a financial services firm where he guided private companies through their first rounds of financing and public listings. In 1995, Mr. Alverson founded and served as Chairman and CEO of Travelmax, Inc. Under his leadership, that company grew from seven to 220 employees handling the back office support to over 44,000 travel agents nationwide. Since then he has been active in financing and consulting to both private and public companies including Baby Genius, Inc. and FreeRealTime.com. He is married to Katherine West, the co-founder of the Company.

Katherine West, Executive Vice President and Director. West has been the Officer and Director of the Company since the inception of Joystar, Inc. Mrs. West supervises the Vice President of Agent Services and Vice President of Travel Services. Additionally, she is responsible for the day to day management and supervision of customer service, human resources, accounting, budget, payroll and contracts. Mrs. West began her management career in the travel industry in 1989 with Thrifty Car Rental where she was responsible for the franchise's operations, reporting, forecasting, and accounting & tax preparation. From 1992 to 1996 she held the position of Senior Account Executive with Metromedia Communications, Inc. During her career with the telecom giant, she consistently exceeded revenue targets with a primary focus on small to mid-sized businesses and trade associations. She is married to William M. Alverson, the founder of the Company.

William Fawcett, was appointed by the Board of Directors of Joystar as the director of the Company in November, 2004. Mr. Fawcett has an MBA from Harvard Business School, is a graduate of Loyola Law School and also graduated with honors from Boston College. Mr. Fawcett is on the Dean's Graduate School

Edgar Filing: Joystar Inc - Form 10KSB

Advisory Board for Concordia University and is a professor for Concordia's Master of Business Administration (MBA) Entrepreneurial program. In addition to being an outside Director for Joystar, he also serves on the Board of Directors of Case Post, Inc. Fawcett has been the recipient of the Jordan Whitney Award for Infomercial Excellence, the Aurora Award for the Best Infomercial in 1997, Two Clios for production of direct-response TV commercials, a Cannes Film Award for Best Sports Documentary and a Spanish Infomercial Telemundo Award Best in Class. Other major accomplishments include writing with Peter Uberroth and Phil Donohue, "Sober Graduation," the model for high schools; the Nationally-acclaimed off-Broadway women's show "Breaking Free," and produced, wrote and directed "Celebrity Salute to City of Hope" infomercial.

KEY EMPLOYEES (NON EXECUTIVE EMPLOYEES)

BILL MORRIS - Senior Vice President Business Development. Mr. Morris is a 34-year travel professional with extensive experience in multiple fields of the travel industry including retail travel, wholesale tours and operations, charter operations, and franchise operations and supervises the Vice President of Agent Services and Vice President of Travel Services. Additionally he is responsible for meetings of preferred suppliers. He has authored training manuals for cruises, tours, sales and marketing, and mining leisure business from corporate accounts. Mr. Morris worked in the Corporate Travel Consortium Industry for seven years with such companies as Hickory Travel Systems where he was responsible for preferred supplier negotiations, agent training, meetings, a leisure travel reservation center to handle travel fulfillment for multiple travel clubs and Websites.

25

LARRY NORMAN, CTC, MCC, - Senior Vice President of Sales & Marketing. Mr. Norman brings more than eighteen (18) years of travel industry experience and over thirty-five (35) years of direct sales and management experience to his role at Joystar. He oversees sales and market planning for Joystar's home based agents. His industry experience includes President and CEO of Surfside Trips `n Travels in Surfside, Florida, where he built Vacation and Cruise Club to consist of over 65,000 members; and President and CEO of Ambassador Travel and Cruises. Experience includes presenting workshops for travel industry trade organizations, ASTA (American Society of Travel Agents); NACOA (National Association of Cruise Only Agencies); and ARTA (Association of Retail Travel Agents). Larry developed training for Norwegian Cruise Line; American Express; International Tours Inc.; GalaxSea Cruise and Tours; Hickory Travel Systems, and has been a popular! workshop presenter at each of the Travel Trade/CLIA (Cruise Line International Association) Cruise-A-Thons. In 1996, TRAVEL TRADE named him "The Educator of the Year."

JO BEEMER - Vice President of Agency Operations. Ms. Beemer brings more than 15 years of travel industry experience to her roll, overseeing Joystar's travel Agent Hosting and support services to our rapidly expanding sales force of experienced, home-based travel agents. Ms. Beemer's management background and experience providing business and leisure travelers with exceptional service will bring tremendous insight to Joystar's global network of independent travel agents. Her industry experience includes Managing Partner of a Specialty Tour Company, Quality Control Manager for online travel channel, Corporate Travel Counselor and Supervisor responsible for over 75 reservation agents. She has held positions at industry leaders including 1-800-FLY-CHEAP, American Express BTO, AAA Travel, and Travel and Transport.

JEANNINE GODSEY, ACC., - Vice President of Sales & Marketing, Vacation Division. Ms Godsey brings with her over 14 years of travel sales, marketing and communications experience along with her love for travel and music. For the last

Edgar Filing: Joystar Inc - Form 10KSB

five years she has had extensive consulting and sales experience in the travel industry. Prior to that, Ms. Godsey specialized in travel marketing communications in the national advertising division of the ORANGE COUNTY REGISTER. Ms. Godsey's ability to build and maintain relationships with major vacation suppliers has led to her great success and respect in the industry. She's always willing to do whatever it takes to fashion a dream holiday package for her clients no matter how great or small. Ms. Godsey volunteers her spare time to coordinate special events and travel for local and national youth and college sports teams.

ROBIN MOORE - Vice President of Agent Services. Mrs. Moore brings more than 20 years of travel industry experience to her role, which includes overseeing travel agent training and customer service. Robin's management training background and well-rounded knowledge of the industry will allow Joystar to provide superior training and support programs to a global network of Joystar Independent Travel Agents. Mrs. Moore's travel industry experience includes 12 years in Operations Management. In addition to overseeing the day-to-day activities of 80+ agents, Moore has been responsible for negotiating air and hotel contracts, analyzing equipment, systems, and procedures, and negotiating discounts and commissions with more than 100 vendors. She has authored the training manuals that have launched the careers for thousands of Travel Agents.

COMMITTEES

The Company does not currently have standing audit, nominating or compensation committees of the Board of Directors, or committees performing similar functions.

CODE OF BUSINESS CONDUCT AND ETHICS

Our code of business conduct and ethics, as approved by our board of directors, is available in our SEC filings with the Commission. It will also be available on our website at www.joystar.com.

We intend to satisfy the disclosure requirement under Item 10 of Form 8-K relating to amendments to or waivers from provisions of the code that relate to one or more of the items set forth in Item 406(b) of Regulation S-B, by describing on our Internet Website, within five business days following the date of a waiver or a substantive amendment, the date of the waiver or amendment, the nature of the amendment or waiver, and the name of the person to whom the waiver was granted.

Information on our Internet website is not, and shall not be deemed to be, a part of this report or incorporated into any other filings we make with the Securities and Exchange Commission.

26

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, requires our executive officers and directors, and persons who beneficially own more than 10% of a registered class of our common stock, to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission, or the SEC. These officers, directors and stockholders are required by SEC regulations to furnish us with copies of all such reports that they file.

Based solely upon a review of copies of such reports furnished to us during the fiscal year ended December 31, 2004 and thereafter, or any written

Edgar Filing: Joystar Inc - Form 10KSB

representations received by us from reporting persons that no other reports were required, we believe that, during our fiscal 2004, all Section 16(a) filing requirements applicable to our reporting persons were met, however, some of the filings may have been filed late.

Item 10. Executive Compensation

The following table sets forth information concerning the annual and long-term compensation for services rendered during the last three fiscal years to our company in all capacities as an employee by our Chief Executive Officer and our other executive officers whose aggregate cash compensation exceeded \$100,000 (collectively, the "named executive officers") during fiscal 2004 shown below.

Summary Compensation Table

Name and Position	Year	Annual Salary	Awards	
			Bonus	Other Compensation
William Alverson	2004	180,000		\$60,000 (2)
	2003	120,000		
CEO and CFO	2002	46,000		
Katherine West	2004	88,500		\$30,000 (2)
	2003	60,000		
Executive VP	2002	35,000		
Rick R. McEwan	2004	-0-	-0-	-0-
	2003	-0-	-0-	-0-
former President (1)	2002	18,000	-0-	-0-
Allan E. Schrum	2004	-0-	-0-	-0-
former Vice President	2003	-0-	-0-	-0-
Engineering (1)	2002	4,500	-0-	-0-
Clare C. Schrum	2004	-0-	-0-	-0-
former Secretary,	2003	-0-	-0-	-0-
Chief Financial Officer (1)	2002	13,500	-0-	-0-

(1) Positions were held until June, 2003.

(2) On August 27, 2004, the Company authorized 100,000 shares of common stock to be issued to Mr. Alverson and 50,000 shares of common stock to be issued to Ms. West for services rendered in fiscal year ended December 31, 2004 valued at \$60,000 and \$30,000, respectively. As of the date of this report, such 150,000 shares have not been issued yet.

On August 27, 2004, the Company approved a grant of options to purchase 150,000 shares of common stock under the Company's 2003 Equity Compensation Plan at \$0.66 per share, 110% of the market price on that date to the Company's executive officers (100,000 options to be issued to Mr. Alverson and 50,000 options to be issued to Ms. West) for services rendered in the fiscal year ended December 31, 2004. The options had not been issued as of the date of this report.

COMPENSATION OF DIRECTORS

Edgar Filing: Joystar Inc - Form 10KSB

The Company reimburses each Director for reasonable expenses (such as travel and out-of-pocket expenses) in attending meetings of the Board of Directors. Directors are not separately compensated for their services as Directors.

27

EMPLOYMENT AGREEMENTS, TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL ARRANGEMENTS

The Company has not yet finalized the employment agreements with the Company's Chief Executive Officer, William M. Alverson and Katherine T. West, the Company's Executive Officer. The Company's Board of Directors approved the major terms of such employment agreements which include an annual salary of \$180,000 for Mr. Alverson and the issuance of 100,000 shares of common stock and an option to purchase 100,000 shares of the Company's common stock. Ms. West's compensation includes an annual salary of \$88,500, the issuance of 50,000 shares of common stock and an option to purchase 50,000 shares of the Company's common stock. None of the above shares or options have been issued yet.

Item 11. Securities Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding the beneficial ownership of the shares of Common Stock of the Company as of April 7, 2005, by (i) each person who is known by the Company to be the beneficial owner of more than five percent (5%) of the issued and outstanding shares of common stock, (ii) each of the Company's directors and executive officers, and (iii) all directors and executive officers as a group.

Name and Address	Number of Voting Shares	Percent of Outstanding Voting Shares
William M. Alverson Director, President CFO & Secretary 95 Argonaut St. First Floor Aliso Viejo, CA 92656	12,198,000 (1)	50.91%
Katherine T. West Director, Ex.VP 95 Argonaut St. First Floor Aliso Viejo, CA 92656	12,198,000 (2)	50.91%
William Fawcett 95 Argonaut St. First Floor Aliso Viejo, CA 92656	100,000 (3)	*%
All directors and officers as a group (2 persons)	12,298,000	51.00%

- (1) Includes 1,552,000 shares of common stock held by Katherine T. West with respect to which shares Mr. Alverson, her husband, disclaims beneficial ownership.

Edgar Filing: Joystar Inc - Form 10KSB

- (2) Includes 10,646,000 shares of common stock held by William Alverson with respect to which shares Ms. West, his wife, disclaims beneficial ownership.

The Company had 23,957,633 shares of common stock issued and outstanding as of April 7, 2005. The Company had 115 shareholders as of April 7, 2005.

Item 12. Certain Relationships and Related Transactions

The Company has an unsecured loan dated December 15, 2004, payable to William M. Alverson, its Chief Executive Officer in the amount of \$259,834, due on demand with interest at 6%.

In March, 2005, Katherine T. West, the Company's director and Executive Vice President loaned the Company an amount equal to \$105,997.

28

PART IV

Item 13. Exhibits

Exhibit No.	Description
-----	-----
Exhibit 31	CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT
Exhibit 32	CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT

Item 14. Principal Fees and Services.

Set forth below are fees paid to the Company's independent accountants for the past two years for the professional services performed for the Company.

Audit Fees: During 2004 and 2003 the Company paid Mendoza Berger & Company LLP a total of \$10,000 and \$7,700 for professional services rendered in connection with performance of our independent audits for the years ending December 31, 2003 and 2002, respectively.

All Other Fees: During 2004 and 2003 the Company paid Mendoza Berger & Company LLP a total of \$28,833.50 and \$11,000 for professional services rendered in connection with the reviews of the form 10-QSB's for the years ended December 31, 2004 and 2003, respectively.

Tax Fees: None

29

SIGNATURES

Edgar Filing: Joystar Inc - Form 10KSB

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, hereunto duly authorized.

JOYSTAR, INC.

Dated: April 15, 2005

By: /s/ William M. Alverson

William M. Alverson,
Chief Executive Officer, Chief Financial
Officer And Secretary

Pursuant to the requirements of 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.

/s/ William M. Alverson ----- William M. Alverson	Chief Executive Officer, Chief Financial Officer and Director (principal executive and financial officer)	Date: 4/15/05
/s/ Katherine T. West ----- Katherine T. West	Director	Date: 4/15/05
/s/ William Fawcett ----- William Fawcett	Director	Date: 4/15/05